Isolating Relevant Policy Issues: Exploration of Small Business Bankruptcies in Georgia

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Bankruptcies in Georgia have been ranked near the top in the country, even among larger and less economically healthy states. In this exploratory study, responses elicited from Georgia lenders were examined to explore their perceptions and opinions related to business bankruptcy. Primary data was collected from a sample 50 Georgia bankers, utilizing one-on-one, in-depth, telephone interview technique. As a subset of a larger SBA sponsored project, this research attempts to isolate policy issues and processes influencing the elevated number of small business bankruptcies and future policy recommendations for bankruptcy prevention. A summary of the findings and the questions are presented.

INTRODUCTION

What dynamics are occurring in a state designated as highest in entrepreneurial activity rate on the one hand, while simultaneously being among the top four states for business bankruptcy? In recent years, Georgia has had the distinction of both designations; it has consistently ranked among the worst states in the nation in terms of business bankruptcy filings, while also listed at the top of all states with its entrepreneurial activity (Kauffman Index of Entrepreneurial Activity, April, 2009 p.18). This situation is intriguing enough to generate curiosity and to motivate investigation into possible contributing factors, a potential relationship between these seemingly incongruent characterizations, and even possible recommendations to prevent high bankruptcy rates in the future.

Although there seems to be much interest on the role of risk taking by entrepreneurs in starting businesses, and in economic value creation and lowering the barriers to entry for entrepreneurs, there is less research on how to lower the barriers to exit business, such as bankruptcy and bankruptcy law (Lee, Peng & Barney, 2007). In the domain of business, many use the terms “business closing,” “business failure," and "business bankruptcy" interchangeably. A review of literature reveals several definitions of business failure, with bankruptcy being only one definition (Carter & Van Auken, 2006).

Businesses may close, discontinue, or even fail, without the legal process of a bankruptcy to reorganize or liquidate. The broader the definition of failure, the higher the expected rate (Watson & Everett, 1996). Bankruptcy is a more specific term, characterized as proceedings involving legal actions to discharge or restructure debt, perhaps resulting from financial distress, which is considered a less precise term (Platt & Platt, 2006). The current research is specific to bankruptcy, a legal process handled in the court system, tracked by various organizations.

The focus of this research is on an interesting (but slightly disturbing) trend of exceptionally high business bankruptcies in Georgia over several years (American Bankruptcy Institute, State, 2001-2005). Unfortunately, at the outset researchers did not realize that this statistic was merely the tip of a volatile financial iceberg. As events played out, and have been widely documented, Georgia, with its heavy investment in the real estate sector, became a harbinger for economic drama not experienced in this country since the 1930's. As part of a larger SBA-sponsored grant, this research focuses on business bankruptcies in Georgia and their implications for small businesses, related service providers, and public policy considerations. Through interviews with state lenders and a review of the secondary research, the primary goal is to explore possible causes for Georgia's disproportionate percentage, and high absolute number, of business bankruptcies.

In recent years, Georgia has consistently ranked near the top nationally in business bankruptcy filings (American Bankruptcy Institute, State, 2001-2005). While the current recession has undoubtedly contributed to the high number of business bankruptcy filings in Georgia and across the country, the high rate of business bankruptcy filings in Georgia was present prior to the recent economic downturn. This situation is true for a handful of states that have for several years consistently ranked nationally near the top in business bankruptcy filings (SBA Report, 2005).

As for potential policy implications and issues related to economic health and entrepreneurism, the same environment that encourages, and possibly nurtures, the high level of entrepreneurism in the state may also encourage a slightly reckless or overly optimistic engagement in the activity, possibly acting as a contributing factor for a higher rate of business failures and bankruptcy.

RATIONALE AND SIGNIFICANCE

The project intent is to isolate possible factors or indicators believed by lenders to be related to small business bankruptcy and to uncover lender recommendations for bankruptcy prevention.

Specifically, the original research objectives of this exploratory project were to:

(1) Suggest probable causes for Georgia businesses to file for bankruptcy at a greater rate than other states, and

(2) Define steps that businesses, particularly Georgia businesses, can take to avoid bankruptcy.

Attempting to understand these broader questions is more pressing than ever, given an ongoing recession that contributed to the failure of not only larger corporations, but many small businesses as well. In addition, new jobs, and net job creation in the United States, derive from new (usually small) firms, which already have an extremely high failure rate, with approximately half surviving past five years (Stangler & Litan, 2009).

LITERATURE REVIEW

According to the SBA publication, *The Small Business Economy*, in 2004 only three states had a larger number of bankruptcies than Georgia's 2,090; namely, New York (4,070), California (3,748) and Texas (3,094), all much larger states. Many states larger than Georgia had lower bankruptcy rates among their overall base of employers (SBA Report, 2005, p. 214 - 215).

Over the last several years Georgia has consistently ranked near the top among states with high numbers of business bankruptcy filings. Georgia began the decade ranked eleventh among all states for business bankruptcy filings. By 2003, the state had moved up to fifth in the country. In 2005, the year of the highest rate of overall bankruptcies in the state, Georgia was ranked third among all states in the number of business bankruptcies (American Bankruptcy Institute, U.S., 1980-2009).

While an economy such as Georgia's, which is suffused with a pro-entrepreneurial environment, is expected to be more volatile and to exhibit numerous businesses starting and exiting/closing, these particular measures, the number of bankruptcies and the bankruptcy rate, seem to indicate the need for possible intervention. The reasons businesses ultimately file for bankruptcy seem to be numerous and varied. Perhaps bankruptcy is an issue related to management, lack of sufficient marketing expertise or effort, or a lack of capital. The root cause or problem may be external to the business, such as rising costs or deteriorating infrastructure, or may be internal to the firm, such as the result of poor management caused by a lack of knowledge (Bradley & Cowdery, 2004). There are likely to be certain consistent contributing factors that lead many businesses to bankruptcy, factors leading to an unwanted outcome. Survey-based research exploring the most serious problem facing bankrupt firms find internal (i.e., lack of knowledge) and external (i.e., inaccessibility to debt and economic climatic) factors to be the major contributing categories (Carter & Auken, 2006).

The April 2009 *Kauffman Index of Economic Activity* reports that while entrepreneurship is flourishing in many parts of the country, especially in Georgia and Atlanta, many represent "entrepreneurs of necessity," instead of "entrepreneurs of opportunity." Due to recessionary pressures (i.e., job loss) many individuals are starting their own businesses; however, these businesses tend to be those with low entry/exit barriers and low income potential. The report specifically warns against this type of entrepreneurism (Kauffman Index, 2009). Another business source suggests that when "business start-ups are a desperate response to unemployment, rather than based on sound principles and…management of competitive advantage, it is inevitable that many firms will fail" (Beaver, May 2003, p. 117).

The Kauffman study found the entrepreneurial activity index for low-income potential businesses and medium-income potential businesses rose from 2007 to 2008, while the overall entrepreneurial activity index for high-income potential businesses fell during the same period (Kauffman Index, 2009). Thus, the typical churn and dynamics of increased entrepreneurial activity in today's economy (particularly in a pro-entrepreneurship state like Georgia) could at least be considered a possible leading indicator of increased business bankruptcies in the future.

From 2006 to 2008, Georgia ranked fourth among all states in total business bankruptcy filings. Even while the trend across the country, including Georgia, has been a general reduction in the number of bankruptcy filings since 2005, Georgia continues to rank among the leading states for bankruptcy. The empirical data available on rate of business bankruptcies in the United States indicate that Georgia's businesses file for bankruptcy at a rate far higher than businesses in most other states. Since 2000 Georgia business bankruptcy filings increased by no less than 14.8 percent in every year until 2005, according to data from the Administrative Office of the U.S. Courts and tabulated by the American Bankruptcy Institute (American Bankruptcy Institute, U.S., 1980-2009).

A relative lack of filings in 2006 may be related to passage of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. The act's goal was to make it more difficult for borrowers to file bankruptcy under Chapter 7, and instead to encourage borrowers to file under Chapter 13, thereby requiring many to pay back at least portions of their debt (Bankruptcy Reform Act, 2005). The logic behind the reforms was that providing a financial disincentive would prevent/discourage high rates of filings: since financial benefit is the lure of bankruptcy, if that perceived or real benefit is removed then fewer filings should result. This premise would apply to both households and businesses (Fay, Hurst, & White, 2002).

In 2005, like elsewhere in the country, Georgia experienced a sudden decline in the number of filings due to bankruptcy reforms passed by Congress in the fall of that year. That year the rate of increase demonstrated a sharp decline, as filings increased by only 6.8 percent over the previous year. In 2006 the bankruptcy filings dramatically decreased by a rate of 49 percent from the 2005 figures (American

Bankruptcy Institute, U.S., 1980-2009). Most of this decrease is attributed to the bankruptcy reform legislation which took effect.

In 2004, anticipating changes in federal bankruptcy filing laws, businesses may have been more willing than usual to declare bankruptcy. The number of business filings increased that year by 31.9 percent over 2003. By comparison, each of the previous two years had an increase in filing rates of approximately 16 percent. Georgia's national ranking for all types of bankruptcy filings during the years from 2006 through 2008 was 1, 3, and 3, respectively (American Bankruptcy Institute, U.S., 1980 – 2009).

More current data indicate that the rate of business bankruptcies is increasing at a pace not previously experienced. Recent bankruptcy filing data indicate that business bankruptcy filings are again on the rise. For example, the rate of increase for business bankruptcy filings from 2007 to 2008 was over 53 percent. In fact, after a dramatic decrease following the 2005 reforms, with provisions making it more difficult for individuals and businesses to offload debt, business filings began almost immediately to increase. These increases may or may not be associated with the onset of the most recent recession (with December 2007 as the recession's official start).

While the number of business filings continues to remain significantly reduced since 2005, there is clear evidence that the number of filings is again on the rise in Georgia (American Bankruptcy Institute, U.S., 1980-2009). It seems that the same favorable circumstances and factors that make Georgia a promising place to start a business may also contribute to its high rate of business bankruptcy filings. In light of the fact that at least half of new businesses fail within five years (Shane, 2008), the rate and number of business bankruptcies also logically continues to increase.

Small businesses seem particularly affected by Georgia's high rate of filings, which may have serious implications for the state's economy. Another contributing factor that confounds the research is the possible comingling of personal and business assets and financing. This issue, related to bankruptcy, has been explored recently by several researchers, who label it the "myth of the disappearing business bankruptcy," referring to the fact that business bankruptcy is sometimes subsumed or disguised within personal bankruptcy (Lawless & Warren, 2005).

Because the vast majority of employer firms in Georgia are small businesses and entrepreneurs, many of those unincorporated, the debt incurred to finance a business may represent a personal liability as well. There are some links between personal finances and bankruptcy and small business financing and bankruptcy, as supported in recent research. In the United States, personal bankruptcy is often used by business owners to protect themselves against creditors or to discharge debts. Because there is no legal distinction between business and personal assets for non-corporate businesses, the debts of single proprietor firms are considered the personal liabilities of the owners (Fan & White, 2003). Unfortunately, there is no way to discern from personal bankruptcy filing data those instances which represent a failed small business as well.

Many small businesses in Georgia (as elsewhere) may also be home-based, adding to worries that recent troubles in the subprime mortgage market, which continues to worsen in Georgia and throughout the country, could also negatively affect small business owners, since personal and business assets may be intertwined. Many small business owners may have used their homes as collateral for business loans, further comingling business and personal obligations. These issues, which are also mentioned by the lenders, underscore the need for proper counseling for entrepreneurs, since empirical studies have shown that business counseling results in a higher rate of success for many small businesses (Chrisman & McMullan, 2000).

METHODOLOGY

The project research objectives were to explore possible contributing factors for Georgia businesses to file for bankruptcy at a greater rate than businesses in other states and to reveal possible steps that businesses, particularly Georgia businesses, might take to avoid bankruptcy. The specific focus of the project was to provide a clearer understanding of bankruptcy, through the lens of state lenders, who have been on the frontline of and witnessed the growing problem.

In utilizing a qualitative research method, namely one-on-one, telephone interviews, the researchers were able to obtain timely primary data from, and to explore the perceptions and opinions of, a highly specialized and relevant group, specifically Georgia lenders who work with clients and professionals of the Georgia Small Business Development Center (SBDC) Network.

Social scientists define this type of research as an *interpretive study*. "Interpretive studies are concerned with reaching in-depth understanding; qualitative research methods are suitable for addressing questions of how and why things occur, whereas quantitative methods are more appropriate for answering what and how many questions. Qualitative research is suitable where the research emphasis is on in-depth understanding of behaviour or activities matter more than specific measurements..." (Carson, et al, 2001, p. 65).

Qualitative research is an acceptable approach for exploratory research or interpretivist methodologies. As a technique, interviewing generally consists of "allowing respondents to tell their own stories" in a research framework that is not totally directive. Interviewing, as a technique, is not so far removed from ordinary conversation, utilizing familiar cues for speaking and answering questions, that respondents seem to feel comfortable once a certain trust between the interviewer and interviewee is established (Chrzanowska, 2002).

A primary advantage of the interview technique when attempting to gain an understanding of a topic that involves specialized knowledge or perspective, such small business bankruptcy, is that the interviewees can tell their own story with little restriction, but also within the structure of a questionnaire to provide some guidance, to allow for exploration of the perceptions and opinions of the sample. Another advantage of the interview technique is the ability to probe with follow-up questions to obtain finer details and a fuller understanding of the research issue. Respondents can appreciate the opportunity to provide feedback, realizing their views hold some value (Chrzanowska, 2002).

Sample

With an extensive network of banks and non-traditional lenders associated with the Georgia SBDC Network, the SBDC researchers were able to call upon this group for their insights. The perspective of the lender was chosen to define the possible trigger points that lead a business to declare bankruptcy. Originally, interviewing bankruptcy attorneys, and even possibly credit assistance agencies, was considered for the project. A focus on lenders' perspective, and their unique capacity to compare and contrast why some businesses go into bankruptcy while others are able to avoid it in similar external circumstances, was the rationale for selecting lenders as the appropriate target respondent group for the project.

Conducting interviews of these industry experts helped shed light on many of the possible or perceived causes of the disproportionately high number of bankruptcies filed in Georgia, and also led to recommendations for how small business owners might avoid this fate in the future. All members of the sample were pre-notified by the referring business consultant of the Georgia SBDC Network that their names and contact details had been provided to researchers for the purpose of examining the bankruptcy phenomenon in Georgia. Using a list of 100+ lenders compiled from SBDC consultants, pre-notification was conducted in October of 2008.

From that original list the final tally of completed interviews stands at 50. While some lenders eventually declined to participate due to the "sensitive" nature of the issue, some lender respondents were eliminated due to overlap within corporate responses. Still others from the original calling list were lost due to volatility within the banking industry, because the specific lender may have left the bank at which they were employed or the bank may have been closed during this period of turbulence. Finding and obtaining data from the lender sample was a further challenge once they became sensitized by and to their shifting environment.

Procedures

Researchers contacted banking professionals to gain insight into the breadth and depth of the business bankruptcy problem in Georgia. The lenders also aided researchers by offering possible preventive steps that Georgia's small business owners might consider to avoid bankruptcy.

Telephone interviews conducted by the researchers began in November 2008 following the conclusion of the U.S. Presidential election. Interviewers for the project were faculty members of the SBDC organization, including personnel from two of 17 area centers and also from the applied research division at the state office.

Conducting "pilot interviews" for questionnaire refinements and various holiday interruptions slowed the process, but added useful data for further refinement and consideration. During the pilot portion of the study, the researchers decided in follow-up discussions that one representative lender from the larger banks would be sufficient for the sample, due to the redundant corporate-level responses heard in the pretest period. The sample contact list was reduced and further divided among the researchers to reflect this revised arrangement.

Developments impacting and slowing the project were uncovered as the data collection process spanned the first quarter of 2009, a period of an unprecedented series of bank failures, bank layoffs and consolidations, as well as other economically driven events.

Questionnaire/Interview Guide

The bankruptcy component of the research project included the development and refinement of a primary data collection interview questionnaire for use with the lender sample. The guide was developed from a series of questions generated by the research team, based on the existing literature and other sources. The questionnaire guide was revised and refined until it consisted of six broad questions (Table 1) and required approximately 15 minutes to complete by phone.

TABLE 1
LIST OF INTERVIEW QUESTIONS

Question #	Broad Questions for Lenders
1	What factors do you believe contributed to the comparatively high number of bankruptcies in Georgia earlier this decade? *
2	What are the main causes for bankruptcy that you are currently seeing? *
3	Do certain industries seem to be more prone to bankruptcy? If so, which ones? Why do you believe this is the case? **
4	What does your typical bankruptcy case look like today?" (Part A) How is the typical bankruptcy case of today different from what you saw earlier in this decade? (Part B).**
5	What expectations do you have for the next couple of years regarding the level and rate of bankruptcies in Georgia?***
6	Based on your experiences, what recommendations would you make to businesses in order to avoid bankruptcy?***
	* Structured answer with "other" option ** Elicitation with Probes ***Elicitation – open ended questions

In addition to the fixed-question portion of the questionnaire, there were opportunities to elicit open-ended responses from the lenders who participated. Due to the changes that were concurrently occurring in the financial marketplace, a section of the questionnaire was structured to compare bankruptcy characteristics earlier in the decade to bankruptcies within the last two years (2007 and 2008). This structure enabled researchers to isolate current phenomena from the "traditional" reasons for bankruptcy.

From their unique perspective, the lenders were also asked to recommend actions business owners might take to avoid bankruptcy. Because the interviews also included several open-ended questions, respondents (lenders) were able to provide additional, relevant information including some useful and unexpected comments and insights.

RESEARCH FINDINGS

The turbulent economic environment that surrounded the data collection period added several challenges to the data collection process, and to the interpretation of the data. Top-of-the mind for most lenders was the banking crisis and the home foreclosure melt-down that were occurring concurrently with the data collection stage of the project. Even with these obstacles and constraints, worthwhile information was obtained from the respondents, providing useful insights into their perception of small business bankruptcy in Georgia. The analysis reveals fairly consistent and some convergent results among the lenders. In this section both general and specific results are reported.

General Results

An important early finding was that large banks tend to be more decentralized to the extent that the department involved in bad or at risk accounts is separate, perhaps even in another physical location (or state). These "at risk" accounts are sometimes removed from the portfolios of the loan officers and placed in "special asset groups" or a department with a similar designation. As more centralized operations, smaller lending institutions tend to have a more intimate knowledge of their clients who may have experienced, or who are in imminent risk of, bankruptcy.

Although some respondents indicated that each client was unique in contributing factors for bankruptcy, many others offered specific factors which they believe contribute to the relatively high number of bankruptcies in the state. Consistent with prior research, both internal factors (e.g., weak management, skills of individuals, knowledge) and external factors (e.g., economic conditions, specifically the recent economic downturn and ill preparation for it) were cited as contributing factors in the bankruptcy rate. A recurring theme for contributing bankruptcy factors was undercapitalization, specifically low working capital or insufficient lines of credit.

A specific set of themes for bankruptcy prevention included: the need for a business owner's awareness of their unique situation, preparation for/anticipation of any downturn in the economy, and frequent and frank communication with the firm's accountants, attorneys and bankers/lenders.

More specifically, lenders cited several reasons they believe Georgia had a high number (and rate) of bankruptcies *early this decade*:

- Weak management – inexperience in managing a business
- Poor business plan – not having a sound business plan from the beginning and/or not sticking to the business plan
- Not being prepared for a slow economy – not having cash saved to cover expenses during slow times
- Divorce – easy to file for divorce in the state of Georgia (financial repercussions)
- Personal finances – not having personal finances in order at the start of the business
- Ease of obtaining external financing – business owners were able to obtain financing easily with no real equity; owners did not inject much personal savings into the business.

Lenders also listed a lack of operating capital and being over leveraged as two of the main causes of *current* bankruptcy. According to the lenders, business owners do not save enough of their profits to cover slow cycles. Other reasons cited by lenders for *current* bankruptcies are unrealistic expectations and lack of operating capital set aside to cover the slow payables.

When asked if certain industries are more prone to bankruptcy and why, the following industries were cited: retail, service, manufacturing, construction and development and real estate. During the interviews, one lender suggested that businesses with lower barriers to entry are more susceptible to bankruptcy. Businesses in these industries are perceived by lenders as more prone to bankruptcy because they have overzealous business plans, a lack of operating capital, frequent over-leveraging, and are susceptible to labor costs, material costs, and competitive forces. In other words, these businesses operate on razor thin margins; thus, while it is easy to start these kinds of businesses, it is also easy to exit these types of businesses when profits fall or a better employment opportunity becomes available. The April 2009 *Kaufman Index of Economic Activity*, warns against this type of entrepreneurism (Kauffman Index, 2009).

Another reason given for businesses filing bankruptcy was weak management, a factor within the firm. Typically, such management does not implement and follow the business plan and is unaware of changes in competition and the market, according to the lenders.

In the next few years, lenders generally expect business bankruptcies to be at an all time high while economic conditions continue to deteriorate. Lenders do not expect to see bankruptcies slow down until 2010 at the earliest. Their view is that earlier in the decade, the economy was able to recover quickly, but this time the impact is expected to be deeper. Unlike earlier times, real estate is not expected to be a safe harbor nor to provide stability.

The early results offered the following recommendations made by lenders for small business owners to avoid bankruptcy:

- Stay on top of changes and be aware of competition and market
- Have a good business plan from the start and stick with it!
- Save working capital for a rainy day and for slow times; don't spend all the profits in order to avoid paying taxes
- Have a spouse working to bridge the gap
- Talk to bankers early, be honest and include them during good times and bad times
- Reduce debt levels during profitable times
- Have a good CPA
- Communicate with banker, accountant, and attorney during good times and bad

As the data collection progressed, subsequent findings of the project were:

- Lenders (or agents) became less willing to provide information as they became "sensitized" to the financial sector situation. One individual representing a company that handles receivership for failed banks (through contract with FDIC) more or less refused to participate except for a "no comment" due to the potential "litigious nature" of the situation.
- A smaller institution lost two individual lenders on the sample interview list to layoffs and/or consolidations. Interestingly, the executive who responded in their stead reported that they had "so few bankruptcies that they were hardly on the radar."
- Several bankers reported that businesses were at high risk for bankruptcy when they do not stay on top of changes in their competition and industry. A lender cited non-franchise restaurant start-ups as an industry specifically prone to bankruptcy because these start-ups do not have an established image and therefore attracting new customers is difficult.
- The later data demonstrated that more seasoned businesses are filing bankruptcy (those with 10, 20, 30 years in business) than was seen a decade ago. These firms have an average 30 – 100 employees. Lenders attributed this outcome to today's economy rather than 10 or so years ago, when bankruptcy was more likely in very inexperienced start-up type businesses: this finding was a cause for much concern in the lending community.
- In light of the economic concerns and types of businesses that seem to be more stressed than in earlier times, bankers were recommending that start-up businesses possess one year of working capital in reserve.

Specific Results – Six Questions

Below are the interview results of the six broad questions addressed to the lender respondents. Specifically, in response to question number one: *"What factors do you believe contributed to the comparatively high number of bankruptcies in Georgia earlier this decade?"* the broad categories were the internal, external, and personal factors, with several subcategories for each (and an "other" category) allowed (see Table 2). Respondents were allowed to choose all that applied and to provide comments. Of those who responded to question one, approximately 40 percent of the lenders selected internal factors, such as weak management and financial problems in the firm (top two), as those contributing to the high number of Georgia bankruptcies earlier in the decade. An additional 22 percent chose external factors, such as competitive pressures and overall economic conditions (the top two). Personal factors, such as personal finances and divorce, were chosen by 22 percent of the respondents as major contributing factors to bankruptcies.

TABLE 2
QUESTION 1 RESULTS

What factors do you believe contributed to the comparatively high number of bankruptcies in Georgia earlier in this decade?			
		Response Percent	**Response Count**
Internal		**39.64%**	**44**
	Weak Management	50.00%	22
	Financial problems	45.45%	20
	Inappropriate location	2.27%	1
	Tax problems	2.27%	1
	Security problems	0.00%	0
	General	0.00%	0
External		**21.62%**	**24**
	Competitive pressures	45.83%	11
	Overall economic conditions	41.67%	10
	Environmental events	4.17%	1
	Disruptive technology	4.17%	1
	Changes in laws or regulations	0.00%	0
	General	4.17%	1
Personal		**21.62%**	**24**
	Personal finances	50.00%	12
	Divorce	33.33%	8
	Health/Accidents	12.50%	3
	General	4.17%	1
Other		**17.12%**	19
	Other	79.95%	15
TOTAL		**100.00%**	**111**

In response to question number two: *"What are the main causes for bankruptcy that you are currently seeing?"* the broad categories were also the internal, external, and personal factors, with several subcategories for each (and an "other" category) allowed (see Table 3). Respondents were allowed to choose all that applied and to provide comments. Of those who responded to question two, approximately 34 percent of the lenders chose internal factors such as weak management and financial problems, as the main causes for current bankruptcies. This statistic doesn't vary much from the previous question related to bankruptcy earlier in the decade. Approximately the same proportion, 30 percent, attributes external factors such as overall economic conditions, by far the largest subcategory, and competitive pressures as primary causes for current bankruptcies. Personal factors, such as personal finances (highest) and divorce, were chosen by 20 percent of the respondents as contributing factors to current bankruptcies.

TABLE 3
QUESTION 2 RESULTS

What are the main causes for bankruptcy that you are currently seeing?

		Response Percent	Response Count
Internal		**34.17%**	**41**
	Weak Management	60.98%	25
	Financial problems	34.15%	14
	Inappropriate location	2.44%	1
	Tax problems	0.00%	0
	Security problems	0.00%	0
	General	2.44%	1
External		**30.00%**	**36**
	Competitive pressures	19.44%	7
	Overall economic conditions	77.78%	28
	Environmental events	0.00%	0
	Disruptive technology	0.00%	0
	Changes in laws or regulations	0.00%	0
	General	2.78%	1
Personal		**20.83%**	**25**
	Personal finances	80.00%	20
	Divorce	20.00%	5
	Health/Accidents	0.00%	0
	General	0.00%	0
Other		**15.00%**	18
	Other	100.00%	18
TOTAL		**100.00%**	**120**

In response to the tri-part question number three: *"Do certain industries seem to be more prone to bankruptcy? If so, which ones? Why do you believe this is the case?"* the allowed responses were "yes" and "no" for the first phase, a fixed set of choices for the second phase, and an open-ended section for the answer to "why" (see Table 4 and Table 5). Approximately three fourths (73 percent) of those responding felt that certain industries are more prone to bankruptcy than others. To the second part of that question, retail was listed as the industry that was more prone to bankruptcy, followed by service and manufacturing. The elicited "why" list was placed into categories.

TABLE 4
QUESTION 3.1 RESULTS

Do certain industries seem to be more prone to bankruptcy?		
	Response Percent	**Response Count**
Yes	72.97%	27
No	27.03%	10
Total	**100.00%**	**37**

TABLE 5
QUESTION 3.2 RESULTS

Do certain industries seem to be more prone to bankruptcy? If so, which ones?		
	Response Percent	**Response Count**
Agriculture	0.00%	0
Manufacturing	20.69%	6
Wholesale	0.00%	0
Retail	41.38%	12
Service	37.93%	11
Total	**100.00%**	**29**

In response to the contrast question number four, where respondents were asked to compare current bankruptcies with bankruptcies during the first part of the decade, the question was: *"What does your typical bankruptcy case look like today?"* (Part A) and *"How is the typical bankruptcy case of today different from what you saw earlier in this decade?"* (Part B). A check list of possible answers, including industries, years in business, number of employees, type of organization, primary sources of funding, amount of assets, market, business owner experience, and market competitiveness, was offered on the questionnaire as prompts if the respondent was slow to respond. Respondents were not provided the entire list of categories, but were offered the above list as appropriate probes. Since many respondents gave general instead of specific answers to the list comparing current to past bankruptcies, the most interesting perspective is the changes between the two time periods. Retail led the industry list in both periods, as did companies between two and five years old. The three-to-ten employees category was also top in both time periods for bankruptcies. In the type of business, LLCs (a relatively new business form) edged out sole proprietorship as the top type of organization later in the decade. For primary source of funding, applied debt remained the top source in both time periods. In terms of assets, the $10,000 - $100,000 category lost out to the $100,001 to $500,000 category in the most current period. Businesses in local markets were selected as most typical for bankruptcy in both periods. Inexperienced-to-moderate-experienced owners and moderately competitive markets were also chosen most often in both time periods.

In response to question number five: *"What expectations do you have for the next couple of years regarding the level and rate of bankruptcies in Georgia?"* the questionnaire was seeking subjective opinions from the respondents. For analysis, the elicited data were placed into a table with "positive," "negative" and "neutral" categories. In terms of expectations, approximately 70 percent of the lenders are pessimistic (negative) and expect things to get worse in the next couple of years regarding the level and rate of Georgia bankruptcies (see Table 6). Of those who responded, 22.5 percent expect things to level off or stabilize (neutral/positive), with the remaining 7.5 percent unsure.

TABLE 6
QUESTION 5 RESULTS

What expectations do you have for the next couple of years regarding the level and rate of bankruptcies in Georgia?	Comments Summarized	Comments Count
"Increase," "Get Worse," "Continue to Rise"	70.00%	28
"Level Off" or "Stabilize"	22.50%	9
"Not Sure" or "Can't Speculate"	7.50%	3
Total	**100.00%**	**40**

For question number six: *"Based on your experiences, what recommendations would you make to businesses in order to avoid bankruptcy?"* the respondents were free to generate their own responses. Due to the wide variety of answers to the question, an attempt was made to develop first order categories or themes for the answers. In summarizing the open-ended responses elicited for question six, approximately 21 percent of the comments relate to retaining proper working capital or being adequately capitalized. Another 17 percent related to monitoring finances and the industry. Communication with advisors, including lenders, represents 13 percent of the comments in this category. Having a solid realistic business plan and controlling personal finances tie for 10.5 percent of the responses. The remaining categories include managing company debt/avoid high leverage (9.2 percent), and tighten lending policies and better/more marketing (both 2.6 percent). The "other" category contains 13 percent of the responses.

TABLE 7
QUESTION 6 RESULTS

Based on your experiences, what recommendations would you make to businesses in order to avoid bankruptcy?	Comments Summarized	Comments Count
"Retain Proper Working Capital" or "Be Adequately Capitalized"	21.05%	16
"Pay Attention" or "Constantly Monitor Finances and Industry"	17.11%	13
"Communicate with Advisors, Including Lenders"	13.16%	10
"Control Personal Finances"	10.53%	8
"Have a Solid, Realistic Business Plan"	10.53%	8
"Manage Company Debt" or "Avoid Being Highly Leveraged"	9.21%	7
"Tighten Lending Policies" or "Stricter Analysis by Lenders"	2.63%	2
"Better/More Marketing"	2.63%	2
Other	13.16%	10
Total	**100.00%**	**40**

CONCLUSIONS, IMPLICATIONS, AND LIMITATIONS

Conclusions

The unique contribution of this paper is to provide an exploratory, primary investigation of the perceptions of a sample of lenders in Georgia, the state ranked fourth highest in business bankruptcy, concerning their views on business bankruptcies, possible causes, and recommendations for avoidance of bankruptcy. The results are fairly consistent with previous research, in that Georgia lenders perceive the same three broad categories as factors in small business bankruptcy revealed in the other research, factors internal and external to the firm, as well as personal factors.

The results suggest that there are some specific actions lenders feel can be taken to avoid or diminish the risk of bankruptcy for a small business. Many of the recommended actions could be accomplished through being aware and proactive about training, being attentive to financial documents and their meaning, enacting more prudent money management processes to accommodate business and economic cycles, and keeping a vigilant eye on consumers, the economy, and the competition.

Although many of the primary data findings were expected, some results provided interesting new insights. For example, communication (even in bad times) with lenders, attorneys, and financial consultants/accountants was a recurring theme of the lenders throughout the project. An advantage of the interview technique is the ability to probe with follow-up questions to obtain finer details, and to obtain a fuller understanding of the research issue (such was the case with some of the findings, not part of the original direct questions, but of the follow-up probes).

Implications

As an exploratory inquiry, this research provides richness, an understanding and meaning, associated with the growing Georgia bankruptcy situation that may not otherwise be available. In addition, the findings suggest possible training implications, the need for technical assistance and specific directions for organizations like the Georgia SBDC Network, as well as possible policy or regulatory action, as a result of careful consideration of what the sample group revealed. Specific lender recommendations for entrepreneurship support revealed potential future action and policy, as well as specific and direct suggestions for entrepreneurs.

These findings may be helpful to those seeking expert perceptions of small business bankruptcy in Georgia, as well as implications for other states. The findings are also significant as they provide a research agenda and foundation for possible hypothesis development and future research regarding the contributing factors for small business bankruptcy, and even possible solutions for high bankruptcy rates in the future. This exploratory study allows for specification of the relevant dimensions of influences and factors on small businesses bankruptcy, and of preventive measures.

Limitations

The Southeast during the period in question may be unique and has been characterized by "economic turbulence," as defined by the Federal Reserve (Federal Reserve, 2008), perhaps making the findings ungeneralizable to other periods or regions. The fact that a qualitative research method, interviews, was utilized to gather the data, may also create certain issues with the generalizability of the study results. Since a primary project goal was to obtain a clearer understanding of the Georgia business bankruptcy situation, the qualitative research technique may have served its purpose well.

Although the study has limitations, primarily with regard to the size and nature of the sample, the scope of the project, geographically constrained to one state (Georgia), and perhaps the qualitative nature of the methodology (which affects generalizabilty), the results still provide valuable insights and might provide the basis for immediate action and/or a follow-up project in any number of related directions. The size and mission of the lender respondents in the study varied considerably, from one of the largest banks in the country to micro lenders.

One of the most relevant limitations of the bankruptcy research project might be the timing of the project, from the 2008 U. S. Presidential Election (November) into the first half of 2009, which may represent one of the most serious financial crises documented in this country. The bankruptcy issues, and various attendant factors, have become buried and sidelined among myriad other issues and problems facing the banking institutions involved. A direct and interesting result, and perhaps limitation, for this research project was a distinct hesitancy of some subjects to respond to perceived sensitive questions when certain respondents became quite guarded in their responses.

As a state, Georgia may represent a truly singular environment with a unique set of circumstances, since it has an extremely high comparative rate (and number) of business bankruptcy, is listed simultaneously as the most "entrepreneurially friendly" state in the nation, while also leading the state rankings list with the highest number of bank failures in the country (to date/2010: 41). Truly a good news, bad news situation. On balance, a relevant question might be: what is the relationship among all of these factors?

Future Research

The results of this study emphasize the need for more in-depth research designed to provide further insights into actual causes of small business bankruptcy, failures, or closings (depending on the particular author's interpretation). Future research in the domain of small business bankruptcy might pursue several interesting avenues, whether to delve more deeply into the rate and causes of bankruptcy in a more empirical, quantitative study, or to explore other seemingly related topics, possibly associated with policy or other issues. For example, future researchers may consider a larger empirical project utilizing a quantitative paradigm (perhaps a national questionnaire) so that they might be better able to generalize the findings to other geographic areas and situations, or to make broad conclusions.

The topic of small business bankruptcy is rich for exploration, particularly in the areas of the relationship or interdependence between personal and small business bankruptcies (since some research suggests a link), the relationship between small business bankruptcy and the rate of bank failures (particularly in Georgia where both rates and numbers are extraordinarily high), and the rate of bankruptcy as related to the issue of ease of entry and/or exit of small businesses, due to the regulatory environment (bankruptcy exemption levels) or other factors.

A particular area of interest and possible domain for future research is the relationship between the current high rate of small business bankruptcy, particularly in Georgia, and the high rates of mortgage foreclosure and bank failures in the state and the nation. The state of Georgia has a disproportionate rate and number of bank failures, given the number of banks in the state. The bank failure tide may have temporarily receded from a high water mark achieved during the summer, when 12 banks failed during the period from June through August. As of the original writing, 25 banks failed in Georgia over a fifteen-month period, compared to 122 nation-wide, representing the highest number and bank failure rate in the country (Grantham/AJC, 2009).

Note/ Final Banking Update: In a recent turn of events in Georgia failed bank acquisitions by regulatory agencies may be giving way to mergers and acquisitions, as a long term "solution" to the problem in the state (Trubey, 2010). According to the source, such a deal would be significant in a state that has suffered 41 bank failures since August 2008, representing the national high for any state. A supplementary benefit would be that those (potential merger/acquisition) deals among banks would reduce losses to the Federal Deposit Insurance Corporation's (FDIC) Deposit Insurance Fund, signaling a certain buyer's confidence. The significance of this particular deal could be a strong indication that the bottom of the Georgia banking crisis might have been reached (Trubey, 2010).

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