ACHIEVING SUSTAINABLE REORGANIZATION AFTER BANKRUPTCY: EMPIRICAL EVIDENCE FROM FORMAL PROCEEDINGS OF AUSTRIAN SMEs

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ABSTRACT

The main purpose of this article is to study the influence of innovation, strategic repositioning, and firm-related characteristics on the outcome of reorganization within formal proceedings in Austrian small and medium-sized enterprises (SMEs). Although the bankruptcy and failure of SMEs worldwide are major topics in the academic crisis and turnaround literature, the path to sustainable reorganization has been largely neglected. After successfully overcoming the causes of the crisis, a sustainable reorganized firm shows sufficient creditworthiness in relation to the industry average, which is conferred by outside actors (e.g., credit protection associations). A total of 459 bankrupt firms located in Upper Austria were included, which comprises a complete survey of all insolvencies opened in 2012. This study aims to identify the factors that influence economically sustainable reorganization. The most important finding is that only a very small proportion of the analyzed companies (SMEs with a high proportion of micro-enterprises) achieve long-term reorganization, and even fewer achieve sustainable reorganization. The results show that neither innovation nor strategic repositioning has a significant influence on sustainable reorganization or firm-related characteristics. The results illustrate the central challenges of sustainable reorganization with a creditor-friendly bankruptcy law. These findings can guide future scientific studies and the further development of reorganization options for bankrupt SMEs.

Keywords: *Reorganization, bankruptcy, SMEs*

1. INTRODUCTION

1.1 Problem Statement

Small and medium-sized enterprises (SMEs) represent more than 99% of European enterprises and 90% of businesses worldwide. They constitute approximately 50% of employment worldwide and account for 2/3 of private sector employment (European Union, 2020). Hence, SMEs play an essential role in almost all countries around the world (Gurrea-Martínez, 2021). Similar to large organizations, SMEs are also subject to corporate crises and in the worst case, bankruptcy, during their life cycles. Regarding rapidly changing modern business environments and dynamics, the vast majority of firms regularly face the danger of (strategic-related) crises (Kraus et al., 2013). However, SMEs are more likely to fail than larger firms due to their limited size and scope of activity. In the literature, this is called the liability of smallness (Mayr et al., 2017). Resource constraints and a lack of knowledge or access to new debt hinder SMEs from simply overcoming a corporate crisis (Carter & Van Auken, 2006; Eggers & Kraus, 2011; Rasheed, 2005). However, due to their close contact with employees and stakeholders, flat hierarchies, simple structures, and high pressure that affect their performance, SMEs can adapt quickly to new circumstances (Kraus et al., 2013; Mayr et al., 2017). They are also less bureaucratic, which facilitates decision-making processes where strategies can be implemented more quickly (Le Nguyen & Kock, 2011).

Carmelli and Schaubroeck (2011) state that an organizational crisis may give firms the opportunity to reorganize processes and systems with the intention to turn them into more efficient ones (Carmelli & Schaubroeck, 2008). If improvements of internal processes are not successful and performance declines, then firms will experience situations where survival is at great risk (Trahms et al., 2013). A severe decline