Explanations for strategic persistence in the wake of others' failures

Amankwah-Amoah, Joseph

Bristol University

2014

Explanations for strategic persistence in the wake of others' failures

Working paper

2014

Joseph Amankwah-Amoah
Bristol University
School of Economics, Finance & Management,
Social Sciences Complex
8 Woodland Road
Clifton, Bristol, BS8 1TN
E-mail: Joseph.amankwah-amoah@bristol.ac.uk
Tel: 0044 (0) 117 3317936

Abstract

Purpose – Although strategic persistence remains a key issue in change management and strategy literature, our understanding of strategic persistence in the face of other businesses' failure remains limited. This article examines factors that determine strategic persistence in the face of other businesses' failures.

Design/methodology/approach – Through a review and synthesis of the multiple streams of research, we provide a number of explanations for strategic persistence. The study complements the analysis with illustrative cases of failed companies. These led to development of an integrated framework of explanations for strategic persistence in the wake of other businesses' failures.

Findings – The analysis led to identification of individual, firm-specific and environmental factors rooted in past events (i.e. past successes, prior commitment and decisions by the top-management team), present circumstances (i.e. nature of the failure) and future outlook (i.e. paradox of success, looming threats and opportunities), which foster strategic persistence. We uncovered that persistence may also stem from factors such as "paradox of success" and "too much invested to quit".

Research limitation/implications – We suggest that organisations can learn from others' failures without compromising their values by drawing on the expertise released by failed firms. The study also identified various mechanisms through which organisations can learn from the failure of others and factors that constrain them from doing so.

Originality/value – Our theorisation and conceptualisation of the literature accommodates the multiple and contrasting perspectives of the subject such as the environmental buffers and paradox of success.

Introduction

Over the past few decades, the academic literature and popular press have become increasingly replete with stories of business failures (Desai, 2011; Carter and van Auken, 2006; Heine and Rindfleisch, 2013). One of the reasons for the regular occurrence of business failure is that firms often persist with the status quo and fail to learn from their own and others' failures (Baumard and Starbuck, 2005). Although strategic persistence can be beneficial when the environment is stable and there is a clear understanding of cause-effect relationships, persistence in the face of environmental shifts such as regulatory changes, rival businesses' failures and technological breakthroughs can be fatal to the organisation (Audia et al., 2000; Meyer, 1982; Lant et al., 1992).

One of the most basic strategic decisions and least understood aspects is why organisations fail to learn from others and persist with a current course of action in the wake of others' failures (see Lant et al., 1992). Despite a body of research on business failure and strategic persistence, lack of integration of the literatures has obscured past progress and, as such, our understanding of the consequences of business failure and why firms engage in strategic persistence in the face of other businesses' failure, remains severely limited (see Kisfalvi, 2000). Furthermore, the existing research has uncovered strains, contradictions and lack of clarity of factors that determine strategic persistence after others' failures.

Our primary objective is to help address this deficit in our understanding by examining factors that determine strategic persistence in the face of rival businesses' failures. The secondary objective is to articulate the effects of business failures. In an attempt to address this theoretical deficit, we synthesise multiple streams of research and perspectives on strategic persistence to develop a novel integrated framework to explain why some firms remain inattentive to the failure of others. In so doing, we move beyond the two-way

explanations of strategic persistence articulated by Schwenk and Tang (1989) to present a more comprehensive level of analysis.

We further contribute to the literature by advancing an integrated theory of post-business failure effects to shed light on both the positive and negative consequences of business failure. Here, we reconcile the two competing views towards enriching our understanding of the subject. Cumulatively, we contribute to the burgeoning stream of research on strategic persistence (Jansen, 2004; Park et al., 2011).

The rest of the paper is organised as follows. The article begins by articulating the consequences of business failure. We then set out the main schools of thought on strategic persistence in the wake of others' failures and then present a synthesis of perspectives. We conclude by outlining a number of promising avenues for future research on business failure and strategic persistence.

The consequences of business failure: A conceptual integration

Before we proceed to examine strategic persistence, there is a need to articulate the various effects of business failure that await some firms that fail to learn from others' failures. Business failure in this context refers to a situation where the firms cease to exist due to the inability to identify and respond to changes in their environment (Watson and Everett, 1993). Although business failure may stem from factors such as poor business decisions, lack of skilled personnel to foresee strategic implementation, mismanagement, faulty routines and processes, and poor attitude to work, organisations with a greater degree of foresight can anticipate and respond to the early warning signals and thereby mitigate eventual failure. The post-business failure effects are an umbrella concept encapsulating the effects of exit on organisations, individuals and groups (Lang and Stulz, 1992).

Broadly speaking, there are two schools of thought on the effects of business failure: positive and negative externalities, as articulated in Figure 1. Business failure has a knock-on effect on other firms connected or unconnected to the operations of the failed firms.

The negative externalities' perspective contends that in the wake of others' demise there are negative effects that befall individuals and organisations connected or unconnected to the departed firm. There are various negative effects of the experience such as stigmatisation of the individuals and loss of legitimacy. The experience of business failure may tarnish former employees and owners' employment prospect in societies where failure is stigmatised. The distress and uncertainty emanating from the failure can have a profound effect on employees who may have devoted their time and invested their career ambitions in an organisation which has now lost its legitimacy and ability to exist (Gillespie and Dietz, 2009). This view indicates that when companies cease to exist, it can have a devastating effect on families and local communities, and disrupt the lifestyle of those whose livelihood depended on the existence of that organisation (Ginter et al., 1992). For a business owner or employee, failure means cessation of their sources of income which can have devastating effects on their livelihood.

Another aspect of the effects of business failure is that it can sometimes lead to increased regulation across industries as governments strive to mitigate the contagion effects of the exit (Hora and Klassen, 2013). This was evident following the global financial crisis in 2008. This is often attributed to the need to mitigate the potential that failure in one industry has the potential to precipitate the demise of firms in the same or other industries (Platt, 1989). There is growing evidence, however, that recruiting employees from failed firms has been found to lead to diffusion of faulty routines, cognitions, processes and outmoded skills, which may contribute to the demise of the recipient organisation (Amankwah-Amoah, 2014). Therefore,

there is a need to ensure minimisation of diffusion of faulty practices stemming from others' failures.

The other school of thought – the positive externalities – asserts that in the wake of organisational demise, there can be some positive news stemming from the bad news (Lang and Stulz, 1992). Interestingly enough, a mounting body of research has suggested that the exit of such firms not only paves the way for the emergence of new organisations, but also releases resources and capabilities such as skilled workers to the market, for whom new and existing firms compete (Pe'er and Vertinsky, 2008). This stream of research argues that there are some businesses that thrive on the exit of others by receiving new customers and rising share prices (Amankwah-Amoah, 2013).

Firms that have been historically constrained by limited expertise can recruit employees released by departed firms to respond to new environments. Pe'er and Vertinsky (2008, p. 285) put it this way, "reemployed skilled workers that were released when their firm exited can bring to the new entrant, in addition to know-how related to the technical aspects of their skills, relationship capital, ideas about best practices and operating procedures, and perhaps more importantly, the lessons from failures that might have caused the exit of their former employer."

The knowledge generated by failed firms can be expropriated by surviving firms through sources such as employee turnover across firms, interactions with suppliers and customers, publications in the trade literature, and patents (Hoetker and Agarwal, 2007; Knott and Posen, 2005).

A vast body of research has stressed the inherent value of organisations learning from their own and others' failure experiences (Ingram and Baum, 1997; Madsen and Desai, 2010).

Learning from others' failure does not necessary entails major changes to the underlying competences of a firm, it may entail modest changes to the current routines, processes and procedures (see Henderson and Clark, 1990). Although some firms can benefits from expertise release following other departure, they may also inherit faulty routines and processes, which may emerge over time, thereby turning the initial advantage into a disadvantage and vice versa. Therefore, there is a need to implement measures to ensure that they learn the right lessons from the departure.

Although some knowledge about failed firms can be accessed through public channels such as the popular press and trade journals, firms rarely make a concerted effort to recruit the former employees to help learn the right lessons of a failed firm (Amankwah-Amoah, 2011). It must be noted that visiting the former businesses' premises, plants or buildings is unlikely to yield any fruitful insights of the organisational structures and processes adopted by managers that contributed to the demise of the firms. Organisational failure can foster strategic persistence in cases where the rival firms gain from the exit by suddenly received more customers' orders or experiencing a sharp increase in its share prices.

Insert Figure 1 about here

Figure 1 summarised the various effects of business failure on outside firm. The figure also demonstrates that former employees' mobility and information diffusions from the failed from to outside firms. As described in detail later, three illustrative cases (i.e., Swissair, Sabena and Air Liberté) provide insights on how business failure can lead to strategic persistence in the outside firm. Having articulated the consequences of business failure, we now turn our attention to the explanations for strategic persistence.

Explanations for strategic persistence in the wake of others' failures

Strategic persistence refers to "the extent to which a firm's strategy remains stable over time" (Finkelstein and Hambrick, 1990, p. 487). However, Audia et al. (2000, p. 837) defined the concept as "a tendency for firms to stick with strategies that have worked in the past". Taken together, strategic persistence in this context refers to a decision by the top-management team of a firm to maintain a current course of action regardless of counterinfluences, failures of other businesses and enticing alternatives.

We contend that strategic persistence has two main dimensions: short-term and long-term (see Figure 2). Short-term persistence is defined here as persistence immediately after the event. This is where the outside firm concludes that there are potentially useful lessons but the unevolved nature of events means that persistence is the right course of action. On the other hand, long-term persistence is where the outside firms conclude that the failure is attributed to firm-specific factors and therefore offers no useful insight for their businesses.

Insert Figure 2 about here

Our review of the literature led to the identification of broad categories of factors that explain strategic persistence in the wake of other businesses' failures. Below, we explicate these various perspectives on the subject.

The "locked-in" and "locked-out" perspectives

This perspective holds that largely due to large resource and capabilities commitment and the desire to reap early-mover advantages; firms can become "locked-in" to certain markets and strategies and "locked-out" of others leading to a period where they maintain the status quo and are unable to pursue or even respond to looming opportunities and challenges in the

operating environment (Ghemawat, 1991; Kraatz and Zajac, 2001; Gilbert, 2005). The organisation then reaches an equilibrium which then allows strategic persistence to flourish. This perspective is rooted in the concept of escalation of commitment advanced by Staw (1981). This concept argues that there is a tendency for some top executive to escalate commitment to failing courses of action even in the face of negative feedback (Brockner, 1992; Staw, 1981).

As the competitive landscape evolves and other firms fail, existing firms often have to decide whether to maintain their current strategy or change course. When the firm decides to examine their environment for a range of responses, they may be constrained by factors that encourage strategic persistence.

The "too much invested to quit" perspective

One of the main pillars of the "locked-in" notion is the "too much invested to quit" (Teger, 1980) perspective. This view contends that the "cost of strategic change" or switching cost is simply too high for organisations to pursue and then commit to the status quo (Rumelt, 1995; Schwenk and Tang, 1989). Switching costs refer to the financial and nonfinancial costs incurred by the firm as it shifts its strategic focus and changes underlying resources and routines to learn from others (see Holland and Shepherd, 2013).

Strategy change may require organisations to deviate from the well-established practices and routines, new resource commitment and deployment, and a shift in thinking. The firm may have committed so many resources and capabilities to the current course of action such that it becomes difficult to admit failure and change course but rather presses on regardless of other businesses' failures. In addition, some firms may face financial and human capital constraints that force them to maintain the current course of action (Milliken and Lant, 1991).

Another dimension of this perspective but related to the above is the sunk cost effect. The sunk cost effect is ‘‘a maladaptive economic behavior that is manifested in a greater tendency to continue an endeavor once an investment in money, effort, or time has been made’’ (Arkes and Ayton, 1999, p. 591). There is the contention that sunk costs and industry exit barriers constrained firms from engaging in strategic change (Schwenk and Tang, 1989). In cases where the alternative strategy entails higher financial cost such as cost of divestment, the firm is more likely to persist with the current strategy (Holland and Shepherd, 2013; Karakaya, 2000). There is a general tendency in human behaviour to persist with a current course of action when sunk costs have taken place than to deviate or add to it in an attempt to learn from others (Arkes and Ayton, 1999).

Although some firms may seek to exit the market with declining prospects and following others’ failure, they are often constrained by high exit barriers such as government regulation and contractual arrangements which limit managers’ ability to act and the range of options available. Long-term commitments often constrained firms from changing existing strategy by redeploying the resources elsewhere or divesting from a particular line of business due to recent changes in the environment. Barriers to exit play an influential role in encouraging strategic persistence in the wake of other businesses’ failure. In some cases, the firm might be operating at a loss or on low margins but constrained by exit barriers (Karakaya, 2000).

A premise of this argument is that staying on the current course of action with proven resources and capabilities is more efficient than attempting to develop new ones and the complexities involved (Levitt and March, 1988). The reluctance of organisations to learn from others’ failure may stem from the inability to attend to changes in the environment. Accordingly, persistence entails the decision to maintain existing commitments and avoid deviating from the current strategy in the face of a changing environment. Strategic

persistence might simply be a reflection of organisational commitment to a particular strategy or chosen direction of travel (Grossman and Cannella, 2006).

Illustrative cases: SwissAir, Sabena and Air Liberté

To illustrate these lines of argument, we turn to the cases of two defunct European airlines, Swissair and Sabena. Sabena was a Belgian national airline which collapsed in 2001. The airline was founded in 1923 and became Europe's second oldest airline prior to exit (BBC, 2001a). The firm enjoyed some successes for some time and then collapsed with debt of around 2bn euros ($1.8bn) and in so doing became Belgium's biggest ever corporate failure (BBC, 2001a,b). At the time of exit, the government controlled 50.5% stake and the remaining 49.5% owned by Swissair.

Following the sharp decline in global air travel in the aftermath of the September 11 terrorist attacks, Sabena's more than 70 years of service, heritage, experience and reputation was insufficient to sustain its operations (Flint, 2000). The airline was unable to respond effectively and subsequently ceased operations. However, the airline's problems far preceded this event and had been brewing for years.

Following the acquisition of the stake in Sabena by Swissair for Sf267 million in the 1990s, a number of factors within the firm affected Swissair's ability to implement major changes which ultimately contributed to the demise. The most notable was the strikes over proposed cost reductions by Sabena's unions which eventually led to the exit chief executive Pierre Godfroid in January 1996 (Sparaco, 2010). The departure paved the way for Paul Reutlinger to be seconded to Sabena from SAirGroup as a "peacemaker" to help bring on-board the firm's "notoriously militant unions" (Flint, 2000, p. 41). The new approach was beneficial in brining stability.

However, this change put off the painful and urgent need of reforms to reduce staff level and cost to reposition the airline for the future. As Buerkle and Anderson (2002, p. 24) put it this way, Paul Reutlinger "bought labour peace, but at the expense of Swissair's cost-cutting goals: Instead of the intended one-third reduction in the airline's payroll, Swissair's head count jumped about 70%".

In December 1992, when Swiss voters rejected the country's bid to join the European Economic Area and in so doing affected Swissair's ability to expand and exert influence its partner, Sabena (Buerkle and Anderson, 2002). At the time, the European Union law deprived such non-European Economic Area airlines opportunity to take the majority control of their airlines. As a result, the Swiss airline was constrained and therefore unable to "exercise real management control to integrate the two airlines' fleets and routes to reduce costs" (Buerkle and Anderson, 2002, p. 24).

The inability to change the status quo within the subsidiary also affected effective integration of functional areas such as marketing, sales and human resources. Consequently, both Sabena and Swissair collapsed in 2001 and 2002 respectively partly attributed to the barriers to change in both organisations. Indeed, months before the Swissair's collapsed, it run out of cash and several aircrafts were seized (Olson, 2001; Bonsu, 2001). Both cases help to illustrate how inability to change and cost of change can lead to business failure.

One of the companies affected by the demise of Swissair was its former Swissair subsidiary Air Liberté. It was founded in 1987 was declared bankrupt and ceased operation in 2003 with 3,200 job losses. Air Liberté's over-reliance on Swissair for funding and scheduled payments meant that when Swissair collapsed its sources of finance were terminated and thereby precipitated the incremental collapse of the airline.

In an attempt to disentangle itself from the various underperforming partners, Swissair promised regular payments to subsidiaries such as Sabena, AOM and Air Liberté. In September 2001, Air Liberté and AOM decided to merge to become Air Lib, however, just a month after the formation Swissair was declared bankrupt and therefore all planned payments and exiting fees were never realised which put the firm on permanent path of decline leading to exit. Swissair's inability to fulfil the exit fee of 1.3bn French francs ($174m) for AOM/Air Liberté meant that the operations of Air Lib was no longer sustainable in the face increasing competitions (BBC, 2003). This event left Air Lib "at the mercy of its creditors" as several of its planes were confiscated (BBC, 2001b).

One factor that has been strongly linked to strategic persistence within the firm was the lack of financial resources to bring about change and long-term commitments. The constraints perpetuated maintaining the status quo which ultimately led to the collapsed.

The paradox of success perspective

The paradox of success (Audia et al., 2000) or Icarus' Paradox (Miller, 1990) perspective argues that the tendency to maintain the status quo in the face of changes in the external environment and departure of other firms may stem from past successes of the organisation. High past performance often breeds overconfidence in the existing processes, resources, expertise, routines and course of action, thereby decreasing the chance of any change in the firm's strategy (Amason and Mooney, 2008; Greve, 1998). As organisations enjoy uninterrupted successes over a period of time, the success of the past strategies may emerge to undercut the need to develop new resource or capabilities, let alone learn from the failures of other firms in their industry or beyond.

A growing number of studies have suggested that past success discourages information processing and consequently strategic persistence (Boeker, 1997; Lant and Montgomery, 1987). The tendency to stay the course can be attributed to decision-makers' inability to update and upgrade their prior cognitions and beliefs with new information by committing additional resources to a previous chosen course of action (Guler, 2007; Tetlock, 1985). Largely due to their past successes, they become less attentive to the disappearances of other firms and tend to repeat their mistakes. This perspective provides considerable evidence that the decision to persist with existing courses of action is attributed to the dedication within an organisation to the notion that "it cannot happen here" and "what underpinned our success is different". As organisations become increasingly confident in their existing routines, practices and policies that have delivered success, the capacity and willingness to learn from others diminish (Levinthal and March, 1993; Miller, 1997).

Over time, successful firms can be "lulled into a false sense of security by relying on established beliefs and processes" which then become obsolete and liabilities in the face of changes in the external environment (Amason and Mooney, 2008, p. 407; Hedberg et al., 1976). The past successes can create conditions that force managers to persist with a current course of action and "blinds them to early signals that past strategies may fail" (Audia et al., 2000, p. 837). Indeed, Audia et al. (2000, p. 849) put it this way, "the very success that organizations strive to achieve plants the seeds of their possible future decline. Once organizations achieve success, their natural tendency is to continue to exploit the strategies that worked in the past".

Another dimension of the paradox of success perspective is the reinforcement-expectancy model of learning which contends that firms are more likely to replicate processes, practices and routines that are linked to positive outcomes (Cyert and March, 1963; Prahalad and

Bettis, 1986). The self-reinforcement occurs when a set of events decreases the attractiveness of a course of action relative to others and thereby forcing strategic persistence to occur.

The paradox of success differs in subtle ways from the related concept of escalation of commitment advanced by Staw (1981). First, paradox of success is rooted in the "belief that a previously winning course of action will succeed in the future", whereas the escalation of commitment is "caused by the belief that a previously losing course of action will succeed in the future" (Audia et al., 2000, p. 850; Staw, 1981). Second, in the case of escalation of commitment, decision makers assume that environmental conditions are likely to differ and become more favourable in the future, whereas the Icarus Paradox supposes the conditions will be the same (Audia et al., 2000).

Our contention here is that strategic persistence in the face of other businesses' failure creates conditions that allow complacency and inattentiveness to the environment to thrive. Therefore provides a partial explanation of why companies in the same sector often fail in succession and for the same reasons. Organisations are more likely to learn from failure than successes partly due to the very high cost of failure and the paradox of success (see also Desai, 2011). Learning from failure and success is more likely to be punctuated periods of strategic persistence as some firms attempt to make sense of the changes in the environment.

Another related line of research has suggested that the phenomenon of a "success trap" (Rhee and Kim, 2014). This represents a situation where an existing routines and practices of the focal firms linked to past success are replicated "at the exclusion of alternatives, resulting in a failure to adapt to changes in the environment" (Rhee and Kim, 2014, p. 2). The rigid routines and processes advocated and practice managers constrain the firms' ability to adapt and respond to environmental shifts in timely manners (Rhee and Kim, 2014; Gilbert, 2005).

Illustrative cases

To shed light on the above theories further, we turn to the airline industry in Africa in the early 2000s and the case of airlines such as Ghana Airways, Nigeria Airways and Air Afrique. The beginning of the twenty-first century was marked by the growing number of internet users and an incremental shift from paper tickets to paperless tickets in the industry. Prior to these airlines' collapse in the early 2000s, many European airlines had faltered, partly due to their reliance on the traditional model which entailed payments of commission and charges to travel agents, and competition from low-cost rivals.

As more foreign counterparts switched from outmoded technology and methods of doing business, such as reliance on travel agents and ticket offices to sell the flight tickets and pay commission, these firms continued their strategies of reliance on the traditional distribution channels. These once successful airlines appeared to have become so welded into these practices of using mainly travel agents well past the point of utility in the early 2000s when most airlines had made giants step towards a paperless booking process.

In addition to the difficulties involved in coordinating between the airlines' headquarters and high-street travel agents, the airlines also had to pay commission. These, in tandem with the extensive network and historically financial supports of their states, made the top-management team so confident in the firms' ability to compete and become successful in the future. Indeed, it was well established at the time that the internet was the cheapest way to make a booking with an airline (The Economist, 2005). The escalating commitment in terms of resource commitment and investment to develop a network of travel agents across the world inhibited the adoption of the new technology and made it costly for the firms to operate. In these cases, the historical investment in building the network of travel agents made it difficult for the firms to abandon their current course of action without betraying the

trust of hundreds of agents who relied on them for their revenue stream. These factors played a major role in the three airlines' collapse (Amankwah-Amoah, 2010; see also Pirie, 2014). The late adoption of online ticket selling affected their ability to compete on cost in an environment where low fares were a major source of competitive advantage.

As the number of air travellers booking over the internet around the globe surges, the airlines still focused mainly on using travel agents. The firms also resisted a shift from the traditional model partly due to low internet adoption in their countries. On many international routes, they were competing against Western and Middle East airlines that had successfully adopted an online booking strategy much earlier.

Eventually, all the above firms ceased operations partly attributed to intense competition and inability to develop a sustainable cost base (see Amankwah-Amoah and Debrah, 2010, 2014 for detailed analysis). These cases clearly show the potential outcome of organisations that are unable to learn from the failure of others in their industry. Indeed, subsequent new entrants such as Ghana International Airline, founded in 2005 after the failure of the three airlines, also experimented with the traditional model before eventually shifting from using the outdated approach of relying on travel agents (Amankwah-Amoah, 2010). By the same token, strategic persistence can be an attempt by the top-management team not to lose face.

The psychological perspective

The psychological perspective of strategic persistence contends that managerial decisions are influenced by prior cognitions, experiences, situations and characteristics of the top-management team (Bateman and Zeithaml, 1989; Milliken and Lant, 1991). Past studies indicate that prior history, and present conditions and perspectives on the future constitute the

decision-maker's psychological field and influence the strategic decision to maintain an existing course of action (Bateman and Zeithaml, 1989).

A growing body of scholarly works suggests that executives who formulated past strategies are often unwilling to discard them and even acknowledge the validity of information that suggests a need to deviate from the failed past strategies they have championed (Milliken and Lant, 1991; Lant et al., 1992). Top executives "who champion or sponsor a project stand to benefit most from its success and have the most at stake if it fails" and therefore more likely to persist with the status quo (Guler, 2007, p. 252). This is partly because such top managers are often eager to take credit openly for projects that have produced exceptional outcomes for the business and therefore become increasingly reluctant to alter the current course of action (Guler, 2007; Miller, 1990, 1994).

"Corporate success encourages managers both to credit and take credit for their own policies, then to publicly endorse and tie their reputations to those policies, and ultimately to become bound to the preservation and extension of the policies" (Miller, 1994, p. 327). Indeed, top managers "may become psychologically invested in the strategies they have designed, creating the tendency to persist with past strategies despite negative performance outcomes" (Lant et al., 1992, p. 603).

An important feature of this psychological ownership of the existing firm's strategy is that executives tend to respond to early warning signals of decline by limiting "their search for new information, ignoring information that reflects negatively on the current strategy" thereby bolstering their current course of action (Westphal and Bednar, 2005, p. 262; Bateman and Zeithaml, 1989).

Another aspect of this perspective is that strategic persistence is influenced by social and psychological factors (characteristic of the top executives) associated with organisation tenure (Finkelstein and Hambrick, 1990; Park et al., 2011). The characteristics of the top-management team, such as prior experiences, their perceived status and values, influence their strategic choices and the decision to maintain the current course of action or change in respond to environmental shifts (Finkelstein and Hambrick, 1990). Indeed, when confronted with looming challenges and the need to change the course of action, long-tenure executives engage in minimal or no strategic change relative to short-tenure teams (Finkelstein and Hambrick, 1990). This reinforced the assertion that outside successors are less likely to persist with current strategy and more likely to initiate major strategic change. Long-tenured senior executives have been found in past studies to demonstrate greater "commitment to the status-quo" (Hambrick et al., 1993).

One recent and promising stream of research has indicated that top executives who receive high levels of flattery and opinion conformity (i.e. ingratiation) are more likely to become over-confident in their abilities and leadership as well as existing processes and routines, and are therefore more likely to persist with the current course of action even in the face of poor firm performance, let alone the failures of others (Park et al., 2011).

Another psychological factor that explains why companies persist with a current course of action can be attributed to the concept of "pluralistic ignorance" articulated by Westphal and Bednar (2005). Pluralistic ignorance can be defined as "a situation in which virtually all members of a group privately reject group norms [practices, or policies, or have concerns about them] but believe that virtually all other group members accept them" (Miller et al., 2000, p. 103). This occurs when, in the face of decline and changes in the external environment, outside directors fail to express their concerns about the current course of action

which then perpetuates the status quo whilst at the same time decreasing the chance of any response or subsequent strategic change within the firm (Westphal and Bednar, 2005).

Although top executives and employees might be aware of issues and problems that warrant the need to change the current strategy, they often fail to voice their views and thereby create conditions that perpetuate the status quo (Morrison and Milliken, 2000). Strategic persistence can be attributed to reluctance by group members and employees to speak up about their disagreements with the current course of action or report bad news (Hutt et al., 1995). Although boards of directors have been identified to play a pivotal role in counteracting executives' tendencies to persist with a failing course of action, they often fail in this task (Westphal and Bednar, 2005; Sundaramurthy and Lewis, 2003).

An illustrative case

To examine shed light on these perspectives, we turn again to the case of Swissair. One of the foundational causes of the firm's demise can be traced to top executives' desire and perceptions. In the mid-1990s, in an attempt to turn the airline into a major player alongside dominant airlines such as BA, Air France and KLM led to the adoption of the so-called "Hunter strategy" (Doganis, 2006; The Economist, 2001). The strategy entailed acquisition of stakes in multiple airlines including Sabena, Air Littoral, AOM, Air Liberté and TAP across Europe (The Economist, 2001). The rapid expansion in the financially weak airlines diminished the resources of the firm.

A number of factors that have been strongly linked to the persistence with the "Hunter strategy" are the "arrogance" and desperation of the top management team to "punch above" their weight in the global industry (Kay, 2007; Bonsu, 2001). More importantly, the "Hunter project" was driven as the brainchild of Philippe Bruggisser, who immediately after his

appointment as chief executive in the mid-1990s adopted the strategy and, emotionally and psychologically invested in the project (Kay, 2007). The personal investment and prior commitments to the project became a barrier to change even in the face of other airlines' demises and planted the seeds of its destruction.

However, the dismissal of the Philippe Bruggisser in early 2001 paved the way for the airline to begin to undo the strategy, which was no connected with "reality" (Kay, 2007). It was therefore not surprising that his replacement in 2001 as chief executive Mario Corti immediately brought an end to the strategy and thereby casting further doubt on the soundness of the strategy. This was just before the firm collapsed. One of the enduring consequences of the firms collapsed has been the increasing recognition that persistence with losing course of action can accelerate and lead to failure.

An environment interpretive model

The basic tenet of this theory is that strategic persistence stems from understanding and interpreting the business environment by the top-management team. There are several strands to this theory.

One strand of this perspective is the "environmental buffers", which holds that firms endowed with rich financial, social and human capital can be "buffered" from changes in the business environment, which then encourages persistence with the status quo (Kraatz and Zajac, 2001; Milliken and Lant, 1991). Slack can be defined as "the pool of resources in an organisation that is in excess of the minimum necessary to produce a given level of organizational output" (Nohria and Gulati, 1996, p. 1246). It includes under-utilised capacity and redundant employees, which can be effectively deployed to mitigate the effect of environmental jolts (Meyer, 1982). Slack resources can create a sense of security and belief

that current changes in the environment are more likely to be "temporary or unimportant" and therefore warrant inaction (Milliken and Lant, 1991, p. 138).

Proponents of this perspective have indicated that rich resources encourage strategic persistence by fostering a false sense of security in the future and "desensitising" decision-makers to environmental shifts (Kraatz and Zajac, 2001). Resource-rich firms can temporarily maintain the existing course of action irrespective of the nature of businesses in their industry or operating environment (Levinthal, 1990).

In a related but distinct area, it has been suggested that persistence may stem from managers' interpretation that the changes in the environment are "short-lived" with limited long-term consequences (Lant et al., 1992). This decision can be attributed to factors such as a short recession or a national disaster, which precipitated the sudden changes in the environment but unlikely to affect the business in the future. One of the key themes of the logic is that top-management teams are often unlikely to track the things that are considered to be unimportant including the failure of other firms; rather executives deploy resources and expertise to home in on factors that explain the current success (Miller, 1990).

Another strand of this perspective contends that top managers who engage in strategic decision making are often "flooded with information" but have limited capacity to process the information and make sense of other businesses' failures (Lant and Hewlin, 2002; Lant et al., 1992). As such, they face a difficult task of deciding which information to attend to and which to discard, and often opt to maintain the status quo (Lant and Hewlin, 2002). This view advocates that lack of fruitful knowledge of the departed firms often presents managers with incomplete information which makes it difficult to implement any change. Persistence may be an outcome of organisational inertia or ineffective information processing within the firm

(Hambrick et al., 1993; Hannan and Freeman, 1977; Levinthal, 1992; Huang et al., 2013; Tushman and O'Reilly, 1996).

The traditional economic theory views business failure as part of the national selection process where weak firms in their industry cease operations largely due to intense competition (Miner et al., 1999). This suggests that external forces such as deregulation, lower entry barriers and sudden changes in government policies drive inefficient firms out of the industry and frees up previously occupied resources for surviving firms (Delacroix and Carroll, 1983; Hoetker and Agarwal, 2007).

A central theme of this view is that the causes of failure are attributed to uncontrollable factors rather than firm-specific factors (Gimeno et al., 1997). Organisations and managers that view other businesses' failure is a natural selection process, where weak firms are upstaged by nimble and efficient rivals are less likely to be attentive to changes in the external environment. Therefore, there is little incentive for executives to deviate from the previously endorsed course of action to learn from others. Yet while these arguments go far in enhancing our understanding of environmental factors, they offer no useful insights on firm-level factors which make firms reluctant to learn from others' failure. Given the one-sidedness (i.e., external factors) of this perspective, for a better of the concept this theory as a standalone perspective is insufficient and needs to be integrated alongside with the firm-level perspectives. Some scholars have linked strategic and organisational inertia with centralized decision-making processes, which constrained line managers from responding to changes in their environment (Whetten, 1987).

An illustrative case

To illustrate these lines of argument, we turn again to the case of Air Afrique (1961-2002). The rise and fall of the airline offers useful insights on how strategic persistence and inability to change course in timely manners can sealed the fate of once symbolic firm. The firm was owned and controlled by more than 11 African nations. As such, the countries provided regular cash injection to maintain its services and key routes to national capital of the states. The cash injection and subsidies catered for loss-making services and "buffered" the airline from making necessary reforms such staff reductions and reducing unprofitable routes as the environment changes and multiple African airlines failed in the same environment. The firm persisted with staff level even as more customers shift to rival airlines (Amankwah-Amoah and Debrah, 2014).

By the late 1990s, more customers had switched to rival airlines and the cost base was unsustainable. Indeed, not only did the top executives maintain the existing strategy, they also lobbied for government protection and against air transport liberalisation. The high level of persistence within the firm has been referred to as the "escalating indecision phase" – a stalemate (Amankwah-Amoah and Debrah, 2014). These factors eventually culminated in the firm's demise.

Synthesis of research and theoretical perspectives

In synthesising the literature on strategic persistence in the wake of others' failure, we invoke Bateman and Zeithaml's (1989) notion that strategic decisions influenced by prior history, present circumstances and future outlooks. As discussed above, strategic persistence is shaped by a variety of factors rooted in past events (i.e. past successes enjoyed by the firm, prior commitment and decisions by the top-management team), present circumstances (i.e.

nature of the failure, magnitude of the effects on the business) and perspectives on the future (i.e. similar environment in the future paradox of success, looming threats and opportunities).

Insert Table 1 about here

Table 1 summarises the various theoretical perspectives and their underlying logic in explaining strategic persistence in the face of other businesses' failures. It also highlights the features of the decision to persist with existing courses of action whilst others fail. Guided by these schools of thought, we advocate a shift away from viewing these perspectives as competing views. Rather, they are complementary views geared towards stimulating a better understanding of the subject. Taken together, the analysis led to identification of firm-level and environmental factors rooted in the past, present and future outlook, which determine strategic persistence (see Table 1).

There are multitudes of factors that determine whether competitors' failures might affect the strategic persistence of the outside firm. These factors include firm size, network embeddedness, market power, and resource endowments. It is important to note that strategic persistence is more likely to occur in the wake of the failure of a small business than global firm largely due to the limited nature, scope and impact of their operations. However, the failure of a major player with an extensive network of suppliers, customers and allies, is more likely to lead to a shift in strategy among those connected to the firm and beyond. To provide further insights on how firm size and market power influence other firms' decisions to maintain their current strategy or engage in strategic change, we turn to the failure of Lehman Brothers.

Due to the extensive network of the partners in more than 50 countries with around 2,985 legal entities, the failure following the global economic crisis in 2008 forced the numerous partners to respond to the failure by seeking new partners and expertise (Cornford, 2010). The unanticipated loss of such large firms with control over key resources triggered a range of strategic and systematic responses by firms connected to its operations to ensure their long-term survival. In this particular case, the network embeddedness quickly shifted from an asset to become a liability following the collapse of the core network player (see also Uzzi, 1997) and those in this case that failed to adapt in a timely manner eventually closed doors and ceased operations (Cornford, 2010).

Another moderating influence is that large organisations are often guided by well-established structures and bureaucratic processes which often prevent them from changing (Hannan and Freeman, 1984). It has been suggested that when the threat to the business remain ambiguous, organisational leaders are unlikely to adopt new practices for fear of undermining factors that have contributed to their current success (Gilbert, 2005).

Discussion and implications

The paper sought to examine factors that determine strategic persistence in the wake of other businesses' failures. We have reviewed a range of theories that help us to better understand how and why some firms persist with a current course of action and questionable strategies even after others' exit. The study complemented the review with illustrative cases of failed companies such as Swissair, Sabena and Air Liberté. Our theorisation and conceptualisation of the literature led to the identification of a number of firm-level and environmental factors rooted in organisation history, the present and those expected in the future, which broadly determine the decision to persist with a current course of action in the wake of other businesses' departure. The analysis uncovered factors such as the perils of success, structural

inertia (stemming from tendency to repeat past actions), and "too much invested to quit", which constrained firms from learning from the failure of others and encourage strategic persistence.

Our analysis lends support to the notion of Icarus Paradox (Miller, 1990) and articulates the firm-level processes that allow past successes to breed over-confidence and inattentiveness to changes in the internal environment including the failure of other firms. The analysis also lends support to the assertion that the increasing occurrences of business failures can be partly attributed to the perils of success which obstruct the need to learn from others and adapt to change in the external environment. This echoes findings of studies on organisational decisions that have suggested that the tendency to save face in the face of negative feedbacks stemming from the business environment, forces firms to overlook the failures of others and encourage strategic persistence (Guler, 2007; Schwenk and Tang, 1989).

Contributions to theory

The paper makes contributions to the literature on business failure and strategic persistence. In addition to enriching our understanding of strategic persistence in the face of changes in the competitive landscape, this study contributes to the burgeoning streams of research on organisational failure that have examined why some organisations and top executives fail to learn from others or even learn the wrong lessons from the failure of others (Finkelstein, 2006).

Although recent research suggested the need for firms to learn from the failures of others (Desai, 2011), firms often remain reluctant or inattentive to others' failure. This study departs from the current stream of research that has focused mainly on the causes of business failure to integrate multiple strands of research to delineate the sources of and explanations for

strategic persistence. In so doing, we respond to past studies that have called for a better understanding of strategic persistence (Westphal and Bednar, 2005).

Contributions to practice

Notwithstanding these contributions to literature, there are practical implications that stem from the analysis. First, this research highlights the need for organisations to create conditions that foster learning from others as an ongoing strategy for sustainable success. There is a need for organisations to develop and upgrade their existing capabilities and resources to respond to environmental shifts. As business failures become increasingly common and well known, there is a need for firms to identify those failures that offer useful lessons for the future and firms also need to know when to persist with their current strategy and ignore the failure of others.

By creating a long-term plan to learn from others, firms would be equipped to minimise the effects stemming from others' failure. In addition, there is a need for organisations to engage in more incremental resource commitments to projects to provide space and time to re-evaluate and thereby providing strategic options to maintain or discontinue the current course of action at various stages (Guler, 2007). Such safeguards and incentives provide opportunities to assess the environment and learn from the exit of other firms. This is important given that organisations often lose track on when and how to discard previously successful strategies even in the face of similar firms' failure (Audia et al., 2000; Miller, 1990).

Furthermore, our findings suggest that in some organisations, changes in top-management teams may be required to counteract strategic persistence forces. Such leadership changes have been found to bring about strategic reorientation (Lant et al., 1992). One of the

limitations of our work is that it is context specific and focuses on only strategic decisions in the face of business failure. There is clearly an opportunity for future research to extend the existing streams of research on "post-exit effects" (Hoetker and Agarwal, 2007) to include the strategic behaviour of bystander organisations in the competitive arena. Such an analysis would significantly enrich our understanding of the subject.

Future research may build on this work by examining the effects on strategic persistence in mitigating the "spillover" of other businesses' failures. The existing works barely touch on the subject and much deeper analysis is required. In closing, more research is needed to provide a more detailed analysis of strategic persistence in the face of other businesses' failure than has been achieved here.

References

1. Amankwah-Amoah, J. (2010), "*Organisational responses to liberalisation: Evidence from the airline industry in Africa*", Unpublished doctoral thesis, University of Wales Swansea.
2. Amankwah-Amoah, J. (2011), "Learning from the failures of others: The effects of post-exit knowledge spillovers on recipient firms", *Journal of Workplace Learning*, Vol. 23 No. 6, pp. 358–375.
3. Amankwah-Amoah, J. (2013), "Cauterizing trial by fire: Observers' interpretations of organizational failure. *Journal of General Management*, Vol. 38 No. 3, pp. 51–72.
4. Amankwah-Amoah, J. (2014), "Old habits die hard: A tale of two failed companies and an unwanted inheritance", *Journal of Business Research*, , Vol. 67 No. 9, pp. 1894–1903.
5. Amankwah-Amoah, J. and Debrah, Y. A. (2010), "The protracted collapse of Ghana Airways: lessons in organizational failure", *Group & Organization Management*, Vol. 35, pp. 636–665.
6. Amankwah-Amoah, J. and Debrah, Y. A. (2014), "Air Afrique: The demise of a continental icon", *Business History*, Vol. 56 No. 4, pp. 517–546.
7. Amason, A. C. and Mooney, A. C. (2008), "The Icarus paradox revisited: how strong performance sows the seeds of dysfunction in future strategic decision-making", *Strategic Organization*, Vol. 6 No. 4, pp. 407–434.

8. Arkes, H. R., and P. Ayton. (1999), "The sunk cost and Concorde effects: Are humans less rational than lower animals?", *Psychological Bulletin,* Vol. 125 No. 5, pp. 591–600.
9. Audia, P. G., Locke, E. A. and Smith, K. G. (2000), "The paradox of success: An archival and laboratory study of strategic persistence following radical environmental change", *Academy of Management Journal*, Vol. 43 No. 5, pp. 837–854.
10. Baker, C. (2002), "Out of the ashes", *Airline Business*, Vol. 18, Issue 3, pp. 38.
11. Bateman, T. S. and C. P. Zeithaml. (1989), "The psychological context of strategic decisions: A model and convergent experimental findings", *Strategic Management Journal*, Vol. 10, pp. 59–74.
12. Baumard, P. and Starbuck, W. H. (2005), "Learning from failures: why it may not happen", *Long Range Planning*, Vol. 38, pp. 281–298.
13. BBC (2001a), "Belgian national airline bankrupt", available at: http://news.bbc.co.uk/1/hi/business/1642507.stm (accessed 1 August 2014).
14. BBC (2001b), "Sabena protected from creditors", available at: http://news.bbc.co.uk/1/hi/business/1581141.stm (accessed 5 June 2014).
15. BBC (2003), "French airline bail-out fails", available at: http://news.bbc.co.uk/1/hi/business/2731843.stm.
16. Bloomberg News (2001), "Belgium Says Swissair Suits Seek Almost $1.75 Billion", available at: http://www.nytimes.com/2001/11/26/business/26AIR.html (accessed 1 August 2014).
17. Boeker, W. (1992), "Power and managerial dismissal: Scapegoating at the top", *Administrative Science Quarterly*, Vol. 37, pp. 400–421.
18. Boeker, W. (1997), "Strategic change: The influence of managerial characteristics and organizational growth", *Academy of Management Journal*, Vol. 40, pp. 152–170.
19. Bonsu, H. (2001), "A nation in shock: Swissair crisis", BBC, available at: http://news.bbc.co.uk/1/hi/programmes/crossing_continents/1677085.stm (accessed 5 June 2014).
20. Brockner, J. (1992), "The escalation of commitment to a failing course of action: Toward theoretical progress", *Academy of Management Review*, Vol. 17, pp. 39-61.
21. Buerkle, T. &, Anderson, R. (2002), "Who lost Swissair?", *Institutional Investor-International Edition*, Vol. 27, No 2, pp. 24.
22. Carter, R. and Van Auken, H. (2006), "Small firm bankruptcy", *Journal of Small Business Management*, Vol. 44 No. 4, pp. 493–512.

23. Cornford, A. (2010), *The failure of cross-border financial firms: New thinking in the aftermath of the financial crisis*, Geneva: Observatoire de la Finance.
24. Cyert, R. and March, J. G. (1963), A *behavioral theory of the firm*, Englewood Cliffs, NJ: Prentice-Hall.
25. Delacroix, J. and Carroll, G. R. (1983), "Organizational foundings: An ecological study of the newspaper industries of Argentina and Ireland", *Administrative Science Quarterly,* Vol. 28 No. 2, pp. 274–291.
26. Desai, V. (2011), "Mass media and massive failures: determining organizational efforts to defend the field's legitimacy following crises", *Academy of Management Journal*, Vol. 54, pp. 263–278.
27. Doganis, R. (2006), *The Airline Business*. 2nd edition. London: Routledge.
28. Euronews (2007), "Air Liberte trial starts four years after bankruptcy", available at: http://euronews.com/2007/06/04/air-liberte-trial-starts-four-years-after-bankruptcy/(accessed 5 June 2014).
29. Finkelstein, S. (2006), "Why smart executives fail: Four case histories of how people learn the wrong lessons from history", *Business History*, Vol. 48 No. 2, pp. 153–170.
30. Finkelstein, S. and Hambrick, D. C. (1990), "Top-management-team tenure and organizational outcomes: The moderating role of managerial discretion", *Administrative Science Quarterly*, Vol. 35, pp. 484–503.
31. Flint, P. (2000), "Sabena's peacemaker", *Air Transport World*, Vol. 37, No.1, pp.41-42.
32. Floitau, J. (2001), "Swissair refines recovery strategy", *Aviation Week & Space Technology*, Vol. 155 No. 3, pp. 56.
33. Ghemawat, P. (1991), *Commitment: The dynamic of strategy,* New York: The Free Press.
34. Gilbert, C. (2005). "Unbundling the structure of inertia: Resource versus routine rigidity", *Academy of Management Journal,* Vol. 48, pp. 741–763.
35. Gillespie, N. and Dietz, G. (2009), "Trust repair after organization-level failure", *Academy of Management Review,* Vol. 34, pp. 127–145.
36. Gimeno, J., Folta, T. B., Cooper, A. C. and Woo, C. Y. (1997), "Survival of the fittest? Entrepreneurial human capital and the persistence of underperforming firms", *Administrative Science Quarterly*, Vol. 42, pp. 750–83.
37. Ginter, P. M., Duncan, J. W., Swayne, L. E. and Shelfer, A. G. (1992), "When merger means death: Organizational euthanasia and strategic choice", *Organizational Dynamics*, Vol. 20, No.3, pp. 21–33.
38. Greve, H. R. (1998), "Performance, aspirations, and risky organizational change", *Administrative Science Quarterly*, Vol. 43 No. 1, pp. 58–86.

39. Grossman, W. and Cannella, A. A. (2006), "The impact of strategic persistence on executive compensation", *Journal of Management*, Vol. 32 No. 2, pp. 257–278.
40. Guler, I. (2007), "Throwing good money after bad? Political and institutional influences on sequential decision making in the venture capital industry", *Administrative Science Quarterly*, Vol. 52 No. 2, pp. 248–285.
41. Hambrick, D. C., Geletkanycz, M. A. and Fredrickson, J.W. (1993), "Top executive commitment to the status quo: Some tests of its determinants", *Strategic Management Journal*, Vol. 14 No. 6, pp. 401–418.
42. Hannan, M. and Freeman, J. (1977), "The population ecology of organizations", *American Journal of Sociology,* Vol. 82, pp. 929–964.
43. Hannan, M. T. and Freeman, J. (1984), "Structural inertia and organizational change", *American Sociological Review*, Vol. 49, pp. 149-164.
44. Hedberg, B. Nystrom, P. and Starbuck, W. (1976), "Camping on seesaws: Prescriptions for a self-designing organization", *Administrative Science Quarterly*, Vol. 21, pp. 41–65.
45. Heine, K. and Rindfleisch, H. (2013), "Organizational decline: A synthesis of insights from organizational ecology, path dependence and the resource-based view", *Journal of Organizational Change Management*, Vol. 26, No.1, pp. 8–28.
46. Henagan, S. C. and Bedeian, A. G. (2009), "The perils of success in the workplace: Comparison target responses to coworkers' upward comparison threat", *Journal of Applied Social Psychology*, Vol. 39 No. 10, pp. 2438–2468.
47. Henderson, R. and Clark, K. (1990), "Architectural innovation: The reconfiguration of existing product technologies and the failure of existing firms", *Administrative Science Quarterly,* Vol. 35, pp. 9–30.
48. Hoetker, G. and Agarwal, R. (2007), "Death hurts, but it isn't fatal: the postexit diffusion of knowledge created by innovative companies", *Academy of Management Journal*, Vol. 50 No. 2, pp. 446–467.
49. Holland, D. and Shepherd, D.A. (2013), "Deciding to persist: adversity, values, and entrepreneurs' decision policies", *Entrepreneurship Theory and Practice,* Vol. 37 No. 2, pp. 331–358.
50. Hora, M. and Klassen, R. D. (2013), "Learning from others' misfortune: Factors influencing knowledge acquisition to reduce operational risk", *Journal of Operations Management*, Vol. 31, pp. 52–61.
51. Huang, H. C., Lai, M. C., Lin, L. H. and Chen, C. T. (2013), "Overcoming organizational inertia to strengthen business model innovation: An open innovation perspective", *Journal of Organizational Change Management*, Vol. 26 No. 6, 977–1002.

52. Hutt, M.D., Walker, B.A. and Frankwick, G.L. (1995), "Hurdle the cross-functional barriers to strategic change", *Sloan Management Review*, Vol. 36, Vol. 3, pp. 22–30.

53. Ingram, P. and Baum, J. A. C. (1997), "Opportunity and constraint: Organizations' learning from the operating and competitive experience of industries", *Strategic Management Journal*, Vol. 18, pp. 75–98.

54. International Labour Organization (ILO) (2001), *Restructuring of civil aviation: Consequences for management and personnel*. Geneva: ILO.

55. James, B. (2001), "Liquidation for Sabena a first for EU airlines", *New York Times*, November 8.

56. Jansen, K. J. (2004), "From persistence to pursuit: A longitudinal examination of momentum during the early stages of strategic change", *Organization Science,* Vol. 15, pp. 279–294.

57. Karakaya, F. (2000), "Market exit and barriers to exit: theory and practice", *Psychology and Marketing*, Vol. 17 No. 8, pp. 651–68.

58. Kay, J. (2007), "Dreams are no basis for a sound corporate strategy", *Financial Times*, March 20, pp. 20.

59. Kisfalvi, V. (2000), "The threat of failure, the perils of success and CEO character: Sources of strategic persistence", *Organization Studies*, Vol. 21, No.3, pp. 611–639.

60. Knott, A. M. and Posen, H. E. (2005), "Is failure good? ", *Strategic Management Journal*, Vol. 26, pp. 617–641.

61. Kraatz, M.S., Zajac, E.J., (2001), "How organizational resources affect strategic change and performance in turbulent environments: Theory and evidence", *Organization Science*, Vol. 12, pp. 632–657.

62. Lang, L. H. P. and Stulz, R. M. (1992), "Contagion and competitive intra-industry effects of bankruptcy announcements", *Journal of Financial Economics*, Vol. 32, pp. 45–60.

63. Lant, T. K. and Hewlin, P. F. (2002), "Information cues and decision making: The effects of learning, momentum, and social comparison in competing teams", *Group and Organization Management*, Vol. 27, pp. 374–407.

64. Lant, T. K. and Montgomery, D. B. (1987), "Learning from strategic success and failure", *Journal of Business Research*, Vol. 15 No. 6, pp. 503–517.

65. Lant, T. K., Milliken, F. J. and Batra, B. (1992), "The role of managerial learning and interpretation in strategic persistence and reorientation: An empirical exploration", *Strategic Management Journal,* Vol. 13, pp. 585–608.

66. Levinthal, D, and March, J. G. (1993), "The myopia of organizational learning", *Strategic Management Journal*, Vol. 14, pp. 95–112.

67. Levinthal, D. (1992), “Surviving Schumpeterian environments: An evolutionary perspective”, *Industrial and Corporate Change,* Vol. 1, pp. 427–443.

68. Levinthal, D. A. (1990), “Organizational adaptation, environmental selection, and random walks. J. Singh, (ed.) *Organizational Evolution: New Directions*. Sage, Newbury Park, CA, pp. 201–223.

69. Levitt, B. and March, J. G. (1988). *Organizational learning*. In W. R. Scott & J. F. Short, Jr. (Eds.), Annual review of sociology, vol. 14, pp. 319-340. Palo Alto, CA: Annual Reviews.

70. Madsen, P. M. and Desai, V. (2010), “Failing to learn? The effects of failure and success on organizational learning in the global orbital launch vehicle industry”, *Academy of Management Journal,* Vol. 53 No. 3, pp. 451–476.

71. Meller, P. (2001), “Filing for bankruptcy, Sabena shuts down”, available at: http://www.nytimes.com/2001/11/07/business/filing-for-bankruptcy-sabena-shuts-down.html (accessed 5 June 2014).

72. Meyer, A. D. (1982), “Adapting to environmental jolts”, *Administrative Science Quarterly*, Vol. 27, pp. 515–537.

73. Miller, D. (1990), *The Icarus paradox: How exceptional companies bring about their own downfall*, New York: Harper Business.

74. Miller, D. (1994), “What happens after success: the perils of excellence”, *Journal of Management Studies*, Vol. 31 No. 3, pp. 325–358.

75. Miller, D. (1997), “The perils of success, or failure, where is thy sting? A comment on Whyte, Saks and Hook”, *Journal of Organizational Behavior,* Vol. 18, pp. 433–435.

76. Miller, D. T, Monin, M. and Prentice, D. A. (2000), “Pluralistic ignorance and inconsistency between private and public behaviors”, in D. J. Terry and M. A. Hogg (eds.), *Attitudes, behavior, and social context: The role of norms and group membership*, NJ: Eribaum, Mahwah, pp. 95-113.

77. Miller, D., Lant, T. K., Milliken, F. J. and Kom, H. J. (1996), “The evolution of strategic simplicity: Exploring two models of organizational adaption”, *Journal of Management*, Vol. 22 No. 6, pp. 863–887.

78. Miller, D., Steier, L. and Le Breton-Miller, I. (2003), “Lost in time: Intergenerational succession, change, and failure in family business”, *Journal of Business Venturing*, Vol. 18 No. 4, pp. 513–531.

79. Milliken, F. J. and Lant, T. K. (1991), “The effect of an organization's recent performance history on strategic persistence and change: The role of managerial interpretations"”, in J. Dutton, A. Huff, and P. Shrivastava (Eds.), *Advances in Strategic Management*, 7, JAI Press, Greenwich, CT, pp. 125–152.

80. Miner, A. S., Kim, J. Y., Holzinger, I. and Haunschild, P. (1999), "Fruits of failure: organizational level failure and population level learning", in A. S. Miner and P. Anderson (eds.), *Advances in Strategic Management: Population Level Learning and Industry Change*. JAI Press, Stamford, CT, pp. 187–220.

81. Morrison, E.W. and Milliken, F. J. (2000), "Organizational silence: A barrier to change and development in a pluralistic world", *Academy of Management Review*, Vol. 25 No. 4, pp. 706–725.

82. Nargundkar, S. V., Karakaya, F. and Stahl, M. J. (1996), "Barriers to market exit", *Journal of Managerial Issues*, Vol. 8, pp. 239–259.

83. Nohria, N. and Gulati, R. (1996), "Is slack good or bad for innovation?", *Academy of Management Journal*, Vol. 39 No. 5, pp. 1245–1264.

84. Nwabueze, U. and Mileski, J. (2008), "The challenge of effective governance: The case of Swiss Air", *Corporate Governance*, Vol. 8 No. 5, pp. 583–594.

85. Olson, E. (2001), "Much of Swissair Seeks Bankruptcy", *New York Times*, October 2, http://www.nytimes.com/2001/10/02/business/much-of-swissair-seeks-bankruptcy.html (accessed 5 July 2014).

86. Park, S. H., Westphal, J. D. and Stern, I. (2011), "Set up for a fall: The insidious effects of flattery and opinion conformity toward corporate leaders", *Administrative Science Quarterly*, Vol. 56, pp. 257–302.

87. Pe'er, A. and Vertinsky, I. (2008), "Firm exits as a determinant of new entry: Is there evidence of local creative destruction?", *Journal of Business Venturing*, Vol. 23, pp. 280–306.

88. Pirie, G. (2014), Geographies of air transport in Africa: Aviation's 'last frontier'. In Goetz, A. R. & Budd, L. (Eds.), *The Geographies of Air Transport*. Ashgate, pp. 247–266.

89. Platt, H. D. (1989), "The determinants of interindustry failure", *Journal of Economics and Business,* Vol. 41, pp. 107–126.

90. Rhee, M. and Kim, T. (2014), "Great vessels take a long time to mature: Early success traps and competences in exploitation and exploration", *Organization Science*, pp. 1-18.

91. Rumelt, R. P. (1995), "Inertia and Transformation" in Cynthia A. Montgomery, (ed.), *Resource-based and evolutionary theories of the firm: Towards a synthesis*. Kluwer Academic Publishers, Norwell, MA, pp. 101-132.

92. Schwenk, C. and Tang, M. J. (1989), "Economic and psychological explanations for strategic persistence", *Omega*, Vol. 17 No. 6, pp. 559–570.

93. Sparaco, P. (2010), "The Swissair Syndrome", *Aviation Week & Space Technology*, Vol. 172, No 5, pp. 70.

94. Staw, B. M. (1981), “The escalation of commitment to a course of action”, *Academy of Management Review,* Vol. 6 No. 4, pp. 569–577.

95. Sundaramurthy, C. and Lewis, M. (2003), “Control and collaboration: Paradoxes of governance”, *Academy of Management Review*, Vol. 28, pp. 397–416.

96. Teger, A. (1980), *Too much invested to quit*, New York: Pergamon.

97. Tetlock, P. E. (1985), “Accountability: The neglected social context of judgment and choice”, *Research in Organizational Behavior*, Vol. 7, pp. 297–332.

98. The Economist (2001), “Swissair: A scary Swiss meltdown”, Vol. 360 No. 8231, pp. 53–54.

99. The Economist (2002), “Consultant, heal thyself”, Vol. 365 No. 8297, pp. 61–62.

100. The Economist (2005), “*Special Report: Flying from the computer*”, Vol. 377 No. 8446, pp. 77.

101. Tushman, M. L. and O’Reilly III, C.A. (1996), “Ambidextrous organizations: Managing evolutionary and revolutionary change”, *California Management Review*, Vol. 38, pp. 8–30.

102. Uzzi, B. (1997), “Social structure and competition in interfirm networks: The paradox of embeddedness”, *Administrative Science Quarterly*, Vol. 42 No. 1, pp. 35–67.

103. Watson, J. and Everett, J. E. (1993), “Defining small business failure. *International Small Business Journal,* Vol. 11 No. 3, pp. 35–48.

104. Westphal, J. D. and Bednar, M. (2005), “Pluralistic ignorance in corporate boards and firms’ strategic persistence in response to low firm performance”, *Administrative Science Quarterly*, Vol. 50, pp. 262–298.

105. Whetten, D. A. (1980) "Organizational decline: A neglected topic in organizational science", *Academy of Management Review*, Vol. 5, pp.577–588.

Table 1: Theoretical explanations for strategic persistence in the face of other businesses' failures

Theoretical paradigm	Key premise	Level of analysis	Representative studies and contributions	Exemplary cases	New logic
The "locked-in" and "locked-out" perspectives	• Strategic persistence is a convenient and less costly approach. It is explained by exit and entry barriers.	Firm-level factors	Arkes and Ayton, 1999; Teger, 1980; Rumelt, 1995; Schwenk and Tang, 1989; Karakaya, 2000; Ghemawat, 1991; Kraatz and Zajac, 2001; Gilbert, 2005.	SwissAir and Sabena	History, present circumstances and perspectives on the future.
The paradox of success	• Past successes breed over confidence and inattentive to changes in the external environment e.g., overconfidence in existing competences and under-estimating competition. • There is a general tendency to repeat actions that deliver success and overlook learning from failure.	Firm-level factors	Audia et al., 2000; Amason and Mooney, 2008; Hedberg et al., 1976.	Ghana Airways, Nigeria Airways and Air Afrique	
Psychological perspective	• Psychological factors such as prior history, present condition and future outlook determine the decision to maintain existing course of action. • Groups persist with current course of action, routines and strategies that members of the group	Individual-level factors	Amankwah-Amoah, 2014; Bateman and Zeithaml, 1989; Milliken and Lant, 1991; Rumelt, 1995.	SwissAir	

	privately disagree with.				
An environment interpretive model	• Strategic persistence stem from "environmental buffers" and interpretation of the business environment. • Business failures stem from uncontrollable factors to which top executives have little or no control.	External factors	Kraatz and Zajac, 2001; Milliken and Lant, 1991; Amankwah-Amoah, 2014.	Air Afrique	

Figure 1: An organizing framework of the consequences of business failure

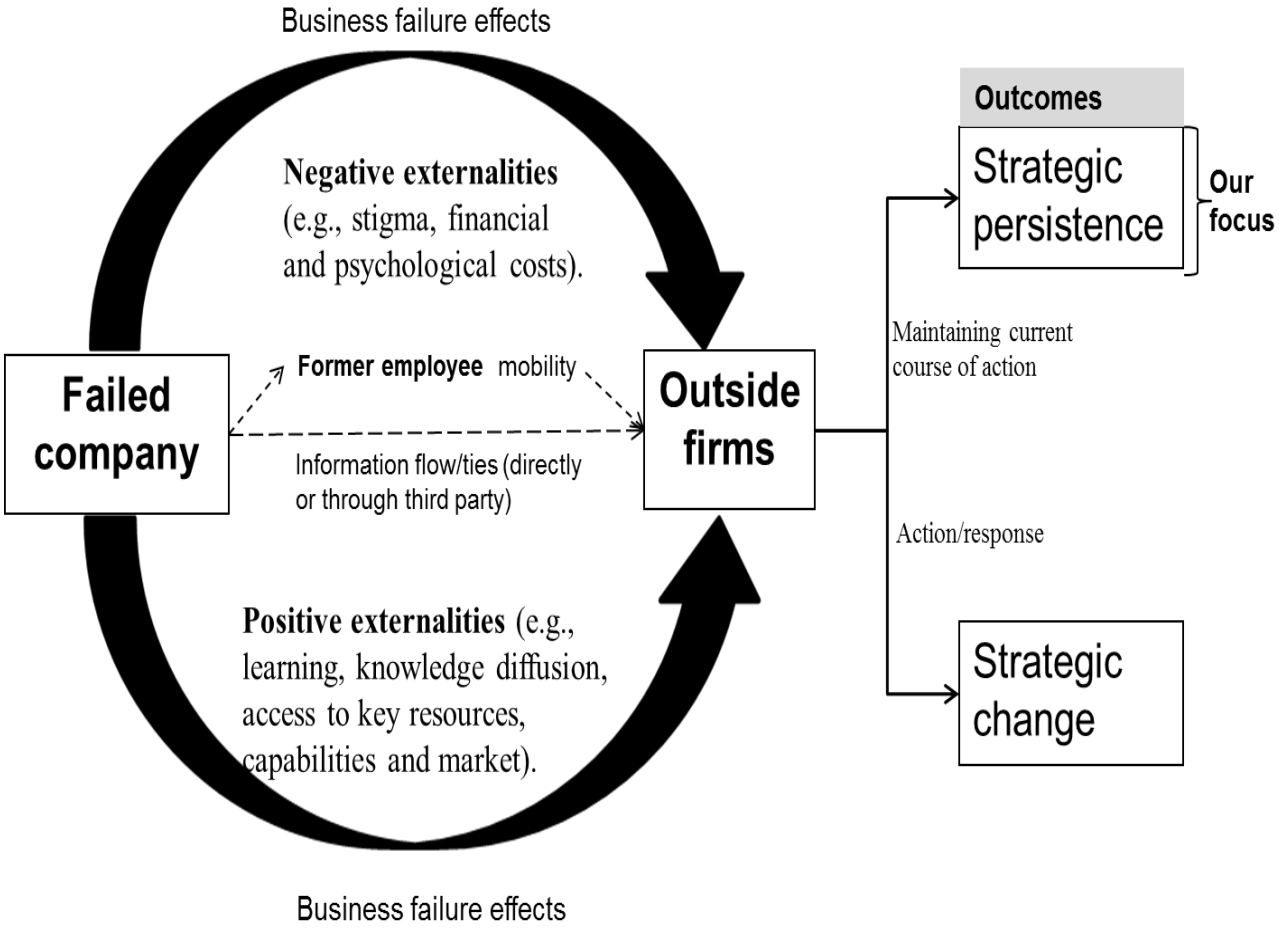

Figure 2: An organizing framework of the dimensions of persistence