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The internal factors to cause the failure of the company: Take China Evergrande Group as an example

Jingyi Huang

Chongqing Depu Academy,
Chongqing ,China
hy20080917@outlook.com

Abstract:

This thesis explores the internal factors contributing to the failure of large enterprises, taking China Evergrande Group as a case study. Founded in 1996 and once a leading comprehensive enterprise integrating real estate, finance, and other sectors with an annual sales scale exceeding 400 billion yuan, Evergrande collapsed dramatically, prompting an investigation into its failure beyond mere capital chain issues. The study identifies critical internal problems at Evergrande: severe financial fraud, chaotic internal management (redundant departments, low efficiency, and top management team deficiencies forming a "decline-deterioration" loop), and a massive debt crisis . Root causes include over-reliance on high-leverage expansion and failed diversification. Key factors for healthy enterprise development are proposed, such as clear strategic positioning and customer-centric product/service innovation. Corresponding suggestions for Evergrande include transparent information disclosure, business layout adjustment, and lean internal management. Limitations exist, including over-reliance on public data and limited generalizability beyond the case

Keywords: China Evergrande Group; Internal Failure Factors; High-leverage Expansion; Healthy Enterprise Development.

1. Introduction

The topic of my thesis focuses on exploring the factors the failure of large company. In China, I learned that a few years ago, Evergrande Real Estate — once a leading enterprise in the real estate sector — collapsed dramatically despite its enormous scale. This phenomenon sparked my curiosity: could the downfall of such a industry leader be attributed solely to a broken capital chain? I believe there were numerous other interrelated factors that collectively led to its overall failure. Currently, I have gathered basic information about Evergrande Real Estate through online research.: China Evergrande Group was founded in 1996 and is headquartered in Guangzhou. It is a comprehensive enterprise group integrating real estate,

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finance, health, tourism and sports. As one of the world's largest real estate development companies, Evergrande Group has an annual sales scale of over 400 billion yuan, owns more than 500 real estate projects, has a staff of over 80,000, and has solved the employment problem for more than 1.3 million people [1].

From my personal perspective, my motivation for analyzing the reasons behind this enterprise's failure stems from a desire to satisfy my curiosity — after all, an enterprise that provided 1.3 million jobs could never have collapsed so easily. From the perspective of the overall research objective, I aim to examine this typical case to see if its insights can be applied to other existing enterprises, thereby helping them learn lessons and avoid potential losses.

This study has categorized the factors identified through this analysis into internal factors and external factors. For each category, this study proposed corresponding solutions, which integrate my own insights with findings from reference literature. Additionally, I have analyzed what a "healthy enterprise" looks like, and based on this analysis, summarized a set of comparative criteria for enterprises to use as a reference. Finally, I have provided an overall summary that articulates my core viewpoints. Furthermore, by acknowledging the limitations of this paper, I have presented an objective conclusion alongside relevant recommendations [2].

2. Issues of Evergrande

2.1 Serious Financial Fraud

According to the findings of the China Securities Regulatory Commission, Evergrande Real Estate inflated its revenue by 564.116 billion yuan and profits by 92.011 billion yuan through recognizing revenue in advance in 2019 and 2020. It also issued 20.8 billion yuan of corporate bonds using false data, constituting fraudulent issuance. In addition, Evergrande failed to disclose annual reports, overdue debts and other relevant information as required. Its net losses in 2021 and 2022 totaled over 800 billion yuan, and its total liabilities exceeded 2.4 trillion yuan as of December 31, 2022.

According to the investigation by the China Securities Regulatory Commission (CSRC), Evergrande Real Estate engaged in systemic fraud between 2019 and 2020 through means such as inflating revenue and concealing debts. The total amount of inflated revenue reached 564.1 billion yuan, with inflated profits amounting to 92 billion yuan. It's illegal acts not only disrupted market order but also exposed multiple shortcomings in China's financial and accounting supervision system in preventing and curbing major financial fraud [3].

2.2 Chaotic Internal Management

Evergrande had a redundant department setup. To achieve "centralization of power", it implemented multi-level supervision, leading to bloated institutions, low efficiency, stifled innovation, and a great deal of time wasted on internal processes. Furthermore, there are views that Evergrande's management engaged in large-scale cash-outs and hollowed out the company as well as upstream and downstream partners. According to Top Team Deterioration as Part of the Downward Spiral of Large Corporate Bankruptcies, deficiencies in the top management team (TMT) — such as poor strategic judgment and imbalanced professional capabilities — can lead to strategic errors or crises of trust among stakeholders, directly exacerbating the company's decline. On the other hand, a downturn in corporate performance further degrades the quality of the management team through channels including the voluntary departure of outstanding executives, the scapegoating effect in internal accountability, and difficulties in attracting high-caliber talent. This creates a closed loop of "decline → deterioration → deeper decline [4]."

2.3 Huge Debt Crisis

As of the end of November 2023, Evergrande Real Estate's accumulated unpaid mature debts were approximately 316.391 billion yuan, and its accumulated overdue commercial acceptance bills were about 205.537 billion yuan. On July 31, 2025, the liquidators had received 187 proof of debt forms, with the total claimed debts against China Evergrande amounting to approximately 35 billion Hong Kong dollars.

3. The Factors Contributing to the Bankruptcy Crisis of Evergrande Group

3.1 Over-reliance on High-leverage Expansion

Evergrande has long adopted a development model of high debt, high leverage, and high turnover, supporting its rapid expansion through large-scale borrowing. After the introduction of the "Three Red Lines" policy in 2020, Evergrande violated all three lines simultaneously and was subject to strict financing restrictions. However, the huge debts accumulated previously have been difficult to repay, and the problem of tight capital chain has become prominent. As of June 30, 2023, Evergrande's asset-liability ratio remained as high as 136.94%.

3.2 Failure of Diversification Strategy

Against the backdrop of declining operating performance in its core real estate business, Evergrande blindly expanded into diversification, entering multiple fields such as mineral water, sports industry, financial insurance, and new energy vehicles. These diversified businesses not only failed to bring expected returns but also consumed a large amount of funds and resources. For example, the new energy vehicle industry, with large investment, long cycle, and slow returns, has become a huge financial burden [5].

4. The Key Factors Required for the Sound Development of Enterprises

4.1 Factor 1

1) Understanding "Why We Exist" and "Where We Are Heading"
Strategy serves as the "compass" of an enterprise, determining the correctness of its development direction and preventing it from falling into the predicament of "working hard but achieving nothing."
2) Clear Mission, Vision, and Values
Mission (Why): The fundamental purpose of an enterprise's existence (e.g., "To make doing business easy everywhere"), acting as the spiritual core that supports the enterprise in weathering business cycles.
Vision (Where): The long-term goal for the next 3-10 years (e.g., "To become a global leader in XX services"), providing a common direction for the team to strive toward.
Values (How): The "code of conduct" for the enterprise (e.g., integrity, innovation, customer-centricity), standardizing internal decision-making and employee behavior while avoiding cultural internal friction.
Key Role: Uniting team consensus, filtering out non-core opportunities, and maintaining consistency amid complex choices.
3) Precise Market Positioning and Differentiated Advantages
Abandon the pursuit of "being all-encompassing" and clearly define the target customer group (Who are our customers? What are their core pain points?), avoiding homogeneous competition.
Build a "moat": Develop competitive advantages that are difficult for rivals to replicate through technological barriers (e.g., patents, R&D capabilities), cost advantages (e.g., economies of scale, supply chain efficiency), brand premium (e.g., customer trust, emotional connection), or service experience (e.g., exceptional after-sales service.

4.2 Factor 2

Core Engine: Products/Services and Customer Value. Products and services are the "foundation for an enterprise's survival." All strategies must ultimately be implemented through the delivery of concrete value; enterprises that deviate from customer value cannot sustain long-term development.
1) Customer-Centric Value Creation
Core Logic: The essence of an enterprise is "solving problems." Products/services must accurately meet customers' real needs (rather than "self-indulgent innovation").
Key Actions: Conduct continuous customer research (interviews, questionnaires, data analysis) to gain insights into customers' "explicit pain points" (e.g., price, functionality) and "implicit pain points" (e.g., emotions, efficiency). Ensure product iterations always focus on "enhancing customer experience or reducing customer costs."
2) Sustained Innovation Capability
Innovation does not merely refer to "disruptive technology" but also includes:
Product Innovation: Functional optimization and scenario expansion (e.g., the evolution of mobile phones from communication tools to smart terminals);
Model Innovation: Profit models (e.g., shifting from "one-time sales" to "subscription models") and channel models (e.g., transitioning from offline to "online-offline integration");
Process Innovation: Improving internal management efficiency (e.g., reducing communication costs through digital tools).
Guarantee Mechanism: Allocate stable R&D resources (e.g., leading technology enterprises typically invest over 10% of their revenue in R&D) and encourage a culture of trial and error (tolerating non-principled failures).
3) Stable Quality and Reputation
Quality is the "lifeline": Whether it is products or services, consistent quality is the foundation for gaining customer trust (e.g., the stable quality of Moutai supports its brand premium, while a quality crisis at a certain milk powder enterprise directly led to its market collapse).
Attach importance to word-of-mouth communication: In the era of social media, customers' "experience sharing" is more persuasive than advertising. Enterprises pursuing sound development will establish a "quality traceability + rapid after-sales response" mechanism to convert negative word-of-mouth into an opportunity to restore trust.

5. Suggestions and Future Implication

Conduct open and transparent information disclosure, and regularly report the company's financial status and development plans to investors and the public. Show the financial data to public more frequently and accurately, these could rebuild the credibility of the bank and the public to let the business enable to profit and finance.
On the basis of consolidating the core real estate business, reasonably evaluate diversified businesses, and spin off or optimize those with long-term losses and uncertain pros-

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pects.The main source of the debt is the over expansion to other filed, so contract the range of the business would reduce the cost of expenditure [6].

Implement lean management to optimize internal processes and improve the efficiency of project development and resource utilization. In addition, strengthen supply chain management to reduce procurement costs. Build an efficient and professional management team through talent introduction and training programs. This would improve the efficiency of the business to reduce the cost of labour force [7].

6. Conclusion

This thesis centers on exploring the factors behind large companies' failures, with China Evergrande Group as a case study. It first introduces Evergrande's business scope, scale, and collapse background, then analyzes the firm's internal issues—including severe financial fraud, chaotic internal management, and a massive debt crisis—and identifies root causes like over-reliance on high-leverage expansion and failed diversification strategies. Additionally, the thesis outlines key factors for healthy enterprise development and proposes solutions for Evergrande, such as rebuilding market confidence and optimizing management.

However, the writing has limitations. It relies heavily on public data (e.g., CSRC reports), lacking in-depth internal operational data, which may limit the analysis of management chaos. Also, this study only focus on Evergrande means findings may not fully apply to other industries or smaller enterprises, reducing generalizability.

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