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Why has Once Successfully Operating Company Failed?

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Abstract: The trajectory from corporate success to failure embodies a multifaceted, agonising effect on its stakeholders. Knowledge on causes is crucial for corporate sustainability; hence, the overarching purpose of this study is to explore causes for the demise of a once-successful operating company within Sri Lanka. Both qualitative and quantitative data were collected and meticulously analysed to uncover the intricate conditions that led to company failure. It was observable at the superficial level; the flaws in working capital management, contract administration, excessive growth expectations, and a strategy marred by excessive centralisation led to the demise of the company. The failure didn't occur abruptly but gradually, due to the inability of the management to act realistically, thereby revealing that the underlying cause was deeply rooted in the weakness of the managerial skills and perspective of the senior management. These insights are instrumental for management professionals and entrepreneurs to avoid such catastrophic situations in the future. Further, insights into corporate failure provide knowledge on critical success factors, particularly being able to understand how HRM factors are connected and leading to corporate failure. This study presents rich insights for scholars to set directions for future research with an integrative and cross-disciplinary approach. The problem of heavy reliance on either qualitative or quantitative data, which was the usual tendency of this area of studies, was overcome by employing an interactive approach to explore reasons for corporate failure, which is rare in general, and, particularly, this study encourages human resources management professionals to think beyond conventional human resources management areas.

Keywords: *Business failure; Causes for Failure; Management Failure, Managerial Skills. Success Factors*

Introduction

Corporate failure could be driven by reasons external to the organisation, such as macroeconomic pressure (Visual Capitalist, 2023; S&P Global Market Intelligence, 2024; Columbia Business School, 2024) and black swan effects such as the COVID-19 outbreak (Bartik et al., 2020; Fairlie, 2020; Collins-Thompson et al., 2021). On the other hand, corporate failure is also caused by internal organisational flaws such as weakness in management, strategies and internal inefficiencies (Dun & Bradstreet, 2024; PwC, 2024; Gaskill et al., 1993; Miller, 1977; Moulton & Thomas, 1988; Thornhill & Amit, 2003). The failure of a business organisation represents a critical situation where its performance falls below a threshold, jeopardising its competitiveness and survival. The failure of a business may transpire as either an abrupt or gradual demise of a corporate entity, occurring at any juncture within its life cycle (Amankwah-Amoah et al., 2021). This event, akin to a catastrophe, not only impacts immediate stakeholders but also poses serious threats to the socio-economic development of a country (Cope, 2011, as cited in Atsan, 2016).

Corporate failure has been extensively studied in financial and strategic management literature (Polemis & Gounopoulos, 2012). However, a prevalent focus on financial indicators in failure prediction models has led to an oversight of real causes, as these indicators merely signify symptoms rather than root causes. Arasti (2011) notes that existing research on business failure primarily centres around developed countries, leaving a knowledge gap regarding failure causes in nations with diverse economic, political, social, and cultural conditions. Our observations align with Arasti's perspective, underscoring the need for studies, particularly from developing nations in Southeast Asia. Despite frequent reports of corporate failures in Sri Lanka (Lanka news web, 2019; Dissanayake, 2019; Wijekoon & Azeez, 2015), academic investigations into the actual causes are scarce. In this context, a pioneering piling construction company in Sri Lanka, which thrived for four decades, has almost reached its bankruptcy by the end of the financial year 2019/20. This presents an invaluable opportunity for learning lessons from failure cases, and thus this study aims to explore the causes of this concerned company's failure, providing insights for entrepreneurs, professionals, and academics.

The contribution of this study lies in its potential to fill the empirical void in understanding corporate failure in Sri Lanka. Notably, it responds to the call for an integrated theoretical approach in the domain of corporate failure research (Amiquero et al., 2023). By adopting an integrative framework, this case analysis is contributing from a developing country in Southeast Asia to the broader literature on corporate and management failure. This study goes beyond addressing the empirical gap in understanding corporate failure in Sri Lanka, holding significant implications for various stakeholders. Entrepreneurs can gain valuable insights into the pitfalls leading to business demise, learning from the case of a pioneering piling construction company. This enhances their strategic decision-making and risk management capabilities. Professionals, including managers and executives, benefit from a deeper understanding of nuanced causes of corporate failure.

The study provides a platform for assessing vulnerabilities, fostering a proactive approach to risk mitigation and ensuring long-term sustainability. Learning from others' missteps empowers professionals to implement robust governance structures, safeguarding their companies. Academics and researchers gain a valuable case study contributing to the knowledge on corporate failure, especially in developing nations. The integrative framework sets a precedent for future research, encouraging scholars to adopt comprehensive approaches. This enriches academic literature and serves as a foundation for more effective theoretical models in corporate and management studies. The study's broader significance lies in its potential impact on Sri Lanka's socio-economic landscape. By unveiling corporate failure intricacies, policymakers gain evidence-based insights for targeted interventions, promoting a resilient business environment. This contributes to overall economic development, aligning with global best practices and fostering a conducive atmosphere for sustainable business growth. In essence, the study serves as a beacon, guiding stakeholders toward a comprehensive understanding of corporate failure causes. Its ripple effects extend from individual entrepreneurs to the academic community and the socio-economic fabric of Sri Lanka, fostering a culture of resilience, foresight, and sustainable business practices. Investigating the causes of organisational failure is not only essential for preventing future catastrophes but also holds commercial advantages (Hopkin, 2012). Furthermore, understanding failure causes provides insights into success factors (Amiquero et al., 2023). Thus, this study serves human resources management professionals who aspire to be CEOs not only to comprehend causes of corporate failures but also to develop a bird's-eye view on operating a business organisation.

Literature Review

Organizational Failure

Research on organisational failure spans various disciplines, encompassing diverse terminologies such as 'decline', 'failure', 'closure', 'bankruptcy', 'liquidation', 'insolvency', 'crisis', 'discontinuance', 'death', 'demise', 'exit', 'retrenchment', and 'setbacks' (Mellahi & Wilkinson, 2004; Mellahi & Wilkinson, 2010; Kücher et al., 2020; Amiquero et al., 2023). This study adopts the term 'organisational failure', specifically referring to the failure of business organisations. Pretorius (2009) defines business failure as 'when it involuntarily becomes unable to attract new debt or equity funding to reverse decline; consequently, it cannot continue to operate under the current ownership and management' (p. 10). Josefy et al. (2017) describe organisational failure as an involuntary cessation of operations, the insolvency of an organisation, or an involuntary change in ownership. The failure represents the endpoint at discontinuance (bankruptcy), leading to the cessation of operations and the initiation of judicial proceedings (Pretorius, 2009). Habersang et al. (2019) adopt Josefy et al.'s (2017) definition for examining failure processes through a qualitative meta-analysis research design. For this inquiry, the definition by Mellahi and Wilkinson (2010) is employed. Accordingly, organisational failure is when 'an organisation's ability to compete deteriorates because of actual or anticipated performance below a critical threshold that threatens its viability. The domain of organisational failure is extensive, with overlapping areas, making it inherently complex. Pretorius (2008) addresses these complications to a large extent by proposing a conceptual framework. The variants of the failure domain include four sub-domains: (a) causes & preconditions, (b) signs & predictions, (c) recovery, and (d) cognition & learning. Causes and preconditions are further considered as two sub-domains but are highly interconnected. Failure is not without causes, symptoms, or signs. The focus of this study is on the causes of business organisation failure.

Causes of Organizational Failure

Pretorius (2008) refers to causes as the sources, reasons, or variables responsible for the presence of decline or failure. Management requires insights into these causes for revision (Pretorius, 2008). Causes give rise to signs. The term 'sign' refers to something that points to (acts as an indicator of) possible causes of failure or decline, and these pointers are termed 'warning signs'... Signs cannot, however, cause failure but are purely indicators that failure causes are present within a certain situation" (p. 416). Symptoms or signs of organisational failure encompass market share erosion, persistent low or negative profitability, shrinking critical resources such as financial, human, and technological resources, and/or loss of legitimacy (Mellahi & Wilkinson, 2010). However, it is observable that causes and signs are closely connected, and signs are crucial for identifying real causes. A business may fail during any stage of its life cycle. Research suggests that the causes of organisational failure may differ according to age and lifecycle stage (Kücher et al., 2020). Kücher et al. (2020) find that young and adolescent firms mainly fail due to internal shortcomings, while small and medium-sized firms fail due to increased competition and economic slowdowns. Annexure 1 summarises causes identified in the literature, aligning with the major themes/classifications of Ooghe and Waeyaert (2004), slightly adjusted for enhanced clarity. Therefore, we can categorise the causes of organisational failure under five broad themes: general environment, immediate environment, corporate policy & strategy, top-management characteristics, and organisation characteristics.

Cases of corporate failure are frequently reported in Sri Lanka. For instance, the International Monetary Fund (IMF) report reveals that out of 46 licensed financial companies in Sri Lanka, 15 are presently facing liquidity issues, with six at a high level of distress (Lankanewsweb, 2019). According to the Annual Report of the Department of Public Enterprises (2018) of Sri Lanka, out of 55 strategic enterprises, 16 enterprises are in a very difficult situation, recording net losses amounting to LKR 157 billion (Dissanayake, 2019). Wijekoon and Azeez (2015) identify 70 failure cases of listed companies in Sri Lanka.

While few studies are available on business failure, they predominantly focus on the relationship between governance characteristics and corporate failure. For example, Lakshan and Wijekoon (2012) examine the influence of corporate governance characteristics on the corporate failure of listed companies in Sri Lanka, covering the period from 2002 to 2008. Results indicate that the outside director ratio, the presence of an audit committee, and remuneration of board members are negatively associated with the probability of corporate failure, while CEO duality is positively related to the likelihood of corporate failure. Board size, auditor's opinion, and outside ownership do not appear to be significant determinants. However, a similar study by Jayasooriya et al. (2018) on the impact of corporate governance on the corporate failure of listed firms from 2012 to 2017 finds that board size, CEO duality, remuneration of directors, the presence of an audit committee, and the outside directors' ratio have a negative effect on the corporate failure of listed firms, while the audit opinion has a positive effect. On the other hand, Wijekoon and Azeez (2015) tested a failure prediction model using 70 failed listed companies in the Colombo Stock Exchange. Refaie and Rajapaksha (2019) studied factors affecting the business failure of 3PL (third-party logistics) companies in Sri Lanka with a sample of 135 failed companies. One key observation in this domain is that researchers often use signs or effects and causes interchangeably. Nevertheless, there is a significant deficit of research into the causes of failure in the Sri Lankan context.

Theoretical Framework

The deterministic view and voluntaristic view are the two main schools of thought regarding the causes of organisational failure (Mellahi & Wilkinson, 2004; Kücher et al., 2020). The deterministic view focuses on external factors, while the voluntaristic view centres on internal factors. Classical industrial organisation and organisation ecology perspectives posit that management has limited control or strategic choices over the environment, thus emphasising external (environmental) factors as causes of organisational failure. Conversely, perspectives from organisational psychology and organisational studies assert that managers' actions and perspectives are the fundamental causes of organisational failure, as they are the principal decision-makers. Consequently, these perspectives focus on internal causes. The external environment indeed contributes to the failure of many once-successful companies. However, an external environment alone is insufficient to explain organisational failure (Probst & Raisch, 2005). External and internal causes are often intertwined and challenging to consider in isolation. Therefore, it is deemed essential for organisational failure studies to encompass both contextual forces and organisational dynamics (Mellahi & Wilkinson, 2004). A call for a multi-theoretical approach to studying the causes of corporate failure is also emphasised (Kücher et al., 2020). Ooghe and Waeyaert (2004) propose a theoretical model that considers both internal and external factors and their interrelationships to study the causes of failure. The same model was used by Ooghe and De Prijcker (2008) to analyse 12 case studies of bankrupted Belgian companies. Based on Ooghe and Waeyaert's (2004) process model and other literature, a framework (Figure 1) was adopted for this study.

The broader perspective is that contextual forces significantly contribute to organisational failure unless organisational dynamics are adapted to the changes in these contextual forces. Specifically, the conditions of the general environment directly impact the immediate environment as well as company policies and strategies. The immediate environment also directly influences company policies and strategies. Company policies, top management characteristics, and company characteristics are interconnected and have implications for each other. Company policies are influenced by all four other factors, and they form the basis for managing and responding to both external and internal circumstances. Therefore, company policy and strategy are placed at the centre of the model. Internal factors may cause organisational failure, even without a threat from the external environment. Moreover, corporate failure may occur due to tensions among the three key elements of the internal environment. These three internal variables may have individual implications for failure. Top management, as the decision-makers, have influence over policies as well as company characteristics. Similarly, both company policy and company characteristics have

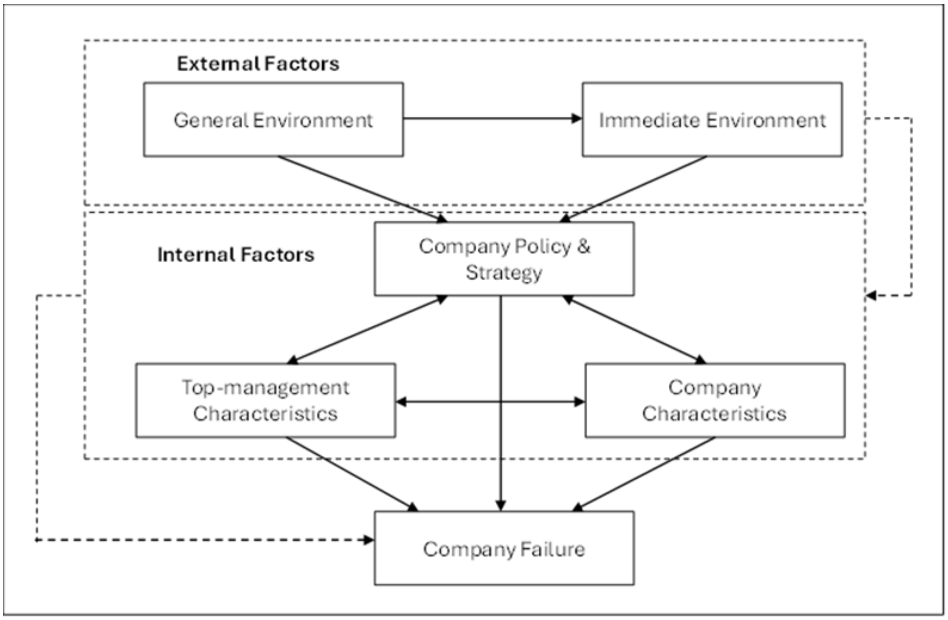

Figure 1: Theoretical framework for Possible Causes of Organizational Failuer

implications for top management characteristics. Finally, as depicted in Figure 1, variables collectively or individually may trigger organisational failure.

The Context

The construction industry stands as a pivotal sector in Sri Lanka, experiencing rapid growth propelled by post-war-era governments' concerted efforts towards infrastructure development. Notably, the business of piling, encompassing deep pile foundation work, has transitioned from a minor service component of the construction industry to a major subsector. This evolution is attributed to the construction of critical infrastructure like highways, bridges, and skyscrapers. In the preceding decades, the piling sector had only a handful of companies with limited capabilities. However, by the conclusion of 2018, a noteworthy development occurred, as some significant piling companies emerged, equipped to undertake large-scale piling projects. Notably, many of these major players are subsidiaries of well-established construction conglomerates from Sri Lanka and China. The success of this sector is intricately linked to the use of heavy earth-moving machinery and a highly skilled technical workforce. Despite Sri Lanka's relatively smaller market size in comparison to regional counterparts such as India, Bangladesh, and Pakistan, the piling industry has become fiercely competitive, particularly with the entry of Chinese construction companies into the Sri Lankan construction landscape. The clientele of the piling industry includes government institutions such as the Urban Development Authority and the Road Development Authority, along with private sector construction firms, property developers, and individuals or entities requiring piling services for diverse construction projects. Despite notable socio-political changes in 2015, the economic, legal, and social landscape remained relatively stable. However, external factors like the Easter terrorist attack in April 2019 and the subsequent COVID-19 outbreak significantly altered the overall socio-economic conditions of the country. For the purpose of this study, the focus is explicitly on the five-year period concluding in March 2019, deliberately excluding the potential impacts of subsequent events such as the Easter attack and the global pandemic. This sequential scope ensures a precise examination of the circumstances surrounding the case under investigation during this specific period.

The company

The company under consideration, hereafter referred to as the Company, has been primarily engaged in deep pile foundation work for a span of four decades. Providing services for both government-funded projects and private sector clients/contractors, the Company achieved its highest revenue in the financial year 2016/2017. However, the situation took a downturn by the end of 2018, marked by employees and suppliers storming the office, demanding outstanding payments. This tumultuous period saw legal action, with the Department of Labour, financial institutions, and suppliers filing court cases over non-compliance with statutory obligations and payments. Simultaneously, leasing companies began to reclaim leased properties. The crisis prompted the exodus of key staff, and the Chief Executive Officer (CEO) resigned in December 2018 under mounting pressures. As news of the crisis spread across the industry, potential new projects were halted, leading to a complete operational standstill by January 2019, creating a distressing experience for all stakeholders.

With a 40-year history, the Company operates as a subsidiary within a group of companies involved in construction and engineering, with the parent company listed on the Colombo Stock Exchange. The Company's core products and services encompass bored cast-in-situ piling, pre-cast piling, steel sheet and "H" piling, retaining structure contiguous piling, maintained load testing of piles, pile integrity-testing, and the design of pile foundation systems. At the close of the financial year 2018/19, the Company had the capacity, both in terms of machinery and a workforce of 350 skilled professionals, to undertake work worth LKR 2500 million annually. Despite recording its highest-ever revenue of LKR 2,200 million with a profit of LKR 83 million (Profit Before Tax, PBT) in the financial year 2016/17, the subsequent two years (2017/18 and 2018/19) witnessed significant revenue drops and losses. The 2018 loss amounted to LKR 163 million (PBT), constituting approximately 10 per cent of that year's revenue. The 2018/19 loss escalated to LKR 500 million, accounting for 40 per cent of the revenue for that year. The Company's net worth witnessed a sharp decline from LKR 133 million (as of 31/3/2017) to a deficit of LKR -81 million and LKR -667 million by the close of 2017/18 and 2018/19, respectively.

The CEO, an engineer by profession, had a decade-long tenure as a senior project manager in one of the sister companies before being appointed CEO of the Piling company in late 2016. Playing a pivotal role in operational decision-making, the CEO's tenure coincided with the gradual dilution of power held by the managing director (MD). The MD, an engineer and the most senior member since the early eighties, served as MD until the end of 2017, transitioning to a consultant role until the close of 2018. With the arrival of the new CEO and the CFO's involvement as the sector head/president, the MD's influence faded. The CFO, initially joining as an accountant in 2008 and subsequently promoted to CFO, played a dual role as group CFO and sector president by the end of 2018, the year he was also removed from the position by the board. Serving as an influential figure, particularly in investments and strategic decisions, the CFO acted as the informal power hub and centre of decision-making. Since June 2018, there have been no local directors, and the remaining two foreign directors are also absent from the country. By March 2019, operations came to a standstill, and the entire group faced severe financial distress, endangering its legitimacy to exist. However, this study focuses solely on the concerned Company, distinctly separating it from the rest of the companies within the group.

Research Design and Methods

Firstly, a literature review was conducted across prominent databases such as Emerald Insights, Google Scholar, Taylor & Francis, ScienceDirect, and various open internet sources. This rigorous review not only acquainted the researcher with the domain but also facilitated the identification of potential causes, relevant theories and the gap. This step laid the crucial groundwork for developing a robust theoretical framework and shaping the subsequent research design.

Secondly, a detailed analysis of audited financial statements spanning five consecutive years (2014/15 to 2018/19) was undertaken. This financial scrutiny aimed to provide a nuanced understanding of the extent of the crisis and unearth potential financial elements that might have contributed to the company's financial distress. By delving into the numerical intricacies, the research gained valuable insights into the fiscal landscape

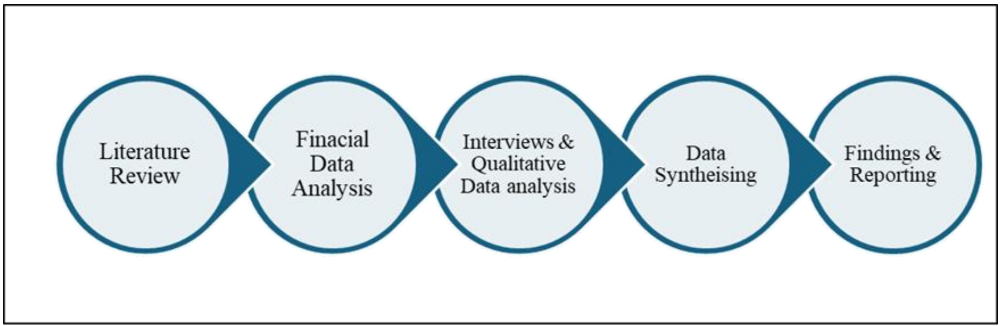

Figure 2: Five Steps Research Design

of the organisation during the specified period.

The third step involved conducting interviews with 20 managers closely associated with the crisis, employing a purposive sampling technique to ensure the selection of individuals deeply entrenched in the operational aspects throughout the concerned period. This qualitative phase of the research utilised content analysis, following the methodology outlined by Yin (2003). The insights gleaned from these interviews added a qualitative dimension to the research, offering a more holistic perspective on the crisis.

Fourthly, a synthesis of both qualitative and quantitative data was meticulously carried out. This integrative approach aimed to leverage the strengths of each type of data, providing a comprehensive understanding of the multifaceted aspects contributing to the company's crisis. The convergence of these diverse data sets facilitated a more nuanced interpretation of the findings.

Finally, the research findings were reported using narrative methods, ensuring clarity and coherence in presenting the outcomes of the study. The discussion section was meticulously organised around the major findings, fostering a deeper exploration of the implications and contributing to a more robust understanding of the researched phenomena.

Results

The outcomes of the study do not distinctly identify external factors that can be unequivocally recognised as significant contributors to the Company's failure. Nevertheless, in the course of discussions, some respondents expressed concerns regarding the potential impact of the decline in construction demand towards the close of 2017 on the failure. To probe this matter, the construction industry's contribution to Gross Domestic Product (GDP) and the Company's order book were examined as pivotal indicators. Figure 3 illustrates a dip in the construction industry's GDP contribution in 2017, although it subsequently regained growth momentum in 2018.

An important observation is that the contribution of the construction industry to GDP fluctuates every other year, reflecting the inherent nature of the industry as a project-orientated business (Loosemore et al., 2003). Concurrently, internal records highlight an order book exceeding LKR 2000 million, serving as the targeted revenue for both 2017/18 and 2018/19. Respondents widely acknowledge this understanding, with one stating, ‘I do not believe that the industry decline or other external problems really affected us because we had enough jobs on

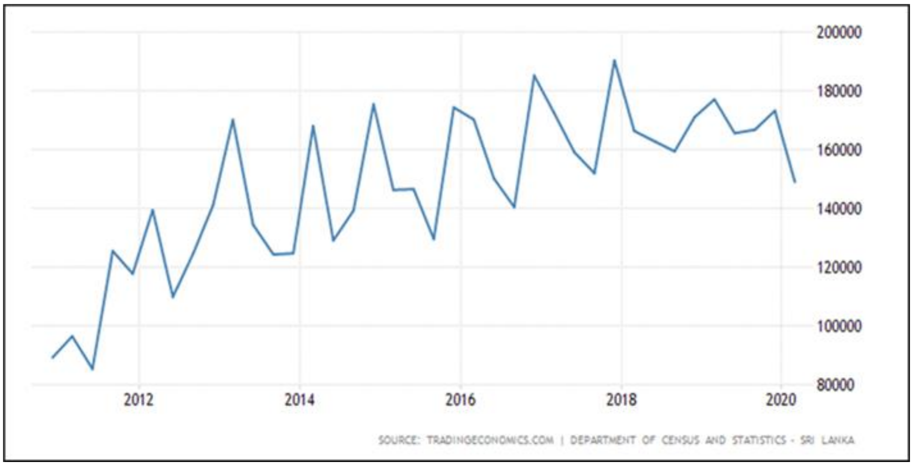

Figure 3: Contribution of Construction Industry to GDP

hand up to 2019' (Respondent 4, personal communication). This raises a pertinent question: if industry demand fluctuations did not impact the lower revenues in 2017/18 and 2018/19, what was the cause? The respondent elucidates, 'The company lost revenue because clients terminated four ongoing major projects during this period.' Internal records corroborate this, indicating termination of four projects (total contract sum of LKR 1411 million), resulting in a revenue loss of LKR 600 million in 2017/18 and an additional LKR 300 million loss in 2018/19. The primary reason for the revenue drop during these periods is attributed to the loss of four major projects due to inadequate project progress (project delays). This is articulated as 'we lost these projects because we were far behind the schedules' (Respondent 3, personal communication). In general, the respondents underscore that the company experienced an excessive working capital shortage, significantly impeding work progress, especially in 2017/18 and 2018/19.

Working Capital Management

'We were unable to maintain site progress as planned in 2018 and 2019 due to a lack of funds for project operation. Therefore, clients terminated big projects – two projects in 2018 and another two projects in 2019' (Respondent 9, personal communication). The issue of working capital shortage is evident in the financial data, presenting a clear and direct challenge. Cash flows serve as indicators of a company's capacity to finance its operational expenses, meet existing debts as they mature, and demonstrate its ability to fulfil obligations and pursue business opportunities (Larson et al., 2006, as cited in Ibarra, 2009). Table 1 outlines cash flow ratios for five years. The operating cash flow ratio (the ratio of cash generated from operational activities to current liabilities) consistently declines throughout the concerned period, reaching 0.02 in 2018 and 0.10 in 2019. This signifies that, despite the company achieving higher revenue, the cash generated from operations is insufficient to cover at least 10 per cent of the current liabilities. Working capital shortage refers to a situation where the flow of funds required for day-to-day operational activities is inadequate. In financial terms, it is a situation where current assets are less than current liabilities. Current assets were significantly lower than current liabilities in 2018 and 2019 (Figure 4). The gap between current assets and current liabilities began widening from the year 2015.

Table 1: Ratio of Cash generated from operations to Net Income and Current Liability

Ratio	2014/15	2015/16	2016/17	2017/18	2019/18
Cash flow from operations to net Income	0.07	0.29	0.28	0.03	0.21
Cash flow from operations to current liability	0.11	0.31	0.29	0.02	0.10

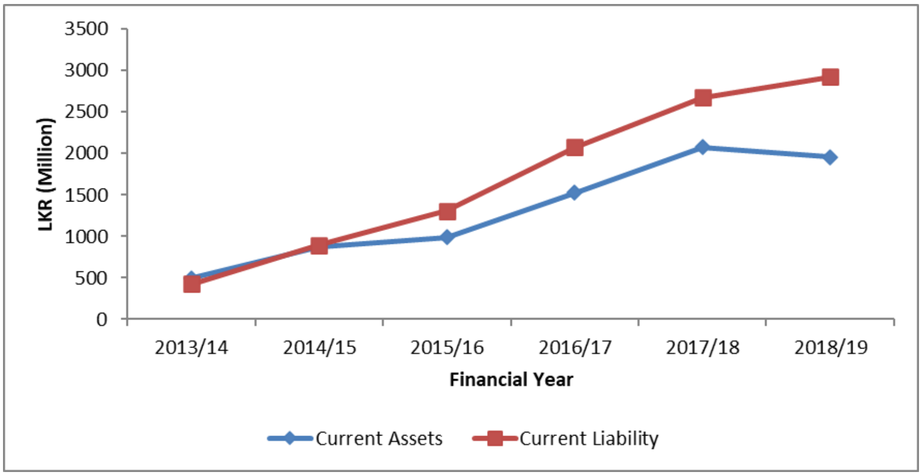

Figure 4: Current Assets to Current Liability

By the end of 2018/19, current assets were only sufficient to settle 69 per cent of the current liabilities (Figure 5). The ratio of cash generated from operations (Table 1) and the liquidity ratio (Figure 5), representing the ratio of current assets to current liabilities, clearly highlight the extent of the company's working capital shortage, which was particularly pronounced in 2018 and 2019. However, it is evident that the company struggled to maintain healthy working capital management practices not only during 2017/18 and 2018/19 but also throughout the entire period under consideration. The current liquidity ratio (Figure 5) dipped below one starting from the year 2014/15. Specifically, in 2015/16 and 2016/17, cash generated from operating activities could only cover roughly 30 per cent of the current liabilities in both years (Table 1).

Thus, it can be inferred that the working capital issue was not a sudden problem arising in 2017/18 and 2018/19 but had gradually developed since 2014/15.

When management fails to effectively handle working capital, it triggers a detrimental cycle. The management of working capital directly influences operational efficiency, overall profitability, and the company's survival (Ibarra, 2009). Weak working capital management has impacted the company on multiple fronts. On one side, the inability to maintain project progress according to the schedule resulted in the loss of four significant projects, leading to substantial drops in revenue for 2017/18 and 2018/19. On the other side, top management increasingly relies on borrowing and negotiating credit terms, directly affecting the company's profitability and survival. Moreover, this leads to a drastic increase in liabilities, escalating financial costs. Project delays naturally impact costs, incur penalties, and eventually affect future business prospects. Continuous cash deficiencies lead to banks not receiving payments as expected, prompting them to limit their support. As one participant expressed, 'Banks did not support us because, due to the working capital crisis, we were not able to pay banks and had lots of delays in paying banks. Therefore, we had frequent interruptions to run the projects (Respondent 9, personal communication). The respondent further elucidates that 'The loss of four major projects, resulting from working capital shortage and insufficient bank support, is a major cause for the downfall of the Company.

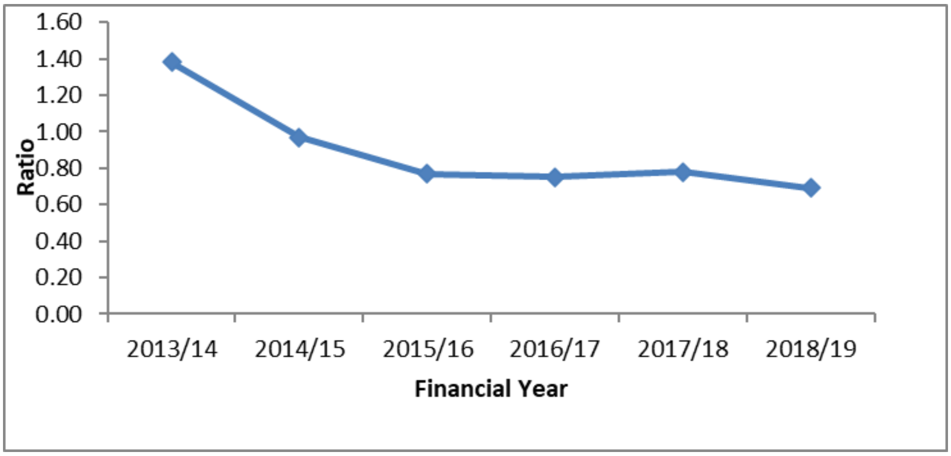

Figure 5: Current Liquidity Ratio

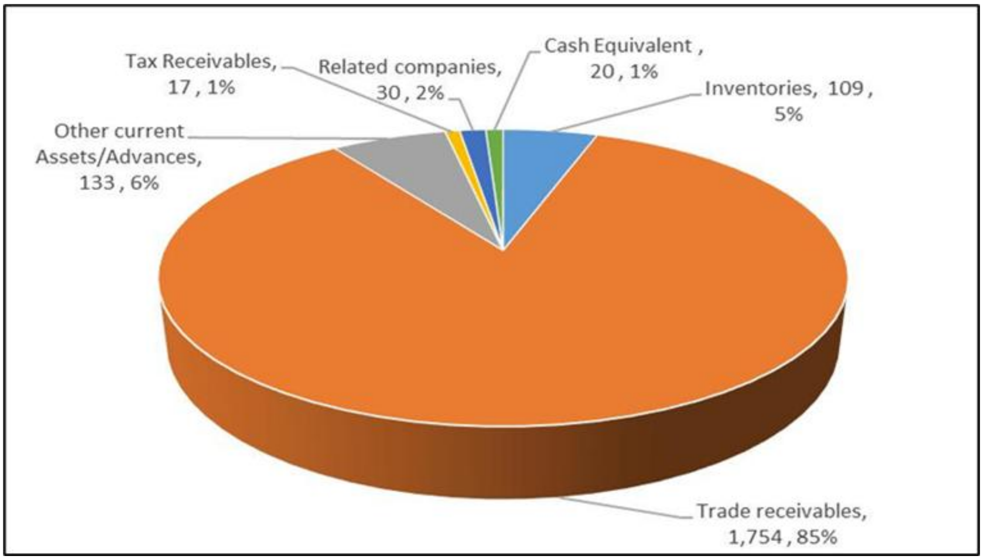

Figure 6. Current Assets as at 31/3/2019

Contract Management & Administration

‘Though there are over 1.5 billion receivables, a lot of money cannot be recovered, as some projects have only verbal agreements and some conditions are very unfavourable to us’ (Respondent 15, personal communication). Both operational and finance staff unanimously believe that weak contract administration is one of the main causes of the company's failure. This can be further understood by analysing current assets, which include trade debtors; inventory; amounts due from related companies; and cash & cash equivalents. The total value of trade debtors is LKR 1,754 million as of 31/3/2019, constituting 85 per cent of current assets (Figure 6) and 55 per cent of total assets. According to the debtors’ age analysis, 14 percent are more than four years old, and 35 percent are more than three years old. According to the balance sheet, the debtors have drastically increased since 2017, the year the company achieved its highest revenue.

There can be an increase in debtors due to an increase in revenue, but 2017/18 and 2018/19 are the years that show drastic revenue drops. During that period, debtors have not come down. There are two categories: external debtors and internal (sister companies). The general opinion of the respondents is that only about 50 per cent is collectable from debtors. This is explained by a respondent from the finance department: 'We have done lots of work for the subsidiaries of the group as well. That money also cannot be collected because of the group financial crisis, and there is no proper contract agreement with some clients too’ (Respondent 8, personal communication). The main cause they highlight is the problems of contact management and administration processes. This weakness badly affected the working capital and pushed the bad debts up, finally affecting the survival and the liquidity of the company. ‘Some clients do not make payments as agreed, but we somehow do the project, as they are close friends of the top management’ (Participant 12, personal communication). Such actions push for more and more short-term borrowings and credit terms from suppliers. This is evident from the financial statements too, as credits and borrowings have drastically increased by widening the deficit of current assets to current liabilities (Figure 4). Weak contract administration has contributed to aggravating the working capital problem.

Management of debtors is a key aspect of working capital management. Contract administration provides the legal and the professional base for it in the construction business. The general view of the employees was good and positive about the company’s future before the crisis surfaced with

delaying payments to employees and suppliers. This is explained as 'We were doing well and had enough work and a good reputation in the market. We were paid bonuses in December 2017 and are expecting a bonus in December 2018 as well (Respondent 19, personal communication). Another interviewee from the quantity survey department explains that they did not even quote for projects that are less than LKR100 million because the company had enough large projects, and the company was fast-growing. Our discussion with two consultants who have been working with the company for two decades as the representatives of the clients in various projects highlights that the company has been the pioneer and the major player in the industry and the quality is at the highest level, and no major quality issues were reported during their work with the Company. They are still in the option to recommend the company if the financial situation becomes normal.

Excessive Centralization

The pre-restructuring era afforded substantial decision-making autonomy, but post-restructuring, a shift towards increased hierarchical approvals from group heads impeded operational efficiency. A participant explains this as 'Before the restructuring, we had the freedom to make decisions, but after that, we had to go through a lot of approvals from group heads, and that affected the operation' (Respondent 8, personal communication). As a subsidiary of a publicly listed conglomerate, the company underwent a restructuring strategy in early 2017, centralising service departments to leverage group synergy. Despite the expected advantages of centralisation, the creation of a centralised treasury, corporate finance division, group procurement division, and machinery and equipment division aimed to enhance group synergy resulted in difficulties. While strengthening financial leverage, respondents argue that this approach detrimentally impacted operational efficiency, attributing it to the management's appetite for excessive growth and revenue generation. Corporate treasury and finance divisions substantially increased borrowing capacity, a fact evident in financial statements depicting a drastic increase in borrowing during this period. The resultant heightened financial leverage spurred risk-taking behaviour by optimistic leaders, overlooking potential negative consequences. This is explained as ‘with the corporate treasury and finance division being formed, our borrowing capacity increased, and top management used that opportunity to the maximum’ (Respondent 1, personal communication). Excessive centralisation not only curtailed flexibility in meeting operational needs but also caused delays in maintenance and procurement functions, leading to project delays and increased operational costs. Operational staff contends that centralisation undermines efficiency and cost-effectiveness. Moreover, excessive centralisation exposed the company to the ramifications of group-level crises. Financial interdependence among sister/subsidiary companies led to adverse effects when one company faced challenges, such as banks seeking to recover funds from other companies and imposing restrictions on facilities. This interconnectivity became a potential trap for the entire group. The case of the company exemplifies the adverse consequences of an overly centralised strategy, particularly when coupled with an unwavering pursuit of excessive growth."

Excessive Growth Expectation

It is evident that top management heavily invested in capacity building due to an excessive growth expectation. The optimistic outlook for higher growth was explained by a respondent: 'The top management was basically highly optimistic about the future of the construction industry in Sri Lanka because all successive governments had identified the construction industry as a key driver of development in the postwar era' (Respondent 7, personal communication). Respondents highlighted consistent year-on-year revenue growth, which is evident in financial statements, fostering an expectation of sustained expansion. As one respondent explained, 'We achieved revenue growth on a year-on-year basis, and the management expected that trend to continue' (Respondent 4, personal communication). Despite grappling with working capital shortages, industry demand fluctuations, and the competitive nature of the business, machinery and equipment worth LKR 300 million in 2017/18 and LKR 289 million in 2018/19 were added to Plant & Equipment. Concurrently, total borrowings, both short-term and long-term, soared from

LKR 586 million to LKR 1,911 million within five years. Notably, interest-bearing loans increased by LKR 600 million in 2018 and 2019, primarily to enhance capacity. This borrowing pattern unequivocally underscores the top management's unwavering pursuit of excessive growth. The expectation of excessive growth led to devastating decisions, such as unrealistically investing in machinery and an increase in liability. As explained by a respondent, 'We had enough resources to do about two billion worth of work, and we did that at the peak of the industry in 2017. The management strongly believed that the company would get more jobs and therefore invested about LKR 600 million in machinery through borrowings in 2018, despite the company's struggle with working capital issues' (Respondent 4, personal communication).

The industry's sensitivity to economic, political, and social environments, both locally and globally, further exacerbated the consequences of the decision to invest in machinery. The Sri Lanka piling market, in particular, became small and competitive with the entry of China. This decision, motivated by growth expectations, adversely affected the company's financial position. The company's financial cost, which was only LKR 130 million in 2017 (the year marking its highest revenue of LKR 2,074 million), almost doubled to LKR 243 million in 2018. This increase in financial costs, coupled with instalments and other commitments to financial institutions, created a challenging financial target of approximately LKR 45 million per month and LKR 540 million per annum. Overcapacity became another significant issue. When the fleet increased and demand stagnated or declined, machine idling costs drastically increased, along with depreciation charges and maintenance costs, impacting competitiveness in terms of pricing. A comparison of the cost of sales revealed that it did not align with the drop in revenue in 2018, indicating a lack of flexibility. In 2019, the cost of sales was much higher than the revenue, resulting in a loss at the gross profit level (about 16 percent of the revenue of that year). A respondent clarified, 'We have resources, mainly machinery, to do LKR 2.5 billion per annum, and cost of sales includes some fixed costs such as 'depreciation'.' As the revenue target is not achieved, we incur a loss at the GP level' (Respondent 6, personal communication). When overhead costs drastically increased, and revenue dropped for any reason, the company faced a sudden financial distress scenario.

Discussion

Growth is a fundamental expectation in any management strategy. However, pursuing a growth strategy unsuccessfully poses risks and can lead to business failure (Moulton & Thomas, 1988). Top management is typically driven by the desire for higher revenue, as their rewards are often tied to revenue increases (Moulton & Thomas, 1988). When top management is overly optimistic and fixated on excessive growth, they tend to focus solely on expanding capacity and driving business by concentrating solely on the top line. Both strategic risk and financial leverage risk are inherently associated with high-growth strategies (Moulton & Thomas, 1988). Therefore, it is imperative for management to consider not only growth opportunities and trends but also risk factors when making strategic choices. The key takeaway is that advocating for a "planned growth with consideration of risk factors" rather than an "excessive growth strategy" would be more prudent. This approach acknowledges the potential for changes in the prevailing situation, such as unmet sales growth expectations; profitless sales and asset growth; underdeveloped markets; unexpected competitor behaviour; new market entrants; underestimated expansion costs; inadequate managerial competencies for rapid expansion; and changes in government policies. To capitalise on growth momentum, alternatives like renting machinery, subcontracting, and forming strategic alliances might be more viable than investing directly in capacity through borrowings. Additionally, there should be robust policies for financing through loans and other means. Top management should also attentively monitor both financial and non-financial indicators, adjusting strategies based on evidence rather than relying solely on gut feelings and general perceptions.

The term 'centralisation' denotes that the authority to make crucial decisions lies at the 'head' or centre of an organisation, while 'decentralisation' implies more autonomy, with authority vested in those further removed from the centre (Cummings, 1995). Excessive centralisation negatively impacts decision-making speed, flexibility, and creativity and fosters a bureaucratic culture. Concerns raised by participants of the research are linked to the extreme centralisation of procurement, mechanical and maintenance, and finance functions. The Millers's stagnant bureaucratic model describes firms as being run in a bureaucratic manner, where much of the functioning is automatic and conditioned by past policies, formal rules, regulations, standard operating procedures, and programmes (Miller, 1977, p. 47). The concern group has eight subsidiaries, with the concern company being the 5th largest in terms of asset base, accounting for approximately 10 per cent of total assets. When maintenance, procurement, and financial decisions are centralised in a highly bureaucratic environment, small players may have less priority, leading to delays. Centralised staff may struggle to comprehend ground-level priorities, negatively affecting operational efficiency. Ideally, an adequate level of autonomy should be maintained at the subsidiary level, allowing for a quick response to operational requirements while adhering to policy guidelines. This approach becomes particularly crucial when financial leverage increases with centralised financial functions, necessitating strong policies on investments, borrowings, and credit decisions. Failure to do so may lead to a group-level crisis affecting other subsidiaries. The valuable learning point here is the maintenance of financial and operational autonomy, which is a more realistic approach than tightly integrating all subsidiaries financially and operationally.

Effective working capital management plays a pivotal role in a firm's profitability, risk, and value (Smith, 1980). It ensures that a firm has enough cash to meet short-term obligations (Raheman & Nasr, 2007). Management of working capital has become one of the most critical issues for organisations, as revenue and profits are key drivers of business. However, without proper cash inflow, a business is not sustainable. Therefore, continuous monitoring and management of cash flow by top management are essential. Cash generated from the business should be sufficient to manage day-to-day operations. Investment in capacity expansion to cope with anticipated growth may not be prudent if it compromises funds required for day-to-day operations. Further, the management of working capital is predominantly an accounting approach that emphasises maintaining proper levels of both current assets and current liabilities (Ponsian et al., 2014). Ratios of current assets to current liabilities and the ratio of cash generated from operational activities should be key drivers of the business. The company, however, overlooked these aspects and increasingly relied on short-term borrowings and credit terms. The literature identifies various aspects of working capital/cash flow management as key causes of many business failures (Bradley & Cowdery, 2004; Enshassi et al., 2006; López Salazar et al., 2012).

Poor contract management can have catastrophic consequences (Gunduz & Elsherbeny, 2020). Effective contract management is identified as a critical success factor for project-orientated businesses such as construction (Silva et al., 2016). The valuable learning point here is that the inadequate attention and weaknesses in the contract management practices of the concerned company resulted in significant repercussions. Top management should pay special attention to contract management when running a construction business. Contract management staff should possess knowledge in project management, project financing, contract law and administration, etc.

The central theme of the discourse revolves around the inherent risks associated with an overly ambitious growth strategy and other key determinants contributing to organisational failure. The narrative emphasises the need for a judicious and well-considered approach to growth that takes into account not only potential opportunities but also the associated risks. It underscores the impact of management's fixation on revenue augmentation, the drawbacks of centralised decision-making, and the critical importance of adept working capital management and robust contract practices. The overarching argument underscores the imperative of strategic, well-informed decision-making, vigilant monitoring of pertinent indicators, and the essential requirement for operational autonomy to ensure sustained business success.

Limitations and Directions for Future Research

Methodological rigour may be deemed a limitation inherent in a singular case study approach. Nevertheless, the enhancement of rigour is achievable through the utilisation of multiple data sources (Yin, 2009; Ooghe & De Prijcker, 2008). To address this, we employed both quantitative data (financial data) and interview data in a triangulation manner, thereby fortifying the validity of the findings. Another noteworthy constraint associated with the single-case study approach is the potential limitation in generalisability of the findings. It is imperative to note that the primary objective of this study was to comprehend the causes of the company's failure and extract valuable insights rather than to offer broad generalisations. However, the findings align harmoniously with existing literature, making a substantive contribution to the expansive body of knowledge on management and corporate failure. Furthermore, it is evident that there exists a compelling need for additional case study analyses conducted in diverse contexts, particularly within the local and Southeast Asian milieu, to foster a more comprehensive and robust understanding of this intricate phenomenon.

Conclusion

Corporations, integral components of a country's socio-economic fabric, can encounter failure at any juncture of their life cycle, precipitating profound implications for societal development. The complicated nature of corporate failure is underscored by a convergence of contextual forces and organisational dynamics. This study posits that failure, even within the context of a venerable 40-year-old company, is seldom abrupt, typically manifesting discernible symptoms or warning signals. It emphasises the imperative for vigilant top management, tasked with pre-emptively identifying issues and recalibrating strategies to navigate adversities effectively. The ensuing case analysis dissects the precarious state of the aforementioned long-standing company, revealing a nexus of four interrelated causes risking its existence. The paramount significance of working capital management surfaces as a central tenet, with the failure thereof posing an existential threat to the business. The repercussions of mismanaging contracts, particularly in the construction industry, reverberate across working capital and future business prospects and ultimately position the organisation in a disadvantageous stance. The simultaneous consideration of centralisation and excessive growth strategies unveils a delicate equilibrium, wherein the implementation of these strategies demands judicious foresight. A failure to exercise caution in their deployment renders these ostensibly beneficial strategies catastrophic. Notably, the genesis of the company's demise is attributed not to external forces but rather to internally generated issues deeply embedded in the perceptions and skills of top management. An enlightening revelation emerges from this analysis, emphasising that despite the technical and engineering nature of the business, the crux of the failure lies not in technical intricacies but rather in overarching management deficiencies. It underscores the pivotal role played by management skills and perceptions in shaping the destiny of an organisation. Consequently, this case analysis propounds a fertile learning ground for academics, practitioners, board directors, and business proprietors alike, offering nuanced insights into the intricate interplay of management dynamics that underpin success or failure within the corporate landscape.

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Annexure 01: Causes of Organizational Failure

Factors	Gaskill, et al. (1993)	Miller (1977)	Moulton & Thomas (1988)	Thornhill & Amit (2003)	Probst & Raisch (2005)	Enshassi et al. (2006)	Carter & van Auken (2006)	Novak & Sajter (2007)	Ooghe & De Prijcker (2008)	Wong & Thomas (2010)	Amankwah- & Debrah (2010)	Arasti (2011)	Mbat & Eyo (2013)	Amankwah & Zhang (2015)	Rosak-Szyrocka (2019)	Habersang et al. (2019)	Refaie & Rajapaksha (2019)	Kücher et al. (2020)	Bartik et al. (2020)	Fairlie, R. W. (2020).	Collins-Thompson et al. (2021)	S&P Global Market Intelligence, (2024), Visual Capitalist (2023), Columbia Business School (2024)
General Environment																						
Macroeconomic pressures (Economic instability/downturn or issues/currency fluctuations/ market crashes etc.				√			√	√		√		√	√		√			√				√
Pandemic outbreak																			√	√	√	
Technological lagging/Change								√						√								
Government polies/strategies including deregularization/liberalization						√		√				√	√	√	√							
Ownership transformation & privatization issues								√														
Socio-cultural factors													√	√								
Immediate Environment																						
Customer issues (Loss of customers/No new recipients/Payment/receivable issues)						√		√						√	√							
Supplier issues								√														
Competitor issues/competition	√			√		√	√	√						√				√				
Industry characteristics/weakness/overcapacity						√				√				√								
Bank and credit institution issues												√		√								
Investor/shareholders issues														√								
Misadventure														√								
Increased cost								√														
A sharp drop in sales prices for the company's products															√							

Factors	Gaskill, et al. (1993)	Miller (1977)	Moulton & Thomas (1988)	Thornhill & Amit (2003)	Probst & Raisch (2005)	Enshassi et al. (2006)	Carter & van Auken (2006)	Novak & Sajter (2007)	Ooghe & De Prijcker (2008)	Wong & Thomas (2010)	Amankwah- & Debrah (2010)	Arasti (2011)	Mbat & Eyo (2013)	Amankwah & Zhang (2015)	Rosak-Szyrocka (2019)	Habersang et al. (2019)	Refaie & Rajapaksha (2019)	Kücher et al. (2020)	Bartik et al. (2020)	Fairlie, R. W. (2020).	Collins-Thompson et al. (2021)	S&P Global Market Intelligence, (2024), Visual Capitalist (2023), Columbia Business School (2024)
Decrease in the profitability of the core business,															√							
High labour costs																						
Legal disputes with clients, customers, govt' institutions, banks								√														
Corporate Policy & Strategy																						
Product-market innovation (too much or too little)		√																				
Too much emphasis on controls or too few controls		√																				
Growth (excessive or insufficient)	√				√																	
Change (excessive/insufficient or mal-adaptation)			√		√																	
Culture (excessive or insufficient emphasis on success culture)					√																	
Heavy operational expenses								√		√												
Lack of early warning system										√												
Poor accounting system/weak financial discipline/poor working capital mgt.	√									√							√					
No timely employment retrenchment/too many employees								√							√							
Frequent changes of the top management team/ departure of key employees				√							√											
Lack of strategy/bad strategy/ unsuccessfully following a high risk strategy			√					√			√				√		√					
Bad/lack of planning & controlling								√														
Harmful contracts								√														

Factors	Gaskill, et al. (1993)	Miller (1977)	Moulton & Thomas (1988)	Thornhill & Amit (2003)	Probst & Raisch (2005)	Enshassi et al. (2006)	Carter & van Auken (2006)	Novak & Sajter (2007)	Ooghe & De Prijcker (2008)	Wong & Thomas (2010)	Amankwah- & Debrah (2010)	Arasti (2011)	Mbat & Eyo (2013)	Amankwah & Zhang (2015)	Rosak-Szyrocka (2019)	Habersang et al. (2019)	Refaie & Rajapaksha (2019)	Kücher et al. (2020)	Bartik et al. (2020)	Fairlie, R. W. (2020).	Collins-Thompson et al. (2021)	S&P Global Market Intelligence, (2024), Visual Capitalist (2023), Columbia Business School (2024)
Human relations issues within the company/Personnel conflicts				√				√														
Low salaries/High employee turnover								√		√												
Misallocation of resources														√								
Heavy dependence on bank loans / Excessive debt/poor debt mgt.						√	√	√		√					√							
Lack of capital/resources						√		√	√	√							√					
Over expansion/Overcapacity	√									√					√							
Inadequate financing structure															√							
Loss of financial liquidity															√							
Too high tax loads															√							
Poor administration																	√					
Poor customer-supplier relationship																	√					
Managerial inefficiency and ineffectiveness													√									
Financial underperformance								√														
Lack of quality management system				√				√										√				
Inadequate sales										√												
Low competitiveness										√												
Conflict mechanism																	√					
Top-management Characteristics																						
Leadership (autocratic/authoritarian or figurehead)		√			√			√		√												
Over optimism								√														
Overconfidence									√													
Lost touch with the changing environment									√													
Dishonest management personnel								√														

Factors	Gaskill, et al. (1993)	Miller (1977)	Moulton & Thomas (1988)	Thornhill & Amit (2003)	Probst & Raisch (2005)	Enshassi et al. (2006)	Carter & van Auken (2006)	Novak & Sajter (2007)	Ooghe & De Prijcker (2008)	Wong & Thomas (2010)	Amankwah- & Debrah (2010)	Arasti (2011)	Mbat & Eyo (2013)	Amankwah & Zhang (2015)	Rosak-Szyrocka (2019)	Habersang et al. (2019)	Refaie & Rajapaksha (2019)	Kücher et al. (2020)	Bartik et al. (2020)	Fairlie, R. W. (2020).	Collins-Thompson et al. (2021)	S&P Global Market Intelligence, (2024), Visual Capitalist (2023), Columbia Business School (2024)
Management with lack of innovation, motivation, skills										√		√		√								
Lack of knowledge and experience	√			√		√	√		√	√								√				
Low qualifications										√								√				
Decision makers' characteristics											√											
Organization Characteristics																						
Size														√								
Age																		√				
Maturity														√								
Flexibility/Rigidity														√			√					