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Against all odds! Why the 'three darlings' failed?

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ABSTRACT

Although a plethora of research has examined the benefits of government support for state-owned enterprises, our understanding of how domestic support can become a source of liability is severely limited. In this paper, we develop a novel concept of "liability of domestic support" to articulate how government support for state-owned firms can create conditions for business failure to occur. Analyses of the cases of Air Afrique, Nigeria Airways and Ghana Airways led to the identification of factors which helped to create the conditions that allowed inefficiencies, mediocrity and incompetence inherent in state-owned organisations to thrive, which ultimately led to their demises.

INTRODUCTION

Over the past few decades, scholars have demonstrated that government policies and supports can foster innovation, help new firms to overcome liability of newness and provide conditions for local firms to thrive (Chu, 2011; Edquist, 2011). It has also been demonstrated that such supports can provide the basis for local firms' competitive advantage (Petersen and Pedersen, 2002). However, scholars have remained relatively silent on how government support for state-owned enterprises (SOEs) can become a source of liability and even lead to such firms' failure (Doganis, 2006). This dearth of scholarly work is puzzling given that such research has the potential to enrich our understanding of government policies, processes and factors that lead to business failure.

Although past studies have offered an array of rich explanations of the causes of organisational failure (Knott and Posen, 2005), this issue has been largely overlooked. Our purpose in this study is to fill this gap in our understanding by examining how state policy to support state-owned and local firms can become a source of liability precipitating in such firms' failure. In developing our arguments, we advance a novel concept of "liability of

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domestic support" to elucidate the mechanisms through which state support can become a liability and precipitate the demise of SOEs.

To further shed light on our concept and the unanswered question, we examine a tale of three failed major airlines, i.e., Air Afrique (AA), Nigeria Airways (NA) and Ghana Airways (GA) over relatively short periods. These once-mighty airlines were owned by more than 12 countries and their histories are intertwined in the colonial history of the whole of sub-Sahara Africa. By employing these historical cases, we further enrich the ongoing scholarly discourse of the need to bring "history" back into international business, industrial and government policy literature (Jones and Khanna, 2006). The rest of the paper is organised as follows. The next section articulates the key features of our concept of "liability of domestic support". We then illustrate the theoretical analysis with the cases of AA, NA and GA. The paper concludes by setting out the implications of the findings for theory and practice.

THE "LIABILITY OF DOMESTIC SUPPORT": A CONCEPTUAL DEVELOPMENT

The study integrates insights from the concepts of Icarus Paradox (Miller, 1990) and "liability of foreignness" (Hymer, 1960; Zaheer, 1995) to help clarify the boundaries of the concept of "liability of domestic support". We contend that, by seeking to provide competitive advantages to SOEs through special measures such as subsidies, special privileges, preferential treatment and tax relief, governments unwittingly create conditions that allow inefficiencies, mediocrity and incompetence inherent in SOEs to thrive. Interestingly enough, the protection and privileges inherent in government supports, which sometimes discriminated against foreign and other firms, can often fool SOEs into believing that their past routines, processes and strategies which brought about success, would guide them to future success even in the face of a changing competitive landscape.

Another notable feature is that SOEs are able to enjoy government subsidies and institutional support such as state aid, soft loans made on less than normal commercial terms, tax relief, debt forgiveness, discounts on charges for services, discounts on or exemptions from navigation and landing fees, privilege in the supply of fuel and debt forgiveness (see Amankwah-Amoah, 2010; Doganis, 2006). Indeed, government support has the potential to put off the need for reforms to improve efficiency and allow inefficacy to thrive (Doganis, 2006). Consequently, as the competitive landscape changes through market reforms and new competition, it becomes increasingly difficult for such firms to maintain the status quo and sustain their competitive advantages and thereby precipitate their demise.

Another line of research has suggested that such preferential treatments and special privileges often lull SOEs into a false sense of security or robustness of their sources of competitive advantage and thereby become less attentive to changes in the external environment (Amason and Mooney, 2008; Miller, 1990). Because of such supports, the organisations may "gradually slide so far out of touch with what is happening… that a potentially fatal disaster develops unseen" (Hedberg et al., 1976: 50). Such overconfidence rooted in the protections from the state can cause managers to delay or ignore rival firms' activities in their environment.

This line of thinking is similar to the notion of Icarus Paradox concept (Miller, 1990), where past successes or supports seduce managers into a failing course of action, which ultimately led to the firm's demise. Past successes breed over-confidence such that managers begin to ignore the alternatives and the success becomes the imprint for the future even though the environmental conditions might have changed. The inability to take advantage of such special treatment to develop new sources of competitive advantage and improve processes can become liabilities in the face of a changing competitive environment (Amason and Mooney

2008). The unwillingness to deviate from the dogma and rituals eventually precipitates the firm's demise.

Government actions to provide protection and subsidies to help local firms might create conditions where they become over-confident about themselves and overlook their limited expertise. Indeed, such protection and preferential treatment may create conditions that foster inefficiencies, mediocrity and incompetence inherent in SOEs, which may ultimately precipitate the failure of the business (Amankwah-Amoah and Debrah, 2010).

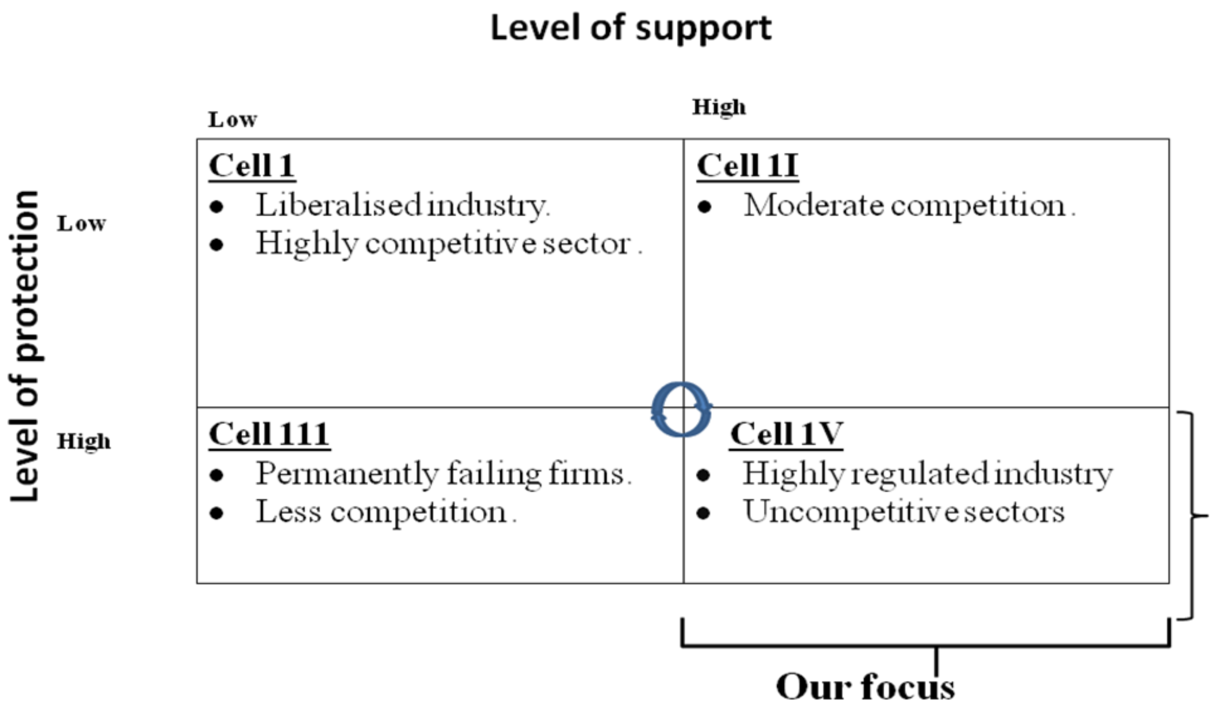
The different treatments between insiders (SOEs) and outsiders (foreign firms or privately-owned firms) put outsiders firms at a competitive disadvantage relative to local firms (Miller and Richards, 2002; Miller and Parkhe, 2002). However, foreign and privately-owned firms not party to such treatment can overcome some of the constraints in the business environment through resource commitment to understand the market. They can also develop new sources of competitive advantage such as superior customer services, cheaper services, quality products and acquiring market knowledge (Zaheer, 1995).

Government actions through discriminatory laws, rules and regulations may be overcome by developing superior attributes of an organisation called competences or capabilities (Wernerfelt, 1984). As firms learn about the new market, the associated costs of doing business abroad falls over a period of time as they get acquainted with the new business environment (Nachum, 2003). Although effective management of foreign and privately-owned firms can make a significant difference in overcoming their liabilities (Petersen and Pedersen, 2002), it is extremely difficult for such firms to overcome government discriminatory actions to protect and aid SOEs (Nachum, 2003).

Although domestic firms are generally better informed about their country and its business environment (Hymer, 1976), the discriminatory and preferential treatments can become a sources of liability as they expand into new foreign markets. We contend that supports offered by governments in form of subsidies and tax relief can help new firms to find their feet in competitive industries. However, it can also create conditions for complacency, mediocrity and incompetence and inefficiency to flourish which ultimately precipitate business failure.

The above discussion indicates that there are two main component of "liability of domestic support": level of support (high/low) and level of protection (high/low). Crossing the two dimensions produces the 2x2 conceptual framework of the subject (See Figure 1). Although the importance of the domestic government support has fostered a steady stream of research, our understanding of the concept and how it can precipitate the failure of SOEs remains limited. We illustrate our theoretical analysis with the cases of the three state-owned airlines.

Figure 1: A four-cell typology of "liability of domestic support"



A TALE OF THREE FAILED AIRLINES

It was against this backdrop in the 1950s and 1960s that the "three Darlings" (i.e. NA, AA and GA) were established. Indeed, "legend has it that when African states gained their political independence from Western countries, they were bequeathed three seemingly essential symbols of sovereignty – a national flag, a national anthem and a national airline" (Fadugba, 1991: nd). For decades, the governments took measures such as providing aid and subsidies to prevent the collapse of their symbolic firms. These airlines shared a number of characteristics and were considered the flag bearers of the "New Africa". Of their many similarities, such as being state-owned and recipients of government assistance for decades, there were repeated attempted to privatise by the nations. Despite that, decades have passed since the end of colonial rule and the lessons stemming from their formation and subsequent demise have not been learnt. Their collapse provides a background to the comparative analysis. Table 1 provides the background history of the three firms. Before we proceed to the cases, let us provide a historical backdrop of the industry.

Table 1: Features of the three state-owned airlines

Firms	**Founded**	**Dominant logic at founding conditions**	**Exit**	**Exiting conditions**
Ghana Airways	1958	▪ Political support following independence in 1957.	2004	▪ Dwindling circle of financial backers. ▪ State involvement, over reliance on states' limited resources, global competition.
Air Afrique- formed by 11 Francophone countries in Africa	1961	▪ The firms focused fulfilling the political objectives of the founders.	2002	▪ Conflicting interests of contracting states, appalling service and over-employment, global competition. ▪ Debt-ridden and corporate dysfunction.
Nigeria Airways	1958	▪ Strong political support	2003	▪ State involvement, over reliance on state's limited resources, global competition etc. ▪ Cognitively constrained by decades of state subsidies which discouraged large scale staff reductions.

Sources: synthesized by the authors from: African Development Bank 1999; Akpoghomeh 1999; Amankwah-Amoah and Debrah 2010, 2011, 2014; Brooke 1987, 1988; Tsamenyi et al. 2011; Flight International 1960, 1961, 1962; 1988, World Bank 1998, 2003.

GOVERNMENT INTERVENTIONS AND THE AIRLINE INDUSTRY IN AFRICA

Historically, the global airline industry has been governed through the system of bilateral air services agreements, which are effectively trade agreements between governments (Doganis, 2006). Since the late 1970s, when the United States initiated the deregulation of its domestic freight and passenger markets, there has been a shift towards global liberalisation of air transportation markets (Button, 2002). In the face of increasing force of liberalisation in the US and elsewhere, African governments were forced to explore ways to help improve the competitiveness of African airlines. It was at the Yamoussoukro Convention on Market Access for Air Transport in Africa in 1988, where governments adopted the Yamoussoukro Declaration (YD) as Africa's blueprint for liberalisation (Amankwah-Amoah and Debrah, 2011). The adoption of the YD as Africa's blueprint to liberalisation ushered in a new era of competitive environment by seeking to remove all restrictions in intra-Africa routes by allowing free access of air traffic between member states in order to create a single African aviation market (UNECA, 1999).

African countries such as Ghana, Nigeria and founders of AA took initiatives to open their markets to regional and international competition. By the end of the 1990s witnessed a little progress towards the implementation of the famous declaration but many state-owned airlines became increasing resistant to the idea of opening the African market to major carriers from the developed economies that could drive them out of business. Whilst the YD had not being fully implemented at this stage, the adoption of YD served as a catalyst and laid the foundations for countries to begin to open their markets to regional competition. In the industry, liability is likely to manifest through bilateral restrictions on market access, designations and frequency that have allowed nationality clauses to emerge which puts foreign-owned airlines at a competitive disadvantage. In the case of Africa, the YD explicitly insists on states to designate an airline(s), which to some extent comes with a degree of nationality rules.

One of the main differences for foreign-owned and local or domestic airlines is the area of designation. Designation involves each country nominating one, two or more than two carriers, to operate any agreed international route(s) (Chang and Williams, 2001). This element helps in determining how many players there are in the market. In other words, it often limits the number of flights per foreign-owned airlines on a route which intentionally protects domestic or national carriers from fierce competition. For instance, the YD allows any airline, which has "its headquarters, central administration and principal place of business physically located in the state concerned" to benefit fully from the advantages set forth (UNECA, 1999).

The requirement of states to designate an airline(s) in bilateral arrangements encouraged governments to set up or maintain an operation of an airline irrespective of their traffic potential (Doganis, 2006). This is partly because nationality clauses and ownership rules "lie at the heart of bilaterals and without them the value of the agreements is questionable" (Baker, 2002: 26). This has provided grounds for bilaterals to be constructed in favour of domestic/local airlines or one owned by nationals. Since bilateral agreements are effectively "trade agreements between governments, not between airlines" (Doganis, 2006, p.28), they are often guided by strong political and national interest considerations. States guard the granting of traffic rights, and most rights issued by these treaties were based upon reciprocity.

In recent years, there has been a shift from single to multiple designations of airlines in most bilaterals (Knibb, 2007). This has eased restrictions on many airlines. The bilateral system is underpinned by the ownership rules, which limits foreigners to a minority stake. Indeed, most countries limit foreign ownership and control through bilateral agreements, which require airlines to be owned and controlled by nationals of the designating state (Knibb, 2007). This means that airlines are restricted from utilising alliances and mergers to consolidate their operations and achieve economies of scale. This anomaly has benefited airlines in operating in large domestic markets and regions such as the US and EU. Restrictions on ownership have dissuaded individuals and financial institutions from investing in airlines in other countries since it barred foreigners from exercising any effective controls on the management of the airlines. Consequently, there are little incentives for foreign investors to commit substantial resources into an airline.

Case 1: Ghana Airways (1958–2004)

Following decades of struggle and a concerted effort spearheaded by the United Gold Coast Convention and others to gain independence from the colonial master, Great Britain, in 1957. Ghana, under the leadership of Kwame Nkrumah, decided that a national airline not controlled by former colonial powers would allow the country to take its rightful place in the world. Ghana Airways was formed following the disintegration of West African Airways Corporation (WAAC) which was a jointly owned airline operated by four nations, namely the Gold Coast (now Ghana), Nigeria, Sierra Leone and the Gambia (Amankwah-Amoah, 2010).

In 1958, this culminated in the formation of GA with national backing to train the indigenous population to manage and control the affairs of the airline. For President Nkrumah who desired minimal foreign influence in the affairs of the nation, the new national airline was the major starting point in "flying the flag" of a newly independent nation and a symbol of the emerging post-colonial Africa. In an editorial, *Flight International* (1962: 926) noted, "GA have never made any secret of the fact that prestige comes first, economic considerations second.” These principles guided successive governments with unquenched thirst to protect the airline and maintain its operations through special privileges and access to abundant national resources.

Although the airline was formed with British Overseas Airways Corporation (BOAC) Associated companies holding 40% (£400, 000 nominal capital), as part of the agreement at founding, 12 of the BOAC staff were seconded to GA which included the general manager, station manager, accountants, reservations and sales superintendent, and engineer (Flight International, 1961). One of the motives was to make a quick transition to moderate “Ghanaisation” of the airline and the economy. The “Ghanaisation” was aimed at diminishing the influence of former colonial powers in the affairs of the nation and thereby allowing the nation to find its feet in the post-colonial Africa.

However, this quickly turned into an extreme “Ghanaisation” process which extended beyond the airline industry into nationalisation of foreign-owned firms and the extending powers of the state. Consequently, the link with BOAC Associated quickly became an obstacle to Nkrumah’s ambitious projects of “Ghanaisation” of the airline and the wider society and industries (Flight International, 1961). The agreement which was signed between the two airlines was revised in July 1958 to pave the way for Nkrumah to take full control and pursue his nationalistic goals. Earning the reputation as Osagyefo (the Redeemer) enabled the president to push ahead with these agendas with little social resistance.

Case 2: Nigeria Airways (1958–2003)

Following Ghana’s exit from WAAC, the Nigerian government established NA and it started operations in 1958. The formation paved the way for the airline to take over some of the services previously operated by the WAAC (Flight International, 1969). By the late 1960s, most of the airline's route networks extended beyond Africa to European cities such as London, Rome and Frankfurt.

By March 1961, the Government held 51% of the shares and then acquired the 161% of the shares from BOAC and 36% from Elder Dempster (Flight International, 1969). Unsurprisingly, the acquisition of the stake of the two shareholders was followed by intense state involvement in the direction and processes adopted by the airline.

By the mid-1960s, the fortunes of the airline had turned dramatically. Indeed, a tribunal of inquiry into the affairs of the airline initiated by the Nigerian Federal Military Government, uncovered factors such as incompetent management, lack of financial control, mismanagement of funds, inappropriate payment to unknown individuals and organisations, and corruption as major factors in turning the profitable period from 1961–62 into a loss of over £500,000 between 1963–64 (Flight International, 1969b).

For decades the firm prospered under a regime of government subsidies to fund new routes and special tax regimes; it enjoyed the patronage of being a national airline and had a historical advantage over its rivals. Nevertheless, poor customer satisfaction records and the experience of firms dealing with them, appears to have undermined its ability to sustain long-term operations. One of the sources of the airline's problems was the two decades of military rule and quest to use it as the main national symbol of independence. The military rule led to asset stripping and revenues were diverted to private accounts of key individuals within the military rule. In many instances, planes were impounded at numerous airports due to unpaid bills and the poor safety track record of the airline. Following years of unresolved financial and political issues, the firm ceased operation in 2003.

From Nigeria Airways to "Nigeria Air Waste"

This period was marked by a further shift from the founding principles to a new environment where corruption and mismanagement became major features of the airline. In 1984, the United States Civil Aeronautics Board threatened to impound NA aircraft found bringing drugs into their country. The events damaged the image of the airline, making it difficult to attract and retain customers which forced the management to introduce new measures to identify and punish staff involved in and assisting trafficking of drugs to the US or any other country (Fadugba, 1985a).

> "*Our national airline is a disgrace. Lateness, delays, outright cancellation of flights and a nonchalant attitude of the staff toward customers are now part of your operational guide*" Nigeria's Minister of Transport and Aviation, Brig. Jerry Useni, told airline employees in early April 1987 (Cited in Brooke, 1987).

In 1985, the company underwent sweeping administrative reorganisation in an attempt to arrest the shrinking resource base, and address the debt-ridden and corporate dysfunction which had allowed corruption and mismanagement to thrive. The strategy adopted at this point entailed reduction in staff numbers (including the sacking or retiring of more than 1,000 of the 10,000 workforce from January 1984 to April 1985) and to tighten up on malpractice and misallocation of the firm's resources to line the pockets of some individuals (Fadugba, 1985a, b). This was exemplified by the fact that in 1984, the airline's net revenue on its key European routes was N4.5 million Naira (£4.4 million pounds sterling) – a decline of around 21.6 per cent on 1983 data (Fadugba, 1985a).

In identifying the causes of the decline, scapegoating by the management was very evident and they attributed the sharp declined to the then Military Government's austerity measures which partly contributed to a 52.8% fall in passenger traffic on the key London route in 1984 (Fadugba, 1985a; see also Figure 2). However, they ignored the fact that liberalisation of the air transport market was gathering momentum in Africa and many customers switched to rival airlines due to the poor customer services offered by the airline. In addition to these, the strategy also sought to discontinue servicing of unprofitable routes, close some subsidiary offices around the world, eliminate excessive overseas travel by employees and their relatives paid from the airline's account, and reduce wet-leased aircraft.

At this point in the firm's history, these expenses had become not only major obstacles to progress, but had created an environment where anything goes. It is against these backdrops that the airlines came to be known as "Nigeria Air Waste". As far back as the late 1980s, the airline was dubbed "Nigeria Air Waste" and "Nigeria Errways" to reflect the rampant waste of the state's limited resources, inefficiencies and looting by political appointees who ran the firm (Brooke, 1987).

High-level fraud among workers and management became very common. This took root with the emergence of military regimes which turned a blind eye to the corruption. Indeed, in many instances they were actually involved in the act. Between 1983 and 1999 more than US$400m (£254m) disappeared from the airline's account without trace. The company's abysmal record keeping and bad debts led to a decline in the number of fleets (BBC, 2002). In the late 1980s, Airbus A310s were among the most efficient aircraft at the time and many airlines were eager to acquire them.

However, in 1987, the Nigerian Transport and Aviation Minister, Major General Jerry Useni, declared that the airline was going to discontinue the use of Airbuses arguing that the aircraft were "too technologically advanced" for the local engineers (Flight International, 1987). This was surprising given that additional training would have equipped the engineers to pave the way for the airline to use efficient planes at the time relative to the alternatives.

The growth of the airline and it's increasingly appeal to travellers meant that, by 1986, it carried 2.1 million passengers to at least 22 international destinations and 16 domestic routes (Brooke 1987). At this point, the airline was seen as a symbol of black Africa's largest passenger carrier. In addition, some of the airline's employees were implicated in international drug trafficking, while others were seen selling boarding passes for $200 apiece.

> "*For every plane owned by the company, there are 500 employees, or about twice the international average. Yet domestic air fares, set by the Government, average 6 cents a mile – half the international average – and international fares are also kept artificially low. As a result, the airline is chronically short of cash and is the only carrier in the 125-member clearinghouse of the IATA that has been suspended for not paying debts*" (Brooke, 1987: 3).

By mid-1987, the poor customer service coupled with employees' counterproductive behaviour such as trading boarding passes for cash, and general corruption prompted many commentators to call for privatisation of the airline (Brooke 1987; Tsamenyi et al., 2011). This argument was further reinforced by the fact that the Government of General Ibrahim Babangida had imposed stringent austerity measures on the country to reduce its $20 billion foreign debt.

In addition, the government opposed any attempt to increase "international air fares originating in its two international airports, in Lagos and Kano. Hence, a Lagos–London–Lagos first-class ticket costs $1,114 if it is purchased in Lagos, but $3,203 if bought in London" (Brooke, 1987: 3). Consequently, the air fares were considerably lower than those charged in other African and Western airlines for flights that covered a similar distance. Indeed, "a one-way economy ticket to London or Paris – about 3,000 miles – costs $337. The same ticket for a flight from Abidjan, Ivory Coast, to London or Paris – also about 3,000 miles – costs $762" (Brooke, 1987: 3).

Furthermore, it was not uncommon for both reservations and scheduled flights to be "ignored" by the airline (Brooke, 1987; Akpoghomeh, 1999). Such was the poor quality of service offered by the airline, even government workers, who were required to use the airline on overseas trips, often opted for other African and foreign airlines (Brooke, 1987). In 1993, economic progress in the country came to a halt when the military leader General Sani Abacha came to power, suspending privatisation and commercialisation of SOEs by a military decree (Tsamenyi et al., 2011). Indeed, the general's spending approach meant that the government was extremely reluctant to release any money for maintenance and other operational activities of the airline. The airline was able to sustain losses as well as sustain operations largely because of the support of the government to plug gaps in its finances.

In 1995, the government sacked the entire top management team of the airline in an attempt to pave the way for fresh and innovative thinking to emerge (Endres, 1995). However, the major constraints on the airline's operations such as political interference and continuous flow of financial resources to the firm appeared to have made managers complacent to pursue any large-scale measures to improve efficiency. Historically, the government misidentified the causes of the airline's problems and the prescribed inappropriate solution. Despite frequent changes in the management team, the underlying problems remained for decades. At this point, it was clear that the protracted problems such as flight delays, corruption and mismanagement and looting had led to the loss of most fleets and international credibility (Endres, 1995).

Although both NA and GA emerged out of WAAC, there are similarities in their post-colonial trajectory and eventual collapse. Following decades of sub-standard performances, NA was liquidated in 2003 which was followed in 2004 with the collapse of GA. Tsamenyi et al. (2011: 3) noted that both airlines had deep-rooted "political interference, poor accountability and mismanagement, inefficiency, saddled with excessive debt and eventual liquidation".

Case 3: Air Afrique (1961– 2002)

Although the creation of AA was not the first major attempt to establish a multi-flag world airline, it remains the most significant in post-colonial African history. The airline was formed in 1962 by 11 African countries with the support of France and Air France. It was the first major attempt by African countries to establish an airline which served the interests of multiple states. AA was a quintessential Pan-African airline, in which multiple countries held a stake. The sheer political weight and financial resources of the founding countries behind the airline provided the enabling environment for the firm to achieve global success as well as the ability to overcome the financial constraints that had served as an obstacle to other countries in establishing a global airline. Its strength lay in having more than 11 countries as owners, providing a wider pool of talent and resources to draw from.

Founder countries' expectation was that it would become not only Africa's largest airline, but also one of the biggest in the globe. This to some extent was fulfilled during the heydays. However, the complex organisational structure became a source of confusion and periods of indecision (Amankwah-Amoah and Debrah, 2014). One of the problems encountered by all three firms was their inability to shake off their reputation of poor quality service once the reputation was acquired. This hampered numerous attempts to revitalise the airline due to low customer demands.

CROSS-CASE ANALYSIS

Having identified the features of each firm, we now present the cross-case analysis. We tease out some the factors that led to the failure of GA, AA and NA.

National patriotism and patriotic purchasing

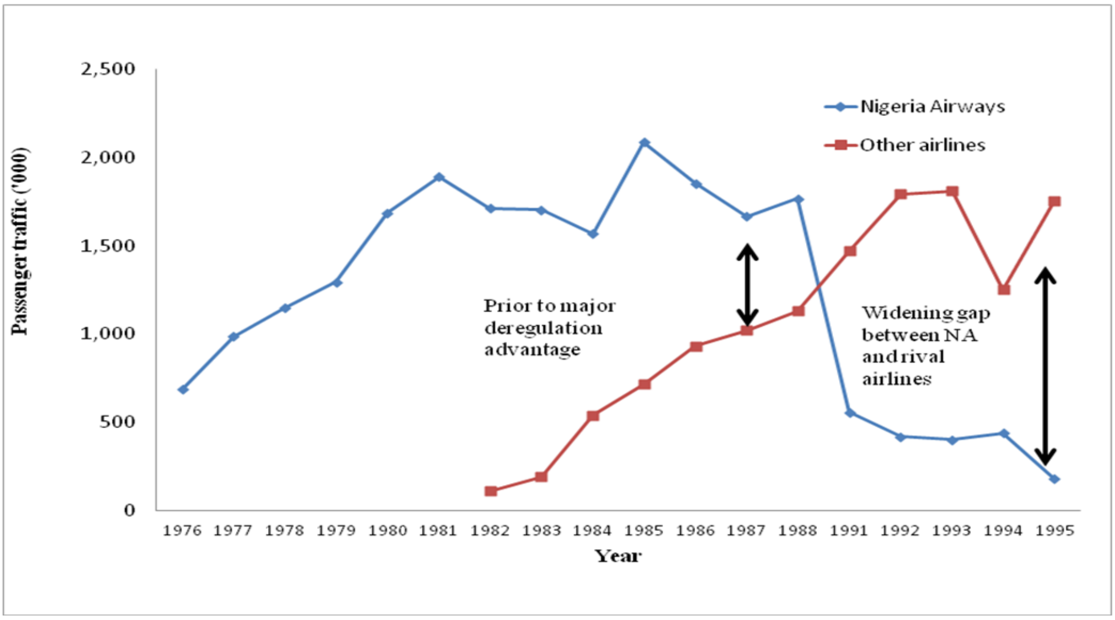
Consumer ethnocentrism played a major role in perpetuating mediocre services offered by the airlines and ensuring their survival for decades. Klein (2002: 346) defined consumer ethnocentrism as "the belief that it is inappropriate, or even immoral, to purchase foreign products because to do so is damaging to the domestic economy, costs domestic jobs, and is unpatriotic." For decades, the main marketing messages for AA and GA were to appeal to Africans in the diaspora that it was unpatriotic, harmful to the domestic economy or may even bring back colonial rule if they fail to fly with local airlines. For instance, GA vehemently pursued is "Ghanaisation" strategy which appealed to local businessmen and women to only fly with the airline, whilst NA quickly pursued its "decolonisation" strategy. The airlines made implicit use of national colours in packaging or labelling. These strategies were pursued to retain consumer loyalty and boost sales of the local airlines. Africa's past history of colonialism left many Africans, during the immediate post-colonial period, developing a negative attitude towards some of their colonial powers and firms connected to them. In many instances, national affiliation was so strong that it superseded affordable and reliable services offered by rival airlines.

Patriotism was seen as a commitment and sacrifice to help protect the local economy and jobs. Against this backdrop, many consumers were willing to pay higher prices to contribute to their country and local economy. Despite decades had passed since colonial rule, patriotic Africans strongly opted for their national airline over a foreign airline (ARB, 2008). Indeed, many corrupt leaders have often invoked such sentiments to exempt themselves from any blame over their bad policies.

However, these strategies also made the airlines unattractive to Western and North American travellers as well as consumers around the globe who sought quality services and affordable prices over national patriotism. For decades, the airlines could count on patriotic consumers. Discriminatory actions by consumers against foreign-owned airlines bred complacence and overconfidence among the top management teams of the firms. As liberalisation advanced in the late 1980s and 1990s, more local and international airlines emerged. It therefore became increasingly difficult for them to attract consumers due to the historical poor services offered by the airlines, characterised by long delays. They began to lose market share to private and foreign airlines which were able to offer competitive rates to consumers.

To illustrate this point further, we turn again to the case of NA. As new firms such as ADC (established in 1984), Concord Airlines (1986), Express Airways (1986), African Trans Air (1992) and Bellview Airlines (1992) emerged, it became increasingly difficult for the firm to attract new customers and it also started losing customers to these rival firms (Akpoghomeh 1999). Consequently, the competitive pressure on both domestic and international routes squeezed the revenue streams of the firm and precipitated a terminal decline.

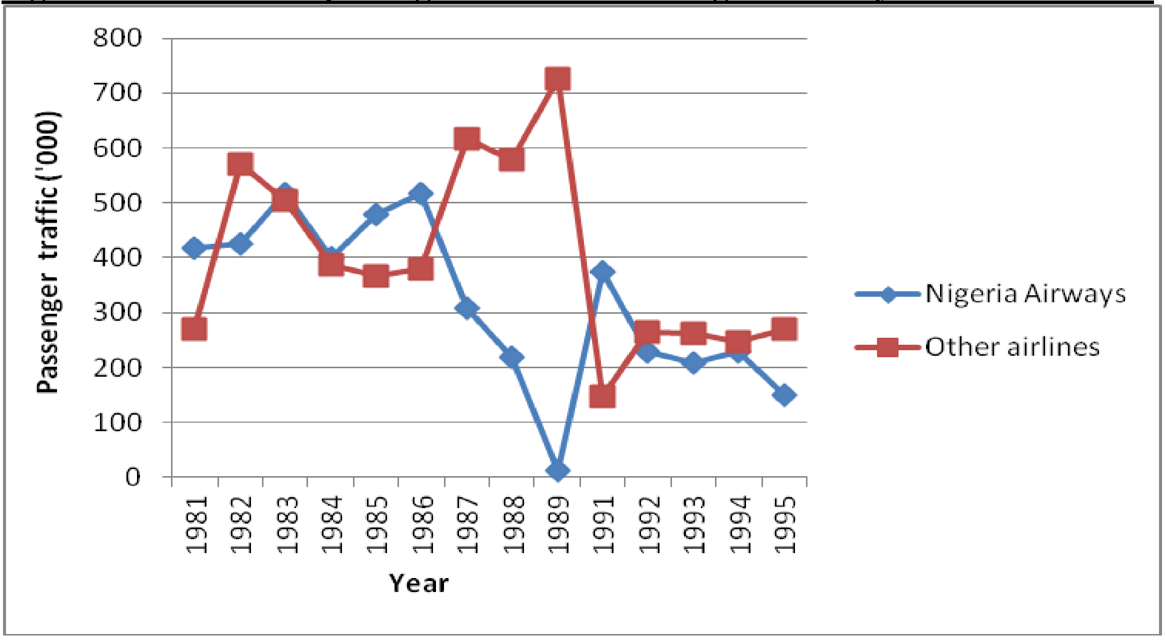
Figure 2: Domestic passenger traffic between Nigeria Airways and other airlines



Sources: Akpoghomeh, 1999; Federal Office of Statistics, 1996

Figure 2 provides details of the evolution of NA domestic passenger traffic and how it shrunk from 1985 to 1995, whilst at the same time the market share of autonomous carriers surged 715,000- 1,756,000. More importantly, the private airlines were able to overcome historical advantages of the SOEs to attract customers. On the other hand, multinational carriers such as British Airways and Air France have historically operated services across Africa and possess significant knowledge of the business environment. On intercontinental routes where the African carriers competed against European and American carriers, the number of customers began to dwindle, which led to loss of market share.

Figure 3: International passenger traffic between Nigeria Airways and other airlines



Sources: Akpoghomeh, 1999; Federal Office of Statistics, 1995, 1996

As new routes were opened up to allow more privately owned and non-African airlines to expand on its key routes to Europe, head-to-head competition advanced as other Middle East airlines also utilised their hub-and-spoke network to expand their geographical routes and compete indirectly with the airline. Consequently, their sources of revenue were further squeezed culminating in loss of market share and shrinking customer base. It is worth noting that in the case of NA, the traffic decline on international routes as not as sharp as those experienced on domestic routes (see Figure 3). In the post-9/11 environment, it became increasingly difficult for them to make up for the loss in market share whilst sustaining the decades of losses. AA exited from the industry in 2001 followed years later by the other airlines.

The dominant European airlines in Africa

Since the early 1980s, African countries increasingly signed favourable bilateral arrangements with European countries and thereby provided the conditions for major European airlines to open new routes across the continent. Given the poor quality of services that had been historically offered to African consumers by the three airlines, the emergence of more European airlines provided the travellers opportunities to switch. It also enabled the consumers to switch from traditional airlines such as GA and AA with historical track record of overbooking (Amankwah-Amoah and Debrah, 2014). In addition, several African airlines, including the three airlines, were noted for their poor safety records. In the case of AA, its passenger numbers declined as French airlines such as Air France saw significant growth in the market share which eventually sealed the fate of the firm.

Fadugba (1991: nd) identified the following symptoms associated with most African airlines at the time, they were "handicapped by their small size, obsolete equipment, inadequate capital, insufficient traffic, weak national economy, strong international competition, lack of autonomy and transient management. Separately, they lack the critical mass needed to benefit from economies of scale and to compete effectively in the tough international airline industry".

Under these circumstances, no firm can afford to be oblivious to the needs of all of its customers. However, the protection inherent in state ownership and fringe benefits made the airlines oblivious to changing consumer trends and often ignored numerous customers' complaints about poor quality in-flight and off-flight services. Despite the shift in the global airline industry towards privatisation of SOAs in the 1980s, many African governments considered their flag carriers as a source of pride that needs to be protected (ARB, 2008). Due to their close cultural and national association, some countries, including Ghana and the owners of AA, saw privatising the unprofitable state-owned airlines as politically unwise and opted to maintain the current status quo.

By developing distinctive features such as reputation for quality, reliable services, excellent safety record and extensive route networks, European airlines such as British Airways, KLM and Air France operating in Africa at the time were able to overcome the lack of local government support. By competing against EU and US carriers in Africa, excellent safety records that are associated with these carriers become a key selling point. The advantages associated with nationality appear to be minimal in the African airlines as many are largely uncompetitive and dwindling in numbers (Amankwah-Amoah and Debrah, 2011). By the 1990s, Fadugba (1990) observed that European airlines dwarfed African airlines on Europe–Africa routes and thereby weakened the competitive positions of African carriers in an era of global competition. This issue did not go away rather it accelerated and played a fundamental role in the demise of the three airlines.

DISCUSSION AND IMPLICATIONS

This study set out to examine how government supports can become a source of liability in precipitating failures of SOEs. In so doing, the article develops that concept of "liability of domestic support" to illustrate how government support can create conditions for complacency and inefficiency to flourish and thereby precipitate the demise of SOEs. We illustrate our theoretical analysis with the cases of the "three darlings" (i.e. AA, NA and GA) and demonstrated how governments policies and supports created the conditions that led to their demises. The study uncovered that special measures such as subsidies, special privileges, preferential treatment and tax relief created conditions that allowed inefficiencies, mediocrity and incompetence inherent in SOEs to thrive, which eventually contributed to the demise of the business.

More importantly, protection and privileges breed over-confidence and inattentiveness in the face of changes in the environment, which pushed back necessary reforms in the face of increasing competition and the emergence of new firms. In addition, the firms "indigenisation" approaches such as "Africanisation" (at AA), "Ghanaisation" (at GA) and "de-colonialisation process" (at NA) made it difficult for them to attract foreign travellers to offset decline in their local consumer base, which contributed to their demise.

Contributions to theory and practice

The study makes two main contributions to the literature. First, it develops the concept of "liability of domestic support" to demonstrate how government actions allowed SOEs to be lulled into a false sense of security or robustness of their sources of competitive advantage, which ultimately led to their demise. By charting the evolution and eventual demise of the three firms, our study adds to scholarly works that have argued that business failure may be best understood as a historical phases which entails the evolution of factors, interaction of firm-specific and external factors, firm response to early-warning signals of decline and eventual demise. In so doing, we further contribute to ongoing efforts to develop a theory of business failure pathways (Moulton et al., 1996) which take into consideration the evolution and interactions of firm-specific factors and general changes in the external environment. In addition, the study builds on Sutton's (1987) process of organisational death by introducing how governments actions through policy formulation and directives can either slow or accelerate the process of organisational death, thereby, providing further insights into why some organisations die more quickly than others.

From the public policy standpoint, firms can accumulate superior resources and capabilities to outwit their competitors to offset such liabilities and, in the process, precipitate the demise of rivals. By deploying these organisational strengths and cultivating inter-organisational relationships, firms would be able to circumvent regulatory constraints in their operating environments. The findings indicate that governments should seek to create a level playing field where competition flourishes and allow inefficient firms to fail rather than been propped up by limited financial resources of the state. A fertile area for future research would be to seek a wider sample of firms to determine whether our findings are borne out in other contexts. In closing, we hope that the paper serves as a catalyst for more research on how "liability of domestic support" precipitates business failure.

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