White Paper: Understanding Why Companies Fail and How to Prevent It

Introduction

Business failure is a persistent issue across industries, impacting companies and their stakeholders, including financial institutions, suppliers, and employees. The United States Bureau of Labor collects data on company failure rates, revealing a long-standing trend of business closures without significant improvement.

Business failure rate across the U.S.

Time frame	Percentage of businesses that fail
Within 1 year	23.2%
After 2 years	32.8%
After 3 years	36.2%
After 4 years	43.2%
After 5 years	48.0%
After 6 years	52.9%
After 7 years	56.6%
After 8 years	59.6%
After 9 years	62.2%
After 10 years	65.3%

Source: LendingTree analysis of U.S. Bureau of Labor Statistics (BLS) data.

LendingTree's recent data analysis spanning the past decade up to 2023 underscores this trend. Their findings indicate that failure rates remain consistent, demonstrating that many businesses struggle to achieve long-term sustainability. One key insight from the data is that for manufacturing companies, the failure rate is as follows: 17.6% after one year, 42,8 % after five years, and 56.4 % after ten years. There is a trend. These insights are crucial in shaping financial institutions' lending strategies and risk assessments. Moreover, other businesses use similar data to decide which companies to engage with, affecting business opportunities and survival prospects.

Industry	Business failure rate within 1 year	Rank, 1-year failure rate	Business failure rate after 5 years	Rank, 5-year failure rate	Busines failure rate aft 10 year
Manufacturing	17.6%	14	42.4%	14	56.4%

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:: LendingTree analysis of BLS data.

Given this context, understanding the root causes of business failure is critical to developing strategies that mitigate risk, improve competitiveness, and ensure long-term success.

The Root Causes of Business Failure

Studies indicate that business failure across all industries is primarily due to a lack of strategic alignment and competitive advantage (Beer et al., 2005; Miles & Snow, 1984; Powell, 1992). Despite widespread recognition of these challenges, many businesses struggle to align their strategic goals with effective execution.

Since 1992, organizations have attempted to address these challenges using Kaplan and Norton's Balanced Scorecard (BSC). However, statistics reveal that 70% of strategic implementation initiatives still fail (Prieto). Kaplan himself acknowledged in 1999 that embedding a Balanced Scorecard-based management system into an organization is a complex and demanding process.

In their 2008 book, *The Execution Premium*, (Pg 7) Kaplan and Norton emphasized that "strategy development and the link between strategy and operations remain ad hoc, varied, and fragmented." They advocated for an integrated and comprehensive system to help companies overcome the persistent difficulties in implementing their strategies effectively.

Dr. Loizos Heracleous, Professor of Strategy and Organization at Warwick Business School, has explored how strategic misalignments develop over time, ultimately leading to corporate failure. While this is an important study area, our primary focus is preventing failure through proactive Strategic Alignment.

The Role of ISO 9001 in Preventing Business Failure

The LendingTree report covers a period during which ISO 9001 Management System Standard's Strategic Alignment requirements (Section 9.3.1) have been in effect. However, the continued high failure rates suggest that organizations have either overlooked or inadequately implemented these principles.

ISO 9001 provides a structured framework for aligning business strategy with operations, ensuring consistent quality and performance management. Yet, despite its availability, the standard has not been widely leveraged to mitigate failure risks effectively. To remain competitive and financially viable, organizations must demonstrate Strategic Alignment as part of their management system strategy, particularly when engaging with financial institutions and customers.

A New Approach to Strategic Alignment

Supporting Kaplan's advocacy for a systematic approach, Single Management System LLC has developed an innovative online training course designed to achieve Strategic Alignment through ISO 9001. This approach moves beyond the Balanced Scorecard model, introducing a fresh methodology that employs our Strategic Alignment Configurator.

By adopting this framework, businesses can:

- Enhance their resilience against market fluctuations
- Improve their credibility with lenders and suppliers
- Strengthen operational efficiency and competitive advantage
- Achieve sustainable growth and long-term success

Conclusion

Despite decades of data highlighting persistent business failure rates, many organizations have yet to implement effective solutions. The key to reversing this trend lies in achieving Strategic Alignment through a structured and comprehensive approach. By integrating ISO 9001 standards with a modern strategic alignment methodology, businesses can position themselves for success, demonstrating their capability to stakeholders and reducing their risk of failure.

Organizations that embrace this approach will survive and thrive in today's competitive business landscape.

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