Business Failures around the World: Emerging Trends and New Research Agenda

Joseph Amankwah-Amoah[1] and Xiaojun Wang[2]

1. *Kent Business School, University of Kent, Canterbury, Kent, CT2 7FS*
2. *School of Economics, Finance and Management, University of Bristol, Bristol, BS8 1TZ, U.K.*

Abstract

In a twenty-first century shaped by increasing market competition, business failures are inevitable for many firms, yet capturing and utilizing insights from failures and alleviating unnecessary business failure remain major obstacles. In this paper, we present an overview of the literature on business failure and attempt to clarify some key issues on the subject. We also present an introduction to the Special Issue on '*Business Failures around the World*' and highlight several novel ideas, emerging trends and uncharted terrains for future research. **Keywords:** failure; business failure; organisational failure; global environment.

Introduction

'*Success consists of going from failure to failure without loss of enthusiasm*.' – Winston Churchill.

The final third of the twentieth century and the early twenty-first century have witnessed unparalleled changes in the global economy characterised by incidences of business failures, failing governments and nations (Amankwah-Amoah, 2016; Cavusgil et al., 2012; World Bank, 2013; Hausman & Johnston, 2014). In recent times, many organisations around the globe have ceased operation, often attributed to weak financial position and intense global market competition. In both the popular press and academic literature, incidences of business failures are not uncommon. In the global airline industry, for instance, organisations around the world including Mexicana in Latin America, Cameroon Airlines, Air Ivoire and Virgin Nigeria Airways (later rebranded Nigerian Eagle Airlines) in Africa, and recently Cobalt Air, Monarch Airlines, SkyWork Airline, Air Berlin and Primera Air in Europe, have all collapsed, bringing hardship onto many stakeholders including employees and customers of the firms (see Drescher, 2018; Riley, 2018; Amankwah-Amoah & Debrah, 2010, 2014). This issue of failure is particularly important in this industry given that in over a century of commercial aviation, thousands of airlines have emerged only to cease to exit after a relatively short period of time, a situation often attributed to high oil prices, political interference and mismanagement (Drescher, 2018; see also Doganis, 2006). These real-world and high-profile bankruptcies exemplify the growing incidences of business failures, whilst simultaneously emphasising the importance of policymakers and practitioners to seek to study and learn from failures across different industries and beyond national borders.

The main purpose of this special issue is to provide space for scholars to showcase novel ideas, uncharted territories and concepts in a quest for better understanding of business failures. In this direction, the original call for papers attracted numerous submissions from scholars in Europe, North America, Asia and Africa on issues such as the causes and stages of business failure, business failure prediction, policy failures, stigma of failure, barriers and constraints to learning from business failure. Unfortunately, many failed to meet the threshold requirements of the journal. In this introductory piece, our main objective is to outline some key issues, accomplishments, introduce the papers and set our directions for new streams of research.

Business failures: a review and overview

Some scholars view business failure as encompassing 'distressed businesses' and collapses of businesses. Some 'distressed businesses' eventually transition to become collapsed businesses. Broadly speaking, business failure can be defined as 'as a situation where the firm ceases operations and/or loses its identity due to inability to respond and adapt to changes in the external environment in a timely fashion' (Amankwah-Amoah, 2016, p. 3388). Business failures may entail both the structured or unstructured fall which culminate in decline or eventual demise. Organisations teetering on the brink of collapse often exhibit features such as depletion of both financial and human resources (Amankwah-Amoah, 2018).

In recent decades, two lines on business failure have flourished which seek to elucidate the causes of business failure: the deterministic and voluntaristic perspectives (Mellahi & Wilkinson, 2004; Zhang et al., 2018). From the deterministic perspective, there is accumulating evidence that business failure can be attributed to external organisational factors such as deregulation, technological change and competition over which organisational decision-makers have limited control (Amankwah-Amoah, 2016; Hager et al., 1996; Wang et al. 2012; Zhang et al., 2018). As many industries become more globalised, one by one, many new entrants and incumbents have collapsed due to increased competition, leaving in their wakes untapped knowledge lessons about failure.

Besides intense cost and competition pressures, some studies have also linked the incidence of terrorism to the risk of country-level global business failure (Tingbani et al., in this issue). Indeed, incidences of terror attacks have often forced companies to move personnel and resources from the affected areas to new markets. In the case of global airlines, many are often forced to avoid or terminate flights to holiday destinations and redirect some flights to less profitable routes, thereby weakening their financial positions and making failure more likely (Petroff, 2017).

Returning to the failed airlines noted at the outset, some attribute the collapses to factors such as intense market competition, rising fuel prices and higher wages for highly skilled workers including pilots (Riley, 2018). Largely due to a surge in global demand and competition for highly experienced aviation personnel including engineers and pilots (see Spero, 2018), wages have increased, exerting financial pressure on airlines' ability to recruit and retain such personnel (Riley, 2018). By 2018, approximately 600,000 new commercial pilots were required globally to meet demand for air travel (Riley, 2018).

On the other side, the voluntaristic school contends that business failure is attributed to firm-specific factors such as mismanagement, corrupt management practices, poor leadership and decision-making processes (Amankwah-Amoah & Debrah, 2010, 2014; Amankwah-Amoah &

Zhang, 2015a, 2015b; Amankwah-Amoah et al., 2018a, 2018b). By withstanding the pressures to innovate to respond to competitive or external pressures, organisations are more likely to plant the seeds to their collapse. Much of the contemporary lines of studies have sought to explore how different firm-level and external factors interact to influence the processes leading to business failure (see Amankwah-Amoah, 2014, 2016). Concerning consequences of business failure, research has also shown that liquidation in a geographical area leads to a substantial decline in employment in the local economy (Bernstein, Colonnelli, Giroud & Iverson, 2018).

Learning from failure

Much of the existing management research has centred on learning from business success, learning from failure remains an untapped knowledge reservoir, which can be utilized to innovate and improve firms' competitiveness (Adeleye et al., 2017). As Cope (2011: 618) puts it succinctly, '*failure can expand the entrepreneur's range of potential behaviours, revise previously ineffective practices, highlight mistakes and augment skills and knowledge about the entrepreneurial process*'. By developing a mechanism to learn from how and why the business failed, entrepreneurs develop difficult-to-imitate or teach valuable lessons, which can be utilized in successive new ventures (Howell, 2018). Nevertheless, past studies indicate that fear of failure and stigma surrounding failure in many societies around the globe often hamper not only learning from failure, but also entrepreneurship (see Amankwah-Amoah, 2018b; Simmons et al., 2014; Shepherd & Haynie, 2011).

By depriving such failed entrepreneurs second chances, society is likely hamper the growth and emergence of serial entrepreneurs (Lee & Yamakawa, 2012). It is not uncommon for employees of failing organisations to suppress or even destroy evidence that would undermine others' perception of their competence and ability to perform in a new role. Given that individuals' association with business failure can lead to their competence being questioned, hiding information about their involvement may be a convenient way for avoiding and triggering the devaluing of their expertise and competence. Although misleading and false statements are often common features of executives' behaviour preceding business collapses, there remains a need for a better understanding of the perspective of failed executives in this area.

Although learning from failure can be beneficial to organisations and individuals (Cope, 2011; Shepherd et al., 2016), trumpeting prior experience of business failure actually deviates from some social norms and hampers individuals' ability to move on. As such, revealing prior experience of failure can be misconstrued as trumpeting mediocrity or incompetence. In such an environment, hiding information about prior business failure appears to be a viable strategy to minimise the social stigmatisation. We also require a better understanding of how and why some executives of failed firms are reluctant to share their stories after failure. A possible explanation may be the sheer differences within countries in terms of rule of law, norms, language and ethnic background (see North, 1990).

Overview of papers in the issue

Below are summaries of the papers included in this issue. We categorise the contributions along three main domains: the causes, processes, and effects of business failure. The first set of papers (Zhang et al., in this issue; Lee et al., in this issue; Lukason & Laitinen, in this issue) focused on the developments within and outside the organisation prior to business failure. For instance, Zhang et al. (in this issue) utilised the experiences of 50 failed entrepreneurs in China to develop a unique model of how exogenous and endogenous factors interact to create stages/processes of business failures. Lukason and Laitinen (in this issue) utilised data of 1,234 bankrupt firms in Europe and observed among other things that 'failure risk becomes high very shortly before bankruptcy is declared' (p.1).

In addition, Lee et al. (in this issue) utilised the failure of Phillips auctioneers between 1999 and 2002 to develop a framework capturing the processes. Cui and colleagues' (in this issue) study analysed the critical factors of green business failure at different phases of the company life cycle through the application of the Decision-Making Trial and Evaluation Laboratory method and grey relational analysis. The approach provides a more holistic view in green business research. In addition, some of the papers focused on different mechanisms for learning from failure. In this direction, Boso et al. (in this issue) used data from 240 entrepreneurs in sub-Saharan African nations and observed that business failure experience does not automatically impact new venture performance. They also observed that 'business failure experience influences new venture performance when it is channelled through entrepreneurial learning' (p.1).

On the causes of business failure, one intriguing paper by Tingbani et al. (in this issue) used data from 174 nations from 2009 to 2015 to examine the association between terrorism and country-level global business failure and found that terrorism has noteworthy effects on business failure. The authors observed that terrorism significantly influences business failure in developing and fragile nations. Utilizing data of manufacturing and service firms in Spain, Martinez et al. (in this issue) noted that 'financial crisis increased the probability of business failure' and that firms with high levels of R&D human capital are better able to weather uncertain financial conditions.

Muñoz-Izquierdo and co-workers' (in this issue) study found among other thing that audit report disclosures can be utilised to robustly explain the causes of business failure through the analysis of a matched sample of 808 failed and non-failed Spanish firms. Karabag (in this issue) examined the failure of three firms in Turkey and found contributory factors to failure to include political risk, national technology policies, industry dynamics and technology capability development.

Capitalizing on UK retail sector data, Bertrand and Parnaudeau (in this issue) shed some new light on the 'contribution of weather to sales and to structure financial products to reduce the consequences of adverse weather on expected cash-flows' (p. 1). In so doing, they added to the discourse on the need to incorporate the weather in studying the causes of business failure. The effects of weather in creating adverse conditions and potential risk to business development and survival can enrich our understanding.

Sandberg et al. (in this issue) used data from Canadian SMEs from 1993 to 2008 and found that SMEs offset for less accumulated experience through greater productivity and innovation. This change plays a pivotal role in explaining such firms' survival chances. Kücher and Feldbauer-Durstmüller (in this issue) present a review using co-citation analysis of some of the literature on organisational failure research. Taken together, these sets of papers demonstrate a growing but more advanced understanding of the various dynamics of business failure, and learning from business failures.

Concluding Thoughts, Emerging Trends And New Research Agenda

There are many other fruitful lines of research for scholars seeking to elevate our current understanding of the core issues. In recent times, researchers' attention has recently been directed toward learning from failure and how failure can be a source of innovation. Although there is generally an expectation that after business failures, lessons would be learnt by policy makers, governments and investors, failure does however remain a common and underutilised source of knowledge and learning (Adeleye et al., 2017). Given that learning from business failures is neither automatic nor sudden (Shepherd 2003; Yamakawa & Cardon, 2015), there is a need for new streams of research that explore routines and processes that enable organisations and individuals to better able to capture, integrate and leverage lessons and insights from business failures. By developing and utilizing a reservoir of knowledge on best practices and processes, organisations are better able to alleviate the early warning signals of business failure. There is also a requirement to explore how best to rehabilitate reputation of executives and brands of collapsed organisations.

In addition, there is a need for scholars to explore the effects of adverse environmental conditions on business failure. As previously noted, adverse conditions such as weather increasingly play a pivotal role in contributing to an upsurge or drop in demand and sales of many products/services (Parnaudeau & Bertrand, 2018). It does follow that extreme weather would create opportunities for some businesses whilst increase the risk of business failure for others (see Bertrand & Parnaudeau, in this issue). Moreover, much of the discussions and analysis on acts of terrorism tend to focus on the direct effects such as damage to life and properties, and security issues (Czinkota et al., 2010), the potential indirect effects on small and large businesses in terms creating circumstances leading to business failure, remains underexplored. Thus, new research is warranted.

Although entrepreneurial resilience is another promising area, few have sought to examine how entrepreneurs develop resilience capabilities after experiencing business failure. An additional promising area for scholars is around nurturing resilience among young entrepreneurs after experiencing business failure. To succeed in today's competitive industries, young entrepreneurs would be well served by seeking to learn from others' experiences of and bouncing back from failed ventures. Such actions are more likely for them to develop and lock-in a higher degree of resilience.

Besides exploring how youth entrepreneurs overcome the fear of business failure to thrive, research is also needed to examine how and why many small businesses fail in the transitional path to becoming a major venture, which ultimately lead to collapse. In this direction, Zhang et al. (2018) made a contribution through the notion of 'malfunction', but the body of literature is still in its infant stage. There is also a requirement to study the pace and scope of 'bounceability' among serial entrepreneurs after experience of business failure (see also Lafuente et al., 2018). Scholars can also consider exploring the effects of other firms' failures on non-bankrupt firms in terms of their innovativeness. We hope these aspects can guide the future research agenda.

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