Why Already Internationalised Firms Die? Causes and Effects of Cross-Border Corporate Insolvency

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Why already internationalised firms die? Causes and effects of cross-border corporate insolvency

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In general lines, insolvency is a state in which the debtor is proven unable to pay corporate creditors. In this volume, we aim to explore the contemporary causes and effects of corporate cross-border insolvency (CCBI). The specificity of this state occurs when the debtor's assets or liabilities are located by virtue of being cross-border in more than one country, or if the debtor is subject to the jurisdiction of courts from two or more countries (UNCITRAL, 2014). In the realms of international business, CCBI could be mediated by events experienced during the internationalization of the firm, which may encompass a loss of capital, loss of revenue and loss of credit. Problems experienced that 'drag on' and are exacerbated by a tangled web of interconnected occurrences, like credit problems resulting from waiting for promised payments that never happen, accumulating unpaid bills and the accrual of situations that reduce the firm's credit at home and abroad. The potential for small events to compound and morph in firms that control and manage production establishments located in two (or more) countries is greater than the same potential for those that keep a domestic profile (Teece, 1985; UNCITRAL, 2014). If unaddressed, these 'business, as usual' issues reach a point where a viable organisation is transformed into a dead firm.

Although many businesses are too well aware of these potential problems, some (albeit perhaps in hindsight) fail to deal with these issues effectively. This is conceivably a result of the lack of applied literature on this topic. Academic literature points to a significant number of firms are unable to deal with such obstacles and as a result they die prematurely (Boswell, 1972; Cressy, 2006; Mata & Portugal, 1994; Saridakis, Mole & Hay, 2013). These obstacles might be called 'contributing factors' or 'cause of death' in a post mortem are in the context of business a lack of productivity (Frazer, 2005), financial constraints (Musso & Schiavo, 2008; Bridges & Guariglia, 2008), failure of effective institutions (Girma, Gorg & Strobl, 2007), absence of functioning markets or lack of competitiveness

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(Johnson, Price & Vugt, 2013), population density at the time of founding (Utterback & Suárez, 1993), lack of innovation (Fernandes & Paunov, 2014) and obsolesce (Ramseyer, 1981).

The attributable factors that explain CCBI and 'organisational death', is the "raw material" of this edited volume that aims to achieve and answer to the bigger picture question of "Why do firms die?" This volume seeks to explore international and cross-disciplinary perspectives, if you like a forensic examination, autopsy or post mortem of 'how and why' companies die. This alternate perspective flips the focus on survival, as all existing firms are in truth survivors, to consider through the metaphors of death, (with forensic analysis, autopsy, post mortems and crime scene investigations) the lessons 'dead firms' might offer. The present volume contains contributions from a range of different literatures including, management, international business, business history; and economics. Also, at this volume could be found empirical analyses based on primary and secondary data from countries in all continents that add value to contemporary understanding of the death of international firms.

In this volume, we have included two chapters (Baucus & Cochran; and Velez-Ocampo et al) dedicated to companies operating in the 'dark side' of business which during their lifespan had morally and legally unacceptable practices. Although these chapters analyse the life and death of these companies from different angles, their main unit of the analysis is the individual level (namely managers). Both chapters invite to answer the question on the relationship between behaviours, reputation, and market sanctions.

The chapter by Melissa Baucus and Philip L. Cochran documents the case of nine dead firms located in eight different countries. A forensic analysis if these cases shows that the studied companies seemed to hold an established (although manipulated) good public reputation for both quality and prominence; and it ratifies how reputation could create value in relation to competitors. Nonetheless, authors go beyond and analyse the reputation deconstruction experienced by the studied company (and there managers), and provide an understanding of the process and effects in the theoretical framework of signalling and institutional theory. This chapter draws attention to the reputation buying activities of business leaders who knowingly engage in illegal Ponzi schemes. The autopsy suggests that a ripple effect of reputational devastation spills over to contaminate the reputations of those seen as associated. This is with particular impact on the philanthropic organisations used to bolster and legitimise, who are in effect the 'patient zero' or the first causality inside the devastation typically identified in the aftermath once other victims have been identified as being affected. This chapter extends research examining how leader use signals of quality and legitimation to manage credibility, and research examining the negative impact and aftermath of what happens to individuals and organisational stakeholders once illegal activity surfaces and becomes public.

Juan Velez-Ocampo, Carolina Herrera-Cano and Maria Alejandra Gonzalez-Perez en their post mortem style analysis describes the rise and fall of the Peruvian Amazon Company attributing the cause of death as irreparable reputational damage. This chapter delves into the issues of ownership, international pricing and the influence of a global market, horrendous labour practices and scandal. The evidence presented offers a poignant reminder that reputation is as important today as it was yesteryear, perhaps more so with the influence of social media, that ethical behaviour is a dimension of internationalisation. The specific case of the Peruvian Amazon Company provides the learning that in order to have a sustainable international business is indispensable to fuel a virtuous circle of: productivity; quality and market responsiveness reputation; capacity to anticipate market demands; controlled debt; dialogue with local governments and communities; maintain fair and decent labour; environmentally friendly operations and decisions; sustainable supply chain; risk management; decision-making process based on universally accepted values and principles; and taking into account expectations by shareholders, employees, consumers/clients, and the society as a whole.

Two chapters in this volume have been included as they offer contribution to our understanding of two business contexts that are emerging, elusive and less well known environments (Nigeria and India). Uchenna R. Efobi; Belmodo Tanankem V; Ibukun Beecroft & Peace Okoubo describe in their chapter the challenges of doing business in Nigeria and hurdles to be navigated if you wish to successfully operate in this business environment. It raises for discussion the impact of government policies suggesting the need to consider how policies influence decision making in larger and smaller organisations regarding decisions about external or internal financing.

Suranjali Tandon's chapter offers an autopsy on the Indian corporate sector. It opens with discussion of the Indian historical context. It then follows with an examination of why companies seemingly merge, shutdown or even vanish inside this business environment.

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Each of these possibilities sheds light on the immediate cause and manner of death within the Indian corporate context. This chapter draws upon the analysis of Indian data and offers deep insights to the root causes of 'Dead firms' in India.

The contribution by Loly Aylú Gaitán-Guerrero and Charles Alberto Muller Sanchez focuses in exploring the possible relation between public sector policy measures (currency exchange rates, capital flow mechanisms and cross-border insolvency) to insolvency regulation in Latin America with an emphasis on Colombia and Venezuela. We feel consideration of the plurality of insolvency rules is timely given the increasing impact of the regional integration of Latin America (MERCOSUR).

The chapter by Juan Carlos López Díez & Juan Velez-Ocampo documents the evidence collected on the rise and demise of the El Zancudo mining company is both historically interesting and of impact for business today. This chapter describe the nascent industrialisation of a resource reliant industry that progresses through rapid organisational growth, transcends from being a national company to having international shareowners and being a nascent corporation evolves developing both technological and organisational practices in lockstep with those at the forefront of the global industry only to become insolvent. The glancing bow is a combination of institutional, structural and environmental factors each intensified by global events. The narrative of this chapter reaffirms the influence of context.

The chapter by Rosanna Pittiglio, Filippo Reganati and Claudia Tedeschi opens with consideration of the influence of differences in legal systems. It considers foreign owned Italian firms, the terrain of the European Union and finds that Italian foreign owned firms with their centre of main interests (COMI) in a Common Law country as compared to a Civil law country exhibit lower risk and incidence of death or a higher likelihood of surviving the crisis when that crisis is the form of cross border insolvency. This chapter provides a special contribution in the understanding the complexity of international business who might not be lawyers, or tax and finance specialists.

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