

Restructuring in SMEs – A multiple case study analysis

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www.jsbs.org

Keywords:

Informal restructuring, Reorganization, SME, Multiple case study, Resource-based view

ABSTRACT

SMEs represent an important pillar in every economy, but in terms of financial performance they are inherently more exposed to financial volatility than large enterprises. Constrained access to resources and the liability of smallness lead to a higher propensity to failure and corporate crisis. A financial crisis is endangering the continued existence of the business, however it can also be perceived as change to reassess and reassemble resources to meet future market requirements. This either takes place through a court-supervised reorganization or through an informal restructuring without the involvement of courts. This paper focuses on the latter and employs a multiple case study including 10 successfully restructured firms and 5 failed renegotiations in Austria. Through use of the resource-based view (RBV) we analyzed what caused crises in SMEs and which strategies and measures are necessary to overcome crisis. In conclusion, it can be stated that crises are predominantly caused internally in SMEs, and successful restructuring frequently requires the engagement of both, banks and entrepreneurs. While innovation capacity is a factor that facilitates restructuring, complex and insufficiently settled family dynamics tend to hinder restructuring.

Introduction

Although the economic landscape is strongly shaped by small-and-medium-sized enterprises (SMEs), it is large corporations that receive virtually undivided attention. This situation is encouraged by the elevated individual economic importance of larger corporations compared to SMEs. While SMEs play a vital role in every economy, their (financial) performance happens to be inherently more volatile than that of larger enterprises (Dannreuther & Kessler, 2008). Due to resource constraints in terms of size and scope, SMEs are considered riskier, and they also have a higher propensity to fail (Carter & Van Auken, 2006; Keasey & Watson, 1993). The overwhelming majority of firms that go bankrupt are SMEs, and SMEs' chances of survival are marginal (Camacho-Miñano, Segovia-Vargas, & Pascual-Ezama, 2015; Laitinen, 2013). According to Robbins and Pearce (1993), strong economic pressure is a clear threat to the existence of small businesses. In addition to economic difficulties, SMEs are confronted with an increas-

ingly complex and dynamic environment, where not every entity is capable of success (Mayr & Mitter, 2014). Companies that are unable to adapt their organization to meet market requirements face a high probability of eventual financial crisis and are ultimately threatened by bankruptcy.

A financial crisis, however, does not necessarily lead to business failure; it can also be perceived as a chance to alter a potentially outdated business model (Timmons & Spinelli, 2007). The restructuring process can take place through a formalized and court-supervised procedure, or by means of a barely predetermined out-of-court restructuring process (Gilson, 1991; Nigam & Boughanmi, 2017). In this paper, we take an extensive look at the latter, which is normally attempted before an in-court procedure. This paper is especially relevant because few research studies so far have performed analyses of the resources and determinants involved in (un)successful restructurings in SMEs (Collett, Pandit, & Saarikko, 2014; Kraus, Moog, Schleppehorst, & Raich, 2013). Especially for out-of-court restructuring in small, unlisted companies there is almost no empirical evidence (Franks & Sussman, 2005), since collecting comprehensive information in the context of reorganization is

problematic, especially for SMEs, where the reliability of data is often impaired. Well known studies (e.g., Bedendo, Cathcart, El-Jahel, 2016; Blazy, Martel, & Nigam, 2014; Franks & Sussman, 2005; Gilson, 1989 & 1990; Jacobs Jr, Karagozoglu, & Layish, 2012) focus on quantitative data, whereas qualitative research is scarce, probably reflecting the difficulty of such research (Rogoff, Lee, & Suh, 2004). Qualitative Research can reveal additional insights into reorganization, for example the impact of the failure event on the entrepreneur or the useful self-reflection (Byrne & Shepherd, 2013).

The purpose of this paper is twofold. First, we analyze the main drivers of crisis situations in SMEs. This seems crucial to the coordination and implementation of adequate strategies and measures to overcome economic, entrepreneurial and managerial shortcomings (Slatter, 1984). Second, by evaluating the influencing factors and resources required to restructure a business and reach an out-of-court restructuring agreement, we want to contribute to a more holistic understanding of restructuring in small businesses. In particular, we highlight the role of entrepreneurs and financing banks in the restructuring process. Thereby entrepreneurial traits such as education and experience are important variables to predict business success or failure for small enterprises (Lussier & Corman, 1996). Rogoff et al., (2004) found that individual characteristics (e.g., knowledge, dedication) as well as management issues (e.g. effective organization, management skills) are contributing factors to small business success.

The remainder of the article is structured as follows. This introductory section is followed by a brief description and categorization of the Austrian bankruptcy regime and the options through which SMEs can overcome a financial crisis. Section three discusses the resource-based view as the theoretical framework of the paper. Then, in section four, we present the applied methodology for the case studies. A brief description of the data is provided in section five, and the discussion of the results is the focus of section six. The paper closes with a discussion of the results, shows limitations of the study, and presents avenues for further research.

Restructuring in SMEs

Financial crisis can be defined as a situation in which a company can no longer meet its financial obligations (Gilson, 2012), which constitutes a major entrepreneurial challenge. Compared to larger firms, SMEs tend to be more prone to financial distress and bankruptcy due to their liability of smallness (Aldrich & Auster, 1986). Crises are par-

ticularly threatening for SMEs, whose access to resources is constrained, resulting in lower resilience (Couwenberg & de Jong, 2006). Next to financial resources there are especially human, social, organizational and physical resources of great importance for SMEs (Greene, Brush, & Brown, 1997). In this paper, SMEs are defined in accordance with the definition recommended by the European Commission (2003).

As equity and alternative funding sources represent a bottleneck in financing, small businesses are highly dependent on banks to support their strategic decisions and enable investments (Berger & Udell, 1998). Thus, banks' approaches to engaging with SMEs are characterized by an attitude of rejection; this is based on the inherently higher risk posed by SMEs, such as opaque organizational structures and less or low-quality collateral (Blazy et al., 2014). Franks and Sussman (2005) postulate that the degree of concentration of debt and liquidation rights induces a trade-off for banks. According to Giammarino (1989) and Moora-dian (1994), there may be a preference for costly court-supervised bankruptcy if information asymmetries between creditors and management are high. Furthermore, the configuration of bankruptcy regimes is a strong moderator and can explain banks' behaviors and decisions. Whether the judiciary favors the position of the creditor or debtor influences not only business decisions but also the incentives of both parties to restructure in- or out-of-court (Blazy et al., 2014; Couwenberg & de Jong, 2006; Blazy et al., 2014). A creditor-friendly environment (see, e. g., UK, Germany, Austria; Blazy et al., 2008) increases both the propensity to liquidate the business and the pressure to reach an informal agreement to avoid wealth-dissipation (Couwenberg & de Jong, 2006).

The attempt to informally renegotiate outstanding debt normally represents the starting point of the restructuring process (Blazy et al., 2014). In cases where an informal agreement is reached, the affected parties are in general not bound by legal restrictions. If negotiation fails, the company can still try to seek protection from immediate creditor claims under formal, in-court restructuring (Blazy et al., 2014; Couwenberg & de Jong, 2006; Gilson, 1989). According to Blazy et al. (2008), bankruptcy systems can be roughly categorized into two groups: (i) reorganization systems and (ii) liquidative systems. Austria's legal regime, which falls into the latter category, is further described as a "pro secured creditor model" that serves secured creditor claims first but lets the debtor remain in possession of the firm's administration (Blazy et al., 2008).

It can be stated, however, that although the possibili-

ty of retaining the administration of the firm is granted to Austria's debtors in court-supervised reorganizations (as illustrated in Figure 1), it is linked to extensive requirements in terms of higher recovery rates, detailed liquidity plans and increased formal documentation compared to the process in which management is replaced. The bankruptcy regime intends to efficiently separate financially distressed but economically viable firms from those that are not viable (Franks & Torous, 1992). While the former undergo legally defined restructuring processes (formal bankruptcy) to overcome financial distress, the assets of the latter are liquidated and reallocated in the interest of the stakeholders. However, companies also have the option to bilaterally or collectively renegotiate their outstanding debts with their claimants out-of-court and restructure their business (informal restructuring). The success of informal restructurings is defined in accordance with the literature (see, e. g., Blazy et al., 2014; Gilson, 1990; Jacobs et al., 2012) as formal ratification of the restructuring agreement by the affected stakeholders. This is referred to as short-term success of out-of-court restructurings.

Given the conflicting interests of the affected stakeholders in reorganization processes, there are different perceptions of how wealth and burden should be distributed among shareholders, creditors and managers. The majority of affected stakeholders, for example employees, banks, and suppliers, benefits from successful out-of-court restructuring

compared to liquidation in a bankruptcy scenario (Cook, Pandit, & Milman, 2012).

Theoretical Framework – Resource-Based View

In the field of SMEs and entrepreneurship, a sound resource-base is considered to be an important driver of survival, performance and strategy (Terziovski, 2010). According to the resource-based view (Barney, 1991), firms generally strive for sustainable competitive advantages through the establishment and preservation of specific resources and competencies. Unlike the market-oriented-view, which strongly emphasizes external opportunities and threats (see e. g. Porter, 2008), the resource-based view analyzes a company from its inside and aims to harness hidden resources and potentials (Barney, 1991). Development, use of these resources, and competencies are based on learning processes (Zollo & Winter, 2002) and represent a core element of corporate management's ability to establish competitive advantages (Barney, 1991). The resource-based view, as a theory of strategic management, is not bound to a specific firm type or size. In terms of size, however, there are substantial differences and particularities to consider. SMEs seem to have a more flexible and entrepreneurial shape than large corporations. This is conditioned by their less-formalized organizational structures and the direct operational influence of entrepreneurs in adapting to a chang-

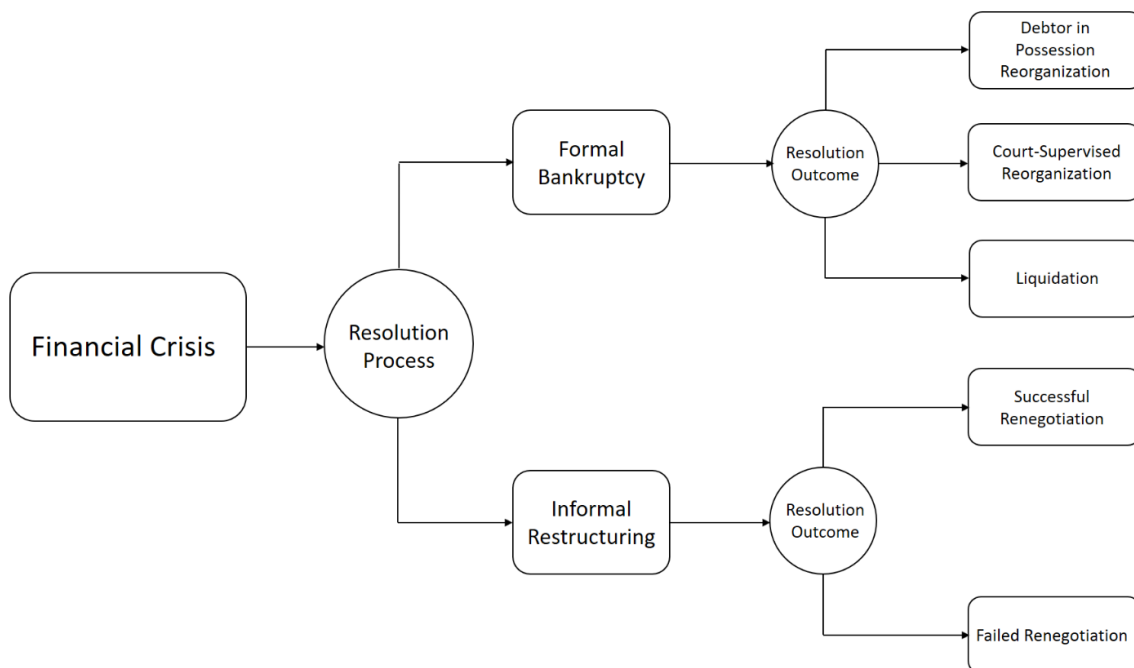


Figure 1. Financial crisis resolution process in Austria (according to Jacobs et al., 2012)

ing environment (Burns, 2010). This increased flexibility is also necessary because smaller and younger companies fail more frequently than larger and older firms (Aldrich & Auster, 1986; Carter & Van Auken, 2006; Dannreuther & Kessler, 2008; Reynolds, 1987; Shane, 1996).

Headd (2003) found that a firm's resources are substantial determinants of its success or failure and Lussier and Corman (1996) found that various resources like entrepreneurial, social or financial resources help to predict a firm's success or failure. Research on firm-specific resources corroborates this and reveals that a firm's access to capital, as well as its quality of accounting, finance, planning and marketing and use of professional advisors, are critical factors in small-firm bankruptcies (see, e. g. Carter & Van Auken, 2006; Laitinen, 2013; Lussier & Halabi, 2010; Lussier & Pfeifer, 2001; Mayr, Mitter, & Aichmayr, 2017; Perry, 2001; Van Gelder, De Vries, Frese, & Goutbeek, 2007).

The process of reorganization is closely related to the recovery and extension of financial and non-financial resources and capabilities (Thornhill & Amit, 2003). The reactions to the crisis range from retirement (liquidation), to retrenchment, replication, and renewal of resources (Helfat & Peteraf, 2003). As part of this renewal, new resources and skills must be developed which meet current as well as future customer needs, thereby generating income and positive cash flows. Regarding financial resources, managers can, for instance, take out new loans (renewal), reduce costs, sell unneeded assets (retrenchment) or renegotiate payment terms with suppliers (renewal). The key drivers behind the reorganization strategies are decisions that require a highly entrepreneurial orientation and mindset (Mayr & Mitter, 2014).

Method

Collecting comprehensive information in the context of out-of-court settlements is problematic, especially for SMEs, where the reliability of data is often impaired. In this paper, we conduct a cross-sectional multiple case study as proposed by Yin (2014). Using a case study design gives us the opportunity to address the complexity of SME restructuring and to give structure to the causes of crises, restructuring actions and organizational behavior (Gummesson, 2006). To increase the validity and objectivity of the derived findings, data source and analyst triangulation were employed (Gummesson, 2006; Patton, 2002). Detailed interviews, as well as analysis of annual reports and restructuring plans for each case, were carried out. Interviews are

commonly used in case study research (Yin, 2014). The interviews were semi-structured to obtain the most relevant results and avoid an interviewer bias. Each interview lasted between 45 minutes and one hour. Information from annual reports was predominantly used to verify findings derived from the interviews. In addition, annual report information contributed to a better understanding of contextual factors and measures taken during the crises. If applicable also the restructuring plans were included in the analysis. A restructuring plan is defined as a formal plan consisting of a bundle of harmonized and complementary restructuring strategies and measures (Gilson, 1990). It functions as a communication device and reduces information asymmetries between stakeholders (D'Aveni & MacMillan, 1990).

SMEs often serve local and regional niches and maintain intense contact with key stakeholders such as loyal business partners. The chosen setting is supported by Yin (2014), stating that a case study is useful and adequate if the study objects are complex and difficult to isolate from contextual factors. Though design of the case study and interviews were semi-structured, we use an adapted classification proposed by Collet et al. (2014) to give the cases a frame. The 13 causes of crises identified were divided into (i) more controllable internal causes (poor management, poor financial management, poor marketing management, poor human resource management, high gearing, high short-term indebtedness, significant bad debt, large project failure and problems with a major contract); (ii) less controllable external causes (decline in demand, increased competition and adverse macroeconomic conditions); and (iii) sheer bad luck without a definite main cause (internal or external), (Collet et al., 2014). After a pretest of two cases, we added another cause of crisis: problems in the personal sphere of the entrepreneur. Furthermore, Collet et al. (2014) present 10 recovery actions, which we adapted slightly for SMEs. We divided recovery measures into (i) financial measures (contribution from the entrepreneur, debt waiver, new debt lines, contributions from non-bank stakeholders, conversion of debt, entrance of new investors and asset sale) and (ii) operational measures (retrenchment, strategy reformulation, increased marketing efforts, introduction of a management information system, change of organizational structures and management change). For a more holistic and precise understanding, contextual factors (Couwenberg & de Jong, 2006) such as industry conditions, family influence, innovative power, membership in a network and location of the business were added.

Data

The sample firms met the following criteria: the company employs fewer than 250 persons, does not exceed a turnover, or total assets of 50 million EUR, or 43 million EUR, respectively, and is neither jointly nor solely linked (upstream relationship) by capital or voting rights to another enterprise by more than 25% (European Commission, 2003). Altogether, fifteen successful and failed informal restructuring attempts, handled by two turn-around professionals, have been reviewed. We choose to consult the restructuring experts instead of the managers/entrepreneurs for two reasons: (i) we expect more reliable and objective information from a neutral informant (European Commission, 2007) and (ii) the measures taken during the crises are strongly founded on the advice of the professionals. Beside the criteria to suit the aforementioned SME-definition the interviewed experts were asked to provide cases that are unique enough to be worth analyzing but still comparable to similar restructuring attempts in the same industry and economic environment. The industry of the selected cases is dominated by construction and building, which show the highest number of bankruptcies in Austria. Additional-

ly, troubled firms in these industries tend to have complex structures and apply processes where reorganization attempts can be analyzed in depth.

The interviews followed a semi-structured form and covered three major areas: (i) causes of decline, (ii) restructuring measures and (iii) demography of the company and information about the economic surrounding. The former two are based on the meta-study of Collet et al. (2014) which analyzed 10 papers and condensed them to 13 cause of decline and 10 recovery actions. The later refers to the exposedness to market forces, industry margin, legal form, rural or urban location, networking activities etc.

Data collection took place from October to December 2015. For analysis and abstraction of the interviews, the software MAXQDA is used. Table 1 summarizes and describes selected information on the sample firms. With regard to the industry, a high concentration in the construction sector can be observed. The year of each company's founding ranges between 1859 (C1) and 2008 (C5). Concerning the number of employees, a maximum of 146 (C10), a minimum of 0 (C11) and an average of 39 were observed. Annual sales of the firms varied from 105.000 EUR (C11) to 39.9 million € (C3) with an average of 6.5 million EUR. A total of 8 out

Table 1
Summary and selected description of the cases

Case	Industry	Foundation	Employees	Sales (K EUR)	Successful/ Failed	Family Firm*	Legal Form**
C1	Building	1859	39	5.391	S	Y	Ltd.
C2	Building	1963	11	926	F	Y	SP
C3	Building	1991	122	39.954	S	Y	Ltd.
C4	Building	2005	62	12.630	S	N	Ltd.
C5	Building	2008	12	1.563	S	N	Ltd.
C6	Catering	2006	10	4.448	S	N	Ltd.
C7	Commerce	1960	11	853	F	Y	Ltd. PS
C8	Commerce	1967	18	1.531	S	N	Ltd. PS
C9	Commerce	1991	2	342	S	Y	SP
C10	Construction	1950	146	16.601	F	Y	Ltd.
C11	Construction	1990	0	105	S	N	SP
C12	Construction	1995	117	7.871	F	Y	Ltd.
C13	Engineering	2006	25	2.040	S	Y	Ltd. PS
C14	Transport/Logistic	1984	8	3.313	S	N	Ltd.
C15	Waste	2005	3	447	F	N	Ltd.

* Y = Yes; N = No

** Ltd. = Limited Company; Ltd. PS = Limited Partnership; SP = Sole Proprietorship

of the 15 companies are considered family firms, and 7 are non-family firms. Limited liability companies (9) represent the preferred legal form, followed by limited liability partnerships (3) and sole proprietorships (3).

Results

Causes of the Crisis

A distinctive characteristic of company crises is the fact that a clear cause, location or beginning of the crisis is often difficult to identify (Slatter, 1984). This is referred to as multi-causality, multi-stage and multi-location. Case 6 exemplifies this multi-causality and multi-location character:

“Causes of the crisis were errors in distribution and sales as well as mismanagement. Because of a disease of an entrepreneur, the company [Catering Ltd.] also had to deal with an unplanned one-time event. Price declines and increasing competition in the market, and the fact that the company was no longer the sole supplier on the market, led to earnings problems, and finally bankruptcy threatened” (C6/S) - S = Successful restructuring; F = Failed restructuring.

Various issues enable us to differentiate among causes of the crisis, symptoms caused by the crisis and actions that are necessary to overcome the aforementioned aspects of the crisis (Kraus et al., 2013). For the purpose of this study, we delineate the causes and symptoms of the crisis based on ex ante defined criteria, as well as the detailed explanations and experiences of the turnaround experts.

A predominant internal cause of crisis in this case study is mismanagement at the top level, which can be found in two-thirds of the cases. This case study shows that entrepreneurs excessively focused on operational activities and devoted less time on strategic decisions.

“Starting points for the crisis situation of Construction Ltd. were errors in strategic management and planning, since operations were focused on less profitable business areas and too-fast growth was promoted.” (C10/F)

“Commerce SP’s adverse economic development was driven by the opening of a second location, which could not be managed profitably. The opening of a shopping center in close proximity to the location was anticipated, but the project was ultimately not realized.” (C9/S)

In this respect, one of the consulted turnaround professionals argues that there seems to be a general issue regarding the understanding of business strategy, especially when working with SMEs. The problem becomes even worse when there is limited business knowledge and insufficient

previous experience at the top-management level.

‘Problems in the personal sphere of the entrepreneur’ were frequent triggers of crisis situations in our sample. Problems in the personal sphere include e. g. disputes with or among family members with a negative impact on business, illnesses and disease of top-level executives and inflate withdrawals to serve private needs.

“One of the two entrepreneurs at the company [Building Ltd.] fell short for a longer period due to a disease. This circumstance can clearly be identified as cause of the crisis. In this phase, the entrepreneur also had relatively high liabilities to the company, which are attributable to sustainably high private withdrawals. The consequence of this procedure was a liquidity gap.” (C5/S)

“Conditioned by an inappropriate communication policy of an entrepreneur in dealing with a bank adviser, a due loan was not prolonged by the main bank.” (C12/F)

Family dynamics and financing requirements in the private sphere seem to play an underestimated role in causing life-threatening crises for SMEs. Some crises, however, seem to be the result of unintended actions that took place years before the first symptoms were perceived. Based on previous experience, one of the interviewed turnaround professionals stated that many company crises in the small (family) business sector are homemade, especially in the context of company handovers.

Poor strategic management and problems in the personal sphere of the entrepreneur were discovered to be two substantial internal causes of corporate decline. Moving to (less controllable) external causes of corporate crises, reduced demand and increasing competition were identified as two of the main reasons for corporate decline.

“The imminent downturn in demand was alleged to be compensated by an aggressive pricing policy.” (C12/F)

“Price declines and increasing competition in the market, as well as the fact that this company was no longer the sole supplier on the market, led to profit problems.” (C4/S)

Our cases further show that, compared to firms that undergo successful out-of-court restructurings, unsuccessfully restructured firms are operating in more challenging industries in terms of competition intensity, profitability and market growth.

Restructuring Strategies and Measures

The aim of this section is to present the strategies and measures taken by firms to restructure the business and avert bankruptcy. We divided the restructuring measures into two subcategories:

(i) financial strategies and measures and (ii) business strategy and operational measures (Couwenberg & de Jong, 2006). We describe the former as efforts to gain, regain or maintain a sound capital and liquidity foundation, which enables the entity to fulfill its financial obligations and provide financial resources for its restart. The latter refer to efforts to gain, regain or maintain organizational structures and processes able to serve the claims of stakeholders in a balanced, efficient and effective way and ensure future profits.

Financial strategies and measures. Financial restructuring strategies are primarily employed to put the company in a situation where bankruptcy can be avoided and where financing stakeholders can be held accountable for contributing to a positive restructuring outcome. They provide the base for sustainable organizational and strategic changes.

The most frequent and dominant financial measure was identified as the financial contributions of entrepreneurs. This includes collateral pledged to new or existing debt lines, “fresh money” (equity), (Accettella, 2016), and reduction or suspension of entrepreneurs’ salaries. This measure was applied in eleven cases, however, no substantial difference between successful and failed firms was observed.

“[...] the entrepreneur remaining in the company has made a capital contribution for short-term liquidity stabilization.” (C6/S)

“[...] both a managing director and one of the main banks [against the granting of collateral] declared themselves willing to provide the company with additional financial resources.” (C7/F)

Whether the entrepreneur contributes to the restructuring depends on two conditions which need to be fulfilled cumulatively. First, the capability to contribute financial resources (from in- or outside the business) is required and second, a declaration of intent to use these resources for the purpose of the restructuring is necessary.

An important financial measure applied in debt restructurings represents the debt waiver of banks. At first glance, and contrary to expectations (Gilson, 1991), the forgiveness of claims turned out to be only of subordinate relevance and was applied in four of fifteen cases. Thus, what attracted our attention was that in none of the unsuccessful cases, but in four of the successful restructurings, a debt waiver was exercised. Consequently, there seems to be at least weak evidence that successful debt waivers have a positive influence on informal restructurings.

“In the course of the elaboration of the restructuring measures, a debt waiver of the main bank was achieved and both partners provided additional funding to the company.”

(C13/S)

“[...] a consolidation loan with a specialized institution succeeded in addition to a new loan from the remaining main bank. An interest reduction of the existing loan was also achieved.” (C9/S).

This statement is a prime example of how the resource-based view, as a framework, contributes to a better understanding of small firm restructuring. Not only do tangible assets, such as technical equipment or machines, determine success or failure in informal restructuring procedures, the prolonged and sustainable support of stakeholders can also be considered as an extremely valuable resource. If the support of the main stakeholders is rejected or not given at all, the company is confronted with a resource deficit, which is difficult to resolve with “traditional” restructuring measures. A proactive and transparent communication policy with stakeholders (especially banks) is clearly preferable to a concealed one, even if the content of the information endangers the companies going concern.

It can be observed that the willingness of banks to support troubled firms is not only determined by their evaluation of the firms’ capability to meet future market requirements but even more by the willingness of the entrepreneur to personally contribute to the restructuring. In most of the cases (9 out of 11) where banks financially supported the struggling firms, their engagement also depended on the entrepreneurs’ effort to overcome financial obstacles. In the event of a disturbed trust relationship or a negative assessment of viability by the bank, a conversion of the bank debt must be achieved. This implies a replacement of the former bank with a new creditor that is convinced that a rehabilitation of the business is possible and probable. The conversion of debt from one bank to another is often accompanied by a debt waiver.

“The main bank actually agreed to a standstill agreement, since the loans were not set due and a period for restructuring measures was granted. However, the disturbed relationship between the entrepreneur and the main bank leads to a change of banks, in which some parts of the claims against the company were waived.” (C1/S)

Our analysis shows that other financial measures, such as the entry of new investors or a large-scale sale of company assets are rarely applied in the out-of-court restructuring of SMEs, neither for successful nor for failed firms. SME normally do not have substantial assets that can be sold and are not required for production.

Business strategy and operational measures. While financial restructuring strategies aim to reestablish the com-

pany's ability to meet its financial obligations, business strategy and operational restructuring measures ensure that potentials and resources within the firm are reconsidered and reassembled to provide future profits. Retrenchment activities, such as the reduction of personnel, reduction of assets and the closing of business sites, are typical operational measures in the restructuring process (Sudarsanam & Lai, 2001; Couwenberg & de Jong, 2006).

"In the course of the restructuring agreement the closure of the second site was decided and the main site was re-organized. The entrepreneur reengaged in operative tasks, which reduced expenses for personnel." (C9/S)

"[...] loss-making and risky business areas were successively reduced and efforts in the more profitable business areas intensified. At the same time, the introduction of an accompanying construction site cost-control-system was implemented." (C7/F)

Though necessary, stand-alone retrenchment measures are normally insufficient to stabilize a struggling firm. According to our case study, there was no case (failed or successful) in which retrenchment was the only operational restructuring measure and no further supporting actions took place. Strategic retrenchment is often applied in combination with adaptation in the company structure and processes (5 out of 7 cases).

"[...] a restructuring agreement could be reached, which included the reduction of personnel expenses and the hiring of a new CTO." (C2/F)

"[...] a reporting system was introduced and departments were combined. By introducing an electronic payroll, 15% of the [personnel] expenses could have been saved." (C8/S)

A remarkable difference between successful and failed restructuring is that half of the successfully restructured firms altered their company structures to use resources more efficiently. In failed restructurings, only in one of five cases (C10) a serious change in the organizational structure took place.

Our analysis of the causes of crises identified strategic management failure as the dominant internal cause of financial crisis. However, only in a third of the cases there were visible changes in terms of strategy formulation; in successful cases more frequent than in failed ones. A commonly applied operational measure in large corporations is management change. Due to the often-present concentration of management and ownership in SMEs, management change as a restructuring action is rarely feasible or desired. Management changes in the presented sample are mainly attributable to illness and personal problems of the entrepreneur

rather than to pressure by external stakeholders.

Contextual factors. In addition to analyzing both the causes of crises and restructuring measures, we collected information about contextual factors that might have a relevant influence on the restructuring outcome. The majority of companies operate in industries where market growth is low to medium, but competition in these industries seems to be medium to high. However, a striking difference between successfully restructured and failed businesses could not be identified. Family firms, on the other hand, tend to fail more frequently than companies without a family influence. Crises in the present study are regularly caused by problems in the personal sphere of the entrepreneur, and these problems often relate to family matters. Financial and operational restructuring measures are normally inadequate to overcome disharmonies in the family system. The study found evidence that the degree of professionalism of the management executives and their industry experience tend to facilitate a positive restructuring outcome. In crisis situations, especially banks put trust in more experienced, reliable and predictable manager/entrepreneurs.

Further, the innovative capacity of the companies is analyzed. For this purpose, innovative capacity is defined as strong market appearance, clearly positioned products, products that serve special market needs, professional websites, etc. Failed firms appear to be less innovative (one out of five) than restructured firms (six out of ten). Innovative power, regardless of whether it was present before or established during the crisis, can therefore be considered an important moderator in differentiating successful from failed restructurings. Company size, as measured by turnover and employees, as well as age of the firms, is only marginally different between failed and successful cases. Regarding membership in a network, no substantial difference in the restructuring outcome could have been identified, a finding that contradicted our expectations. Whether the company is located in an urban or rural area seems to be of negligible importance during the restructuring process. The observed firms, on average, maintain contact with two banks (up to a maximum of five), and one of them normally can be regarded as the main bank. Due to the rather concentrated banking relations of SMEs, the number of banks involved in the restructuring process does not appear to be a major driver of success or failure. According to public awareness of informal restructuring, no qualified statement regarding the determinants of success and failure is possible, as only two restructuring cases (one successful, one failed) were known to the public. What can be stated, however, is the fact that

SMEs chiefly exclude the public when renegotiating their outstanding claims (thirteen out of fifteen).

Table 2 illustrates which cases are assigned to the most relevant causes of crises, applied restructuring measures and

crucial contextual factors. Internal causes, mismanagement in connection with personal problems seem to most relevant ones. Regarding the restructuring measures the contribution from the entrepreneur is of outstanding importance. Innova-

Table 2

Case assignment to causes of crises, restructuring measures and contextual information

Causes of the Crisis		
Internal Causes		
	Strategic Mismanagement	Problems in the Personal Sphere
	C2/F; C3/S; C6/S; C7/F; C8/S; C9/S; C10/F; C12/F; C13/S	C1/S; C3/S; C5/S; C6/S; C12/F; C13/S
External Causes		
	Increased Competition	Reduced Demand
	C11/S; C12/F; C14/S	C1/S; C3/S; C4/S; C9/S; C14/S
Restructuring Measures		
Financial strategies and measures		
	Contribution from Entrepreneur	Debt Waiver from Bank
	C1/S; C2/F; C3/S; C4/S; C5/S; C6/S; C7/F; C8/S; C10/F; C12/F; C14/S	C4/S; C8/S; C9/S; C11/S
Business strategies and operational measures		
	Retrenchment Activities	Changing Corporate Structure
	C3/S; C4/S; C5/S; C7/F; C9/S; C14/S	C3/S; C4/S; C8/S; C10/F; C11/S; C14/S
Contextual Factors		
Innovation Capacity	Network Membership	Public Awareness
C1/S; C3/S; C4/S; C5/S; C7/F; C8/S; C13/S	C5/S; C6/S; C7/F; C14/S; C15/F	C1/S; C10/F

tion capacity and network memberships support successful reorganizations.

Discussion

Academic research in the field of small, unlisted firms restructuring is limited (Franks & Sussman, 2005). Because the resources of small firms are scarce and corporate crises represent an incessant threat (Mayr et al., 2017), the aim of this study was to identify the influencing factors and resource requirements that enable SMEs to restructure their business out of court. Crises in this case study were caused by four major elements, two of which were internal and two of which were external. The most severe and intensive impacts resulted from (i) mistakes in strategic management and (ii) problems in the personal sphere of the entrepreneur. Less frequent but still threatening were (iii) reduced demand and (iv) increased competition, both of which function as external causes.

With reference to the internal causes of crises, Mayr and Mitter (2014) emphasized the role of a dynamic and strategically thinking entrepreneur. If entrepreneurs focus too strongly on operative tasks and are not willing to delegate some authority to their senior managers, insufficient resources in terms of time and attention are devoted to strategic management. In line with previous studies (see, e.g., Lussier & Halabi, 2010; Perry, 2001), we conclude that industry knowledge and previous managerial experience are inversely related to corporate failure and that they facilitate turnaround. Consistent with the limited literature available (Carter & Van Auken, 2006; Collet et al., 2014; Slatter, 1984) that compares successful with failed turnarounds, poor and insufficient (strategic) management are negatively related to turnaround success.

In contrast to previous studies (Pandit, 2000; Slatter, 1984), we found that firms facing primarily external causes of decline are not less likely to restructure their business. However, in none of our unsuccessful sample firms were

external motives the undisputed dominant cause of decline and ultimate failure. This is particularly interesting because external causes, which normally lie outside the operational control of entrepreneurs, are hardly repairable. SMEs seem especially vulnerable to these external factors because they have to adapt to market changes and to structural factors they cannot influence (Madrid-Guijarro, Garcia-Perez-de-Lema, & Van Auken, 2011; Storey & Sykes, 1996).

Doubtlessly, banks play a key role in the restructuring of small businesses. This seems to be common pattern in Austria and Europe in general, where the house bank relationship is very close. This argument is in line with the results of Blazy et al. (2014). Settling on an agreement is highly dependent on the whim of the affected creditors, especially the financing banks. In this respect, the resource-based view seems to be useful and adequate to explain the success or failure of an agreement. Restructuring is only possible if a healthy resource core is available and used as a basis for renewal (Mayr & Mitter, 2014). The decision of banks regarding whether to support or reject a reorganization plan is based on their assessment of the sustainable viability of the firm's resource core.

Banks contribute to restructurings in different ways: (i) offering of new debt, (ii) debt waiver, and (iii) postponement of claims. The order of the aforementioned elements is determined by the intensity of the bank's support. New debt lines represent an additional resource in-flow, debt waives the elimination of resource burden and postponement of claims as the weakest form of positive bank contribution represents a delay of resource burden.

A well-argued restructuring plan helps to communicate the turnaround strategy to the banks and facilitates they

support. However, in the studied sample it seems to be the case that banks are rather interested in figures than in vision and mission statements. They focus heavily on the financial side, placing only minor emphasis on operational restructuring and strategy redesign. This is remarkable because errors in strategic management were a primary cause of crisis in the case study. Even if the firm's viability is sufficiently justified for the bank, the engagement of the entrepreneur is necessary in the restructuring process. In a burden-sharing approach, both banks and entrepreneurs contribute to the restructuring (e. g., new capital, debt waiver, stand-still). Other stakeholders, such as suppliers or states, seem to play only a subordinate role in restructuring, as only one of the case companies (C6/S) received direct and visible support from a non-bank stakeholder.

Regarding the financial part of the restructuring, banks intend to share the risk of restructuring failure with the entrepreneur by requiring a financial and/or personal commitment. This takes place in a two-step approach. First, the capability of the entrepreneur to contribute financially to the restructuring is analyzed. If the capability can be ensured by the entrepreneur, the willingness to engage financially in the restructuring process is also required. These findings are in line with Couwenberg and de Jong (2006), who state that successful firms contribute to the restructuring (in the form of additional collateral) significantly more frequently than failed firms. Though the presented approach can be considered the normal case, banks occasionally support companies that are not able to provide financial contributions. Financial restructuring actions represent the foundation for further operational measures. Without the firm's ability to meet due payment obligations, discussions about operation-

Table 3
Results from perspective of the resource-based view

Causes of the Crisis		Resource Based View			
		Restructuring Measures		Outcome	
Internal	External	Financial Measures	Operational Measures	Successful	Unsuccessful
Lack of resource separation (inside/outside the business)	Resources bundling is not suitable to meet market requirements	Provision of new resources	Reassembling existing resources	Prolonged resource flow among company and stakeholders	Essential resources cannot be retained in the company
		Reassessment of existing resources	Acquisition of new resources		
Lack of resource allocation (operational/ strategic)	Resources not sufficiently unique to gain competitive advantages	Elimination or delay of resource burden			

al restructuring measures are obsolete. To convince the financiers of the restructuring actions/plan, a sufficient and coordinated mix of financial and operational measures is necessary. The restructuring plan/mix of restructuring measures ultimately influences the outcome of the restructuring process. If renegotiation fails formal bankruptcy is evoked.

Table 3 aims to illustrate to what extent the resource-based view can be used to explain the study's results from a more general perspective. With regards to the causes of the crisis we differentiate between internally and externally caused crises. Internal crisis motives are often the result of a lack of resource separation and resource allocation. A lack of resource separation is referred to as insufficient or absent demarcation of what resources are needed inside the business and what resources can be withdrawn and used for non-business purposes. Problems in the personal sphere of the entrepreneur represent a prime cause of crises attributed to insufficient resource separation. Troubles in the family system and absence of the entrepreneur due to sickness can withdraw available (personnel) resources from the company leading to less residual capacity for strategy development and operational management. Consequently, the probability of mismanagement rises.

While resource separation determines the portion of financial and managerial resources available inside the company, resource allocation is referred to as the balancing of resources among operational and strategic agendas. Therefore, a lack of resource allocation is considered as an imbalance of operational and strategic management at expense of the latter. Although the focus in restructurings is first on financial measures, second on operational activities and finally on revitalizing strategy, in the ordinary course of business the order is inverse. A holistic and revolving strategy development process should be able to detect changes and breaks endangering the applied business model. External causes are less controllable by the management. In our sample this is the case when market expectations and competition are so high that the company is not able to maintain a competitive advantage.

Restructuring measures, especially financial measures, serve the maintenance of solvency and are the foundation for further operational measures. Financial measures can either be used to deliver new resources to the company (e.g., capital contribution), reassess existing resources through new ones (e.g., debt restructuring), or to eliminate or postpone resources that are a burden for the firms (e.g., debt waiver or extension of payment). Operational restructuring measures include the reassembling of existing resources and structures to meet the expectations of stakeholders, but

also the acquisition of new resources (e. g., new management, new process-knowledge). The outcome of the restructuring (measured by whether an agreement could be ratified or not) is therefore highly dependent of the nature of the resource flow between the company and its environment, regarding funding, knowledge, reputation and sales. If this resource flow is sustainable and prolonged on a basis that sufficiently satisfies stakeholders, the restructuring is successful. In case the company, however, is unable to retain essential (financial) resources the restructuring will fail.

Conclusion

Crises in the present study are primarily caused by internal factors, and the findings highlight the role of the entrepreneur in restructuring (Ayotte, 2006). Insufficiencies in strategy formulation and problems in the personal sphere of the entrepreneur turn out to be the dominant reasons for corporate crises. Replacement of top management is a proven measure for large enterprises (Gilson, 1990; Collett et al., 2014) and seems to be a plausible way to overcome the aforementioned issues. However, "a small business isn't a little big business" (Welsh & White, 1981, p. 18), as ownership and management in SMEs, and especially in family firms, are heavily intertwined. The family firms in this study face additional challenges due to complex family dynamics and the resulting adverse side effects on business. The resolution of personal and managerial problems and the concentration of interests among stakeholders (internal and external) can be considered crucial elements of successful out-of-court restructuring attempts in SMEs.

Important restructuring measures include financial contributions from the owner/entrepreneur, debt restructuring, new credit lines and debt waiver. Entrepreneurs are further required to show personal and financial commitment to the restructuring project to obtain prolonged support from their financiers. At an operational level, retrenchment, strategy reformulation and adaptations in the company structure are frequently applied measures. Consequently, a balanced and harmonized mix of financial and operational measures is required to establish a resource base that enables a restructuring agreement with the affected stakeholder; in SMEs, this is especially true with regard to the main banks (Sudarsanam & Lai, 2001; Couwenberg & de Jong, 2006).

Innovative power tends to facilitate restructuring agreements, while strong family influence impedes informal restructurings. Innovative power can be regarded as an intangible resource that allows SMEs to serve future market needs in an efficient way (Ahluwalia, Mahto, & Walsh,

2017). Family matters instead demand time, attention and often capital and therefore drain resources from the company.

Blazy et al. (2014) state that, although informal arrangements hide the potential for cost savings, they are not always possible due to common pool problems, the nature of banking relationships, the design of debt contracts and country-specific bankruptcy configurations (Wessels & Madaus, 2018). Our findings provide evidence that the number of actions taken does not generally ensure a positive outcome of restructuring. Thus, a more holistic view is imperative to balance and coordinate “more of the right” measures (Couwenberg & de Jong, 2006); this view is conditioned by a precise and clear understanding of the causes of the crises.

Practical Implications

Our findings have multiple important implications for business owners and consultants. The main one is to react in a timely manner to the crisis, and keep key-stakeholders not only informed, but encourage a proactive and transparent communication policy. A break in the trust relation with key-stakeholders during the restructuring makes an out-of-court settlement almost impossible. Business owners need to be aware of the fact, that family dynamics and problems in the personal sphere can lead to financial crises and endanger the continued existence of the business. Therefore, consultants of SMEs have to focus on awareness raising and risk management.

The findings of the paper are specifically relevant for banks, which can be considered as key enabler and supporter of SME restructurings. Although, banks primarily focus on the financial aspect of restructurings, a bundle of operational measures, (e.g. a sound redesign of the business model, management change, cost cutting) is necessary to retain the support. It is often the groundbreaking decisions based on strategic considerations that allow a company to succeed in the long term and to create the framework for innovative products and services.

In a scientific context the analysis of the interaction process between entrepreneur and bank holds the potential for substantial findings and represent an avenue for further research. Therefore, we recommend a longitudinal study design, which can also document the impact of the restructuring measures and their impact on the long-term success of the restructuring. Moreover, the views of banks and the entrepreneur, in addition to the expertise of professionals, potentially disclose different perceptions that can help to establish a broader understanding of how to overcome fi-

nancial crisis.

Limitations

Due to the case study design, it is not possible to generalize the derived findings. The findings, however, do offer an in-depth perspective on which factors drive small business crises and what is necessary to overcome such crises and restructure the business. Furthermore, we only covered cases supported by turnaround professionals, and we strongly rely on their judgment and experience. In cases where the support of experts is not provided, the results are potentially different. Despite the defined selection-criteria a selection bias of the turnaround professionals cannot be excluded.

Moreover, we evaluated only the short-term success of out-of-court settlements, with an analysis of what is necessary to ratify an agreement. The long-term success of the restructuring process has to be evaluated with the help of additional longitudinal studies. Ultimately, due to the case study design and sample, we cannot claim that the results are representative for the entire Austrian SME population.

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