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Business Failure and Corporate Sustainability: An Outline of Causes and Selected Strategies

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ABSTRACT: While some companies disappear only a few years after their creation, others succeed in ensuring their long-term sustainability. Business failure is rarely caused by a single event; rather, it often results from an accumulation of internal shortcomings. Conversely, the sustainability or long-term survival of an organization is not a matter of chance but of a delicate balance between internal resilience and external adaptation. It generally depends on an entity's ability to maintain its vitality while preserving its core identity. In short, unlike organizations destined to disappear, sustainable firms embrace uncertainty, promote continuous learning, and manage their capital prudently.

This is why, for more than seventy years, business failure has been one of the most extensively researched and debated topics in financial literature. The discussions surrounding it are particularly intense because the causes of corporate failure and the associated risks are numerous. These causes may vary according to the type of business, the country, and the historical period under consideration.

KEYWORDS: Failure, Sustainability, Strategy, Enterprise

INTRODUCTION

Since the peak of bankruptcies that affected all OECD countries in 2009, the number of companies disappearing annually has remained high. All sectors and all business sizes are concerned by this growing phenomenon of corporate disappearance, which can become a risk for any company. The collapse of industrial groups that has attracted media attention represents only the most visible aspect of this phenomenon. Behind these high-profile cases, however, thousands of companies and tens of thousands of jobs disappear every year. Indeed, it is difficult to estimate precisely the number of jobs lost through judicial liquidations and asset sales. Analysts generally agree that the economic, social, and personal costs of business closures are exceptionally high and deserve careful consideration and appropriate responses.

Business failure has attracted the interest of practitioners and researchers from various backgrounds and fields of study since the beginning of the nineteenth century, according to Hautcoeur and Levratto (2018).

Primarily encouraged by the acceleration of the phenomenon following the crisis of the 1930s, scholars established business failure as a field of investigation in its own right (Guilhot, 2000). Subsequently, business bankruptcies caused by the COVID-19 pandemic further reinforced this interest. Enriched by hundreds of contributions that continue to be published annually, corporate failure remains a fertile field of research, especially as the number of business closures has increased significantly over the last decade.

It should also be noted that when a company goes bankrupt, managers often experience psychological distress and grief, which may affect their future projects (Chaza, 2024). Severe psychological distress undermines entrepreneurs' confidence and motivation to embark on new ventures. Grief may also lead to psychological problems such as depression. Nevertheless, support and resilience are crucial in helping them overcome this difficult period and relaunch their projects with a more optimistic outlook.

According to Bachmann et al. (2024), failed entrepreneurs may face negative judgments that limit their ability to innovate and take risks, thereby reducing their potential for future success.

Although sustainability is not statistically the most common situation among organizations, it remains a desired objective for the vast majority of them. Organizations, including businesses, seek longevity regardless of the sector in which they operate (Mignon, 2009; De Geus, 1997). Furthermore, organizational sustainability benefits all stakeholders: it secures jobs for employees, guarantees expertise and reliability for customers, generates income for suppliers and local communities, and creates positive externalities such as economic attractiveness and brand reputation for society as a whole (Mignon, 2009).

There is no direct relationship between business creation and sustainability, insofar as survival prospects and modes of business closure may influence, on the one hand, the decisions of potential entrepreneurs and, on the other hand, investment environment choices and business models that favor sustainability. Consequently, business leaders are committed to ensuring the sustainability of their firms and preventing failure.

For all these reasons, business failure remains one of the most discussed subjects in management theory. However, its explanations vary according to authors and environmental contexts. Therefore, the primary concern of this article is to identify the causes of business failure. This concern leads to a second question: what strategies should be adopted to ensure that businesses remain or become sustainable?

In this regard, it should be emphasized that failure and sustainability represent opposing realities in business management. Consequently, identifying the causes of failure and implementing appropriate strategies are essential steps toward achieving corporate sustainability.

From a methodological perspective, this study relies on the documentary method, which consists of an in-depth and active analysis of various sources to collect secondary data. These data were obtained from citation databases, websites, and relevant academic works related to our research topic.

This study pursues three main objectives:

1. To gather extensive information for an in-depth analysis of the concepts of failure and sustainability;
2. To identify the causes of business failure;
3. To propose strategies that can enhance business sustainability.

Accordingly, this article is organized into three main sections:

- Justification of the choice of the concepts of failure and sustainability;
- Causes of business failure;
- Strategies for business sustainability.

I. Definition and justification of the chosen concepts

To establish a common understanding with the reader, this first section focuses on the justification and definition of the two main concepts: **failure** and **sustainability**.

1.1 Business Failure

What is meant by business failure?

Business failure is a complex concept that can be approached from different perspectives because it is a multidisciplinary topic. It is studied in corporate finance, statistics, management, and law.

Consequently, it admits several meanings that are not always compatible with a universally accepted characterization (Levratto, 2012).

From a legal perspective, failure occurs when a company can no longer pay its debts. In such a case, collective legal proceedings may lead either to liquidation, resulting in the disappearance of the company, or to judicial restructuring. It is important to note that some companies experiencing insolvency do not necessarily end in liquidation. They may instead undergo structural changes such as mergers, acquisitions, or transformations into different legal forms (Ferrier, 2002).

According to Maa and Oumazane (2024), failure occurs when a company encounters proven difficulties, particularly an inability to pay its debts or serious problems threatening its survival, officially recognized by a commercial court. A company is considered to be in a state of failure from the date legal proceedings are initiated, regardless of whether the procedure involves safeguarding, restructuring, or liquidation.

Souiri and Ameur (2022) argue that legal failure occurs when a company files for bankruptcy because of insolvency. Business failure results in a decline in corporate value, often due to the inability to meet legal obligations toward third parties (Zopounidis, 1995). According to Bienaymé (2011), legal failure refers to the judicial recognition of a company's insolvency, placing it under court supervision. In most cases, failure implies the short-term disappearance of the company.

From an economic perspective, a company is considered failed when its expenses significantly exceed its revenues, preventing it from paying the production factors that contribute to the creation of economic value. Consequently, the firm's activity contributes negatively to economic performance. Gresse (1994) defines economic failure as a situation in which a company's value added becomes negative. An economically failed company is one that can no longer regularly achieve its economic objectives.

According to Shleifer and Vishny (1992), a bankrupt company is one that has failed to adapt to market changes, maintain competitiveness, or generate sustainable revenues. Lahsaoua and Ait Ali (2023) note that economic failure can be identified through recurring crises, resource scarcity, information asymmetry, excessive debt capacity utilization, and operating expenses exceeding revenues.

From a financial perspective, failure means that a company is unable to meet its financial obligations, such as repaying debts, paying interest, or maintaining profitability sufficient to cover all costs. This situation may eventually lead to insolvency and bankruptcy.

Altman (1968) observed that financial failure occurs when a company is unable to meet its financial commitments, including debt repayment, supplier payments, and financing day-to-day operations. This often results in severe financial deterioration leading either to insolvency (the inability to meet short-term obligations) or bankruptcy (the liquidation of assets to settle debts).

According to Baldwin and Mason (1983), bankruptcy represents the point at which a company can no longer withstand its financial constraints, reflecting a significant deterioration in its economic condition.

Liang and Wu (2003) argue that failure occurs when companies can no longer fulfill their obligations toward stakeholders because of insufficient cash flows. A company is therefore considered failed when it can no longer cover its regular expenses and when its short-term debts significantly exceed its liquid assets. In such situations, it struggles to manage its debts and frequently delays payments to creditors (Mrani & Loulid, 2023).

Many studies consequently view insolvency, sometimes referred to as the "failure spiral," as the final stage of a process from which recovery may still be possible through appropriate corrective management actions. According to Brazy (2000), regardless of the specific context, failure is an event that profoundly alters the legal framework within which a company operates. It extends beyond technical and financial aspects and significantly affects the personal and social lives of entrepreneurs.

1.2 Business Sustainability

What is business sustainability?

The word sustainability originates from the Latin term *perennitas*, meaning duration, continuity, or permanence. Business sustainability refers to the ability of firms to regenerate themselves in the face of competition by creating value while ensuring survival mechanisms to cope with risks.

It is important to emphasize that the concept of sustainability is characterized by semantic ambiguity. Various perspectives exist, suggesting that there is not one single sustainability but rather multiple forms of sustainability.

In management sciences, some researchers associate sustainability with success, performance, and profitability (Bouzar & Boukerrou, 2011). From a business perspective, sustainability can be defined as the ability to meet the needs of both direct and indirect stakeholders without compromising the capacity to satisfy the needs of future stakeholders (Dyllick & Hockerts, 2002).

Strategic management literature defines sustainability as organizational longevity, encompassing both survival and the ability to respond effectively to environmental changes (Mignon, 2001).

According to Benghozi (2009), two major ideal types of sustainability can be distinguished:

Organizational Sustainability

Organizational sustainability refers to a company's ability to maintain itself, renew itself, and adapt over time. It involves the long-term preservation of activities, products, brands, and organizations. When discussing corporate sustainability, one often refers to long-lived firms that have survived for decades or even centuries.

Infrastructural and Architectural Sustainability of the Firm and Its Environment

In some situations, sustainability concerns not specific organizations but rather the institutions, networks, and clusters surrounding business activities and indirectly influencing their sustainability (Benghozi, 2009).

Nevertheless, one may wonder how some companies have managed to survive over the years in an environment that is increasingly complex, unstable, and unpredictable. It is within this perspective that we seek to identify the causes of business failure.

II. Major causes of business failure

Business failure has been a major concern since the global economic crisis of 1930. Numerous researchers have analyzed corporate failure according to both internal and external environmental conditions as well as national contexts.

In the United States, studies conducted by Argenti (1976) and Altman (1983) identified managerial incompetence as a fundamental cause of business failure. In England, Hall and Young (1991) found that 37% of business failures resulted from financial problems such as undercapitalization, poor debt management, poor accounting practices, difficulties with capital providers, and operational management issues. Similar findings were observed in Belgium. A comprehensive study conducted by Graydon in 2003 revealed that 29% of failures were attributable to poor management.

From the foregoing, it can be concluded that business bankruptcy results from a combination of numerous internal and external factors.

External causes include:

- Lack of financing;
- Intense competition;
- Commercial dependence;
- Exchange-rate risks associated with foreign-currency debts;
- Various unforeseen accidents and disruptive events.

Internal causes include:

- Outdated technology leading to high production costs and products poorly aligned with market demand (Kazanjian, 1988);
- Lack of managerial skills, qualifications, and motivation (Ooghe & Waeyaert, 2004);
- Entrepreneurial age and experience factors that may negatively influence success (Jabraoui & Boulahoual, 2018);
- Leadership characteristics such as self-confidence, team management abilities, delegation skills, and charisma (Ooghe & Waeyaert, 2004).

According to Eddine et al. (2019), approximately 40% of business failures result from unpaid invoices. Moreover, 70% of firms experience payment delays exceeding ninety days, severely affecting their liquidity and financial health.

Daidai et al. (2022) argue that poor corporate governance—including inappropriate board composition and unfavorable CEO characteristics—can weaken financial structures and decision-making processes, thereby increasing the likelihood of failure.

An increase in operating expenses also reduces profitability, directly affecting net income and potentially leading to bankruptcy.

Charalambous et al. (2000) identify lack of liquidity as the principal factor influencing business failure. Insufficient liquidity prevents firms from meeting short-term obligations, reduces profitability and operational activity, and ultimately leads to bankruptcy.

Altman (1968) similarly highlights declining debt repayment capacity as a major predictor of business failure, indicating that excessive indebtedness often results in reduced organizational performance.

Given the numerous internal and external causes affecting business success, the next section presents strategies that may enhance corporate sustainability.

III. Strategies for business sustainability

Business sustainability is a central concern in management sciences, understood as the set of disciplines dealing with the management and governance of organizations (Nikitin, 2006).

The literature has established that strategic deficiencies—such as the undervaluation of strategic assets—may jeopardize organizational sustainability (Arend, 2008). Sustainability is therefore inherently linked to strategy because it raises the question of how organizations can integrate environmental changes while remaining true to themselves (Mignon, 2001).

According to Soparnot (2010), if the purpose of strategy is to ensure competitiveness and legitimacy, it is also to guarantee sustainability.

Researchers studying sustainability frequently identify several key determinants, including:

- Risk aversion;
- Customer satisfaction;
- The crucial role of human resources;

Corresponding Author: Marc YANANKOY OMADJELA

- Organizational values;
- Sound financial management;
- Traditional know-how;
- Vision;
- Reputation and brand image.

(Fernández-Roca, 2012).

Collins and Porras (1996), as well as De Geus (1997), identify several common characteristics among sustainable organizations:

- Continuous learning;
- The ability to anticipate change;
- Preservation of organizational identity;
- Financial prudence.

Furthermore, regardless of organizational type, many authors have shown that management tools contribute to both stability and adaptation, thereby fostering sustainability (Eggrickx, 2013; Naro & Travaillé, 2013).

It is therefore essential for business leaders to master management disciplines such as accounting, management control, financial management, and treasury management to reduce the risk of failure.

Research by Makelele (2014), cited by Lotfi and Mesk (2021), demonstrates that profitability depends on a firm's ability to generate revenues and profits. Consequently, firms must closely monitor declines in profitability indicators, as such declines may undermine financial health. Long-term profitability should therefore be prioritized over short-term gains.

Amans et al. (2013) consider budgeting a crucial sustainability mechanism. Budgets serve as communication tools for financiers and as internal structuring mechanisms that remain sufficiently flexible to encourage creativity.

Accordingly, budget preparation significantly influences corporate sustainability.

Kadji Ngassam (2015) argues that sustainability is linked to management control because management control enables organizations to represent and share performance indicators that help ensure business continuity.

Businesses must also effectively integrate new technologies into their resources to remain competitive and promote long-term sustainability (Bradley & Cowdery, 2004).

Given environmental changes, firms must reduce the probability and impact of risks without abandoning innovation. Mignon (2002) emphasizes organizational learning processes and identifies two major strategic approaches:

Adaptive Strategies

Adaptive strategies rely on adjustment and adaptation to environmental conditions. Companies respond to environmental changes through adaptation processes while simultaneously shaping their organizations and environments through proactive initiatives (Koenig, 1996).

Proactive Strategies

Unlike adaptation, proactivity seeks to influence and transform internal and external contexts. Adaptation often draws on past experience, whereas proactivity represents a break from historical patterns (Mignon, 2002).

Desreumaux (1996) argues that under a proactive management perspective, a company's destiny depends largely on managerial decisions and behaviors.

Indeed, a company's strategy, organizational structure, and even environment are shaped by the intentions and actions of individuals holding power within the organization.

In practical terms, businesses should not merely wait for environmental changes before reacting. They can anticipate and initiate future transformations. Organizations can create opportunities and shape threats (Koenig, 1996), generating impacts both on market demand and competitive dynamics.

CONCLUSION

The purpose of this study was threefold: to justify the choice of the concepts of failure and sustainability, to identify the causes of business failure, and to propose strategies for ensuring business sustainability.

Identifying the causes of failure has proven to be a valuable tool for detecting risks and preventing business collapse, thereby contributing to organizational sustainability.

Several factors were identified as underlying causes of bankruptcy, including:

- Internal causes: technology, managerial factors, management problems, financial difficulties, age, experience, personal characteristics of leaders, and others;
- External causes: lack of financing, strong competition, commercial dependence, and exchange-rate risks related to foreign-currency debts;
- Accidental causes: unforeseen events and disruptions.

To promote sustainability, several mechanisms were proposed, including:

- Mastery of financial management tools;
- Managerial expertise and know-how;
- Budget preparation;
- Management control systems;

- Risk-aversion strategies;
- Innovation strategies;
- Environmental adjustment and adaptation strategies.

Any company concerned with its long-term sustainability, regardless of its size or legal status, should implement a number of these strategies.

Ultimately, business sustainability refers to an organization's ability to ensure its long-term survival, growth, and profitability despite market changes, crises, and technological developments. It rests upon a sustainable business model, continuous adaptation, financial strength, and the creation of value for stakeholders.

Cette traduction est de niveau académique et peut être utilisée dans un article scientifique, un mémoire, une thèse ou une publication internationale tout en conservant fidèlement le raisonnement et le contenu de l'original.

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