# What can we learn from failed international companies?

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**A B S T R A C T**

**Purpose** – The purpose of this paper is to examine how organisational closure can inform strategic foresight.

**Design/methodology/approach** – We draw insights from illustrative cases, i.e. Swissair, Sabena and Cameroon Airlines to illustrate our theoretical analysis.

**Findings** – The study shed light on the effects of internal and external factors in precipitating business closures. We established that top executives' hubris, resistance to change and over-reliance on external consultants are some of precursors to organisational closure.

**Research limitations/implications** – Our analysis provides a range of strategies that organisations can pursue to learn from other firms' closure and improve their survivability and chances of future success.

**Originality/value** – In spite of a growing body of literature on strategic foresight and organisational closure, the literature has largely developed in isolation and as such our understanding of the relationship between strategic foresight and organisational closure as remained severely limited. The paper integrates these two streams of research to enrich our understanding of how firms can learn from others to improve their strategic foresight.

## Introduction

Over the past half century, organisational theorists, strategist and business historians have offered various explanations as to why some companies fail whilst others thrive in the same environment (Hannan and Freeman, 1989; Stinchcombe, 1965). This stream of scholarly work has often been accompanied by the identification of factors such as liabilities of smallness and newness as primary causes of business failure/closure (Hager, Galaskiewicz, Bielefeld and Pins, 1996; Singh, House and Tucker, 1986a). At the same time, scholars of strategic foresight have offered various reasons why organisations are often blindsided by changes in their businesses which ultimately bring about their decline and exit (see Hamel and Prahalad, 1994).

Despite clear linkages between these two streams of research and the potential to further enrich our understanding, to date, however, most research has largely developed in isolation. Although the causes of business failure/closure continue to be an active area of scholarly discourse (Walsh and Bartunek, 2011), our understanding of the causes and how they can inform strategic foresight of outside firms warrants further scholarly attention. Our purpose in this study is to examine why companies fail and how failure can inform strategic foresight of other firms. We contend that learning from others' failure can improve the "foresightfulness" of an organisation. In developing our arguments on this largely overlooked issue, we turn to the illustrative cases of failed companies, i.e. Swissair, Sabena and Cameroon Airlines to shed light on the subject. Although these firms operated largely in different regions of the world, factors precipitating their demise have the potential to enhance our understanding of business closure and strategic foresight.

Our article makes two main contributions to the literature. First, although scholars have examined both business failure and strategic foresight, they have failed to articulate the mechanisms through which business failure can inform strategic foresight. We build on and extend the existing literature by developing a unified mechanism for understanding both subjects. Second, our study utilised insights from failed cases to articulate how organisational demise can inform strategic foresight, an issue that has been largely overlooked by scholars.

The rest of the paper proceeds as follows. First, we review the literature on organisational closure and strategic foresight towards developing an integrated framework. Second, we set out the research design and data sources. We then illustrate our theoretical analysis using the illustrative cases. We conclude by setting out implications for theory and practice.

## Organisational closure and strategic foresight: an integrative review

The organisational closure can be defined as a situation where firms "cease operations, lose their legal identity or lose their capacity to govern themselves" (Hager et al., 2004, p. 160). Organisational closure literature presents two conflicting views on the cause of closure: the deterministic and voluntaristic perspectives (Mellahi and Wilkinson, 2004). According to the first view, the deterministic perspective attributes business closure to factors outside the boundary of the firm. These environmental factors include changes in regulations, technological change, government interference, competition and economic decline, over which management has limited control (Tirole, 1988; Hager et al., 1996). On the other hand, the voluntaristic school suggests that business closure is attributed to factors "arising from within" the boundary of the firm such as leadership and managerial issues (Amankwah-Amoah et al., 2013). Some studies have identified factors such as mismanagement, loss of key personnel and weak financial position as causes of business closure (Singh et al., 1986b; Hager et al., 2004).

Related to the above is another stream of research anchored in the upper echelons' perspective (Hambrick and Mason, 1984) which argues that top executives of companies play an influential role in resource deployment and decision making, and therefore can alter or accelerate the fortune of a company. A number of scholars have suggested that a firm's survival often depends on its ability to match the firm's routines, structure and processes to changes in the environment such as culture and technological developments (Drazin and Van de Ven, 1985). Others have suggested that star executives provide firms with access to scarce resources and expertise which help to prolong their lifespan (Semadeni, Cannella, Fraser and Lee, 2008; Sutton and Callahan, 1987).

However, one of the more influential lines of thought suggests that top executives' departure from financially weak firms leads to diminished legitimacy and accelerates the firm's exit from an industry (Sutton and Callahan, 1987). A large stream of literature indicates that young firms are more likely to fail than older firms, largely due to the liabilities of newness and smallness (Hager et al., 2004). This is largely because younger firms tend to have limited experiences, fewer slack resources and less legitimacy to be utilised to attract new customers and investors (Hager et al., 1996).

Although business closure may stem from factors such as lack of skilled personnel to foresee strategic implementation, mismanagement, inefficient systems, faulty routines and process, and poor attitude to work (Amankwah-Amoah, 2014), organisations with a greater degree of foresight can anticipate and respond to the early warning signals and thereby are able to mitigate eventual failure (Costanzo and MacKay, 2008).

Strategic foresight can be defined as the "process of developing a range of views of possible ways in which the future could develop, and understanding these sufficiently well to be able to decide what decisions can be taken today to create the best possible tomorrow'' (Horton, 1999, p. 5). It entails the ability to scan the environment to identify, interpret and respond to looming challenges and opportunities so as to create a sustainable organisation (Sarpong and Maclean, 2014). By engaging in environmental scanning activities, organisations would be better positioned to chart the future course of action (Vecchiato, 2012).

A plethora of scholarly works have suggested that strategic foresight is essential for long-term organisational survival (Slaughter, 1996; Vecchiato, 2012). Managers with a degree of foresight and peripheral vision can not only anticipate changes on the horizon, but also devise a range of strategies geared towards learning from others' failures (Ahuja, Coff and Lee, 2005; Sarpong, Maclean and Davis, 2013). Indeed, there is a growing stream of research which suggests that business failure provides an opportunity for other companies to learn from their experiences and devise strategies to help them avoid befalling the same fate (Hoetker and Agarwal, 2007).

The above line of reasoning implies that strategic foresight partly depends of other firms' ability to identify the causes of others' failure and learn from it (summarised in Figure 1). Our framework also indicates that firms' responses to failure include systemic responses which refer to structural, process and cultural changes, whereas the strategic responses relate to factors such as vision and values of the firms. Although it has been suggested that organisations should learn from others' demise to improve their chances of success (Amankwah-Amoah, 2011), our understanding of the mechanisms through which organisations achieve such alignment remains unclear. This study seeks to fill this theoretical gap using the case of collapsed companies.

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**Insert Figure 1 about here**

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## Research design and data sources

Our study focuses on three companies from the global airline industry, i.e. Swissair, Sabena and Cameroon Airlines. We adopted the multiple case study approach to help provide a "more compelling and more robust" analysis as well as cross-case comparisons (Yin, 2009, p.

53; Leonard-Barton, 1990). This approach is expected to lead to the identification of unique processes, patterns and key themes inherent in the demise of the companies (see Leonard-Barton, 1990). Scholars have demonstrated that gaining access to former top executives to discuss business failure and factors that precipitated it remains “one of the most challenging barriers researchers face” (Daily, Dalton and Cannella, 2003, p. 3718).

Given the lifespan of the companies extends over several decades and the fact that they collapsed years ago, we rely heavily on archival records to provide insights into the organisations. Archival records can be defined as “documents made or received and accumulated by a person or organisation in the course of the conduct of affairs and preserved because of their continuing value” (Ellis, 1993, p. 2). Indeed, archival records are “particularly suited to generating developmental explanations, in other words, explaining processes of change and evolution” (Welch, 2000, p. 198) as this study seeks to accomplish. The archival records included government reports, newspaper reports, trade magazines, company records, public speeches by government officials and policy papers. Indeed, archival sources generally are more detailed and less obtrusive, and have the potential to develop a novel theory (Welch, 2000). We also sought historical air traffic and passenger data on the airlines from government agencies and departments. We employ the cases to help identify the causes of the companies’ failure and sources of learning from the failures.

## Case analysis

In the following sections, we tease out the background information of the case firms and discuss factors that led to their demises.

## Case 1: SwissAir, 1931–2002: a brief history

SwissAir was once Switzerland's national airline, founded in 1931 but after decades of operations it eventually closed down in 2002. For over seven decades, the airline was regarded as the symbol of national reliability, dependability, precision, punctuality, quality service, efficiency and financial probity (Gow, 2007; The Economist, 2001). These qualities were largely regarded as embodying the "very essence of Swiss-ness" (Buerkle and Anderson, 2002). The airline was viewed with national pride and attracted accolades such as "the ultimate icon" and a "beacon of Swiss efficiency" (Bonsu, 2001). In October 2001, the airline was on the verge of collapse with debts of around 17 billion Swiss francs ($13.6 billion) (Clark and Harnischfeger, 2007). The demise of the airline was a blow to the long-held reputation for efficiency. The eventual closure in 2002 can be traced to a number of factors. We first examine the internal factors.

### The "Hunter strategy"

From the mid-1940s through to the 1980s, the airline pursued a strategy that was risk-averse with the top management team reluctant to engage in risky and life-threatening ventures (Knorr and Arndt, 2003). For decades, this strategy helped the firm to preserve its operations and ensure long-term survival. The financial stability earned it the name "the Flying Bank". In 1997, Philippe Bruggisser was appointed CEO and replaced the long-time CEO Otto Loepfe. Mr. Bruggisser was known to the organisation, having managed the group's catering and retail operations. The change at the top was accompanied by a change in strategy**.** In the late 1990s, the board of the company decided to pursue a more aggressive borrowing and acquisition policy referred to as the "Hunter strategy" (Steger and Krapf, 2002). At the core of the strategy was an attempt to diversify its portfolio of activities by expanding across Europe. The strategy entailed acquiring stakes in multiple airlines (Gow, 2007).

Stated differently, the strategy sought to achieve growth through acquisition rather than internal development. The rejection of organic growth meant that more resources and new expertise were required to acquire and manage stakes in multiple airlines. By the mid-1990s, the airline started acquiring stakes in financially weak airlines across Europe; however, the depleting of its financial resources by this strategy was never fully acknowledged (Bonsu, 2001). By mid-2000, the airline had a 49.5% stake in Sabena; 70% in Crossair; 49% in both Air Littoral and AOM, and 10% stake in LOT among its portfolio (Doganis, 2006). By late 2001, the high investments, in tandem with the heavy losses, had altered the fortune and destroyed both Swissair and its Qualiflyer alliance (ILO, 2001). In all, the airline spent over $1 billion to acquire stakes in many floundering airlines with deep-seated cultural impediments to change and inability to compete (The Economist, 2001).

Although the Swissair board which made the disastrous investments in Poland's LOT and Belgium's Sabena Airways was subsequently fired (Bonsu, 2001), the effects on the firm’s finances and operations became difficult to erase. In 1996, Swissair wrote off its equity stake in Sabena which contributed a loss to the business (The Economist, 2001). The aggressive expansion strategy diluted and disrupted its attempts to safeguard the historical heritage, maintain control and contain costs. The airline was considered “neither big enough to be market leaders, nor small enough to fit into a niche” (The Economist, 2001, p. 54).

Prior to the late 1990s, the airline was regarded as “one of the most admired airlines in the world, famous for punctuality and superior in-flight service” (The Economist, 2001, p. 53–54). However, by 2000, the airline recorded a loss of 2.9 billion francs ($1.8bn) for the first time in its 70-year history and in so doing, absorbed most of its entire capital reserves (Richter, 2001). By early 2001, the airline was struggling to avoid bankruptcy with losses of around $1.7 billion and debts of more than six times the value of its equity (Clark and Harnischfeger, 2007). Although inter-firm co-operation can improve firms' survival and success, in the case of Swissair the acquisitions actually weakened its financial position and accelerated the process of decline to a point of no return.

## Executives' hubris and risk taking

Another factor which contributed to the demise was executive hubris. Hubris can be defined as the "exaggerated belief about one's own judgment that may deviate from objective standards" (Li and Tang, 2010, p. 46). This is a situation where the assessment of the top executives and their predictions of synergies in the acquisitions far exceeded the real value of the target firms. The top executives' exaggerated self-confidence led the firm astray. In the mid-1990s, the top executives of the airline consisted of eminences from finance and politics who "arrogantly believed that they could compete with giants like British Airways and Deutsche Lufthansa" (Buerkle and Anderson, 2002, p. 24). Indeed, the overconfident executives overestimated their own abilities, expertise and problem-solving capabilities.

The senior management executives of the international airline "were supremely confident of their ability to whip new airline partners into shape – after all, they were managing one of the world's most highly regarded carriers" (Buerkle and Anderson, 2002, p. 24; Bonsu, 2001). The top executives also appeared to hold limited information about the acquired airlines and their future prospects. This then led to misperception of the environment and value of potential partners leading to the paying of higher premiums for the floundering airlines. The quote below captures the issue:

> “*The Swissair saga highlights … the parochial instincts and hubris of its homegrown managers. Many Swiss believe that the reasons for Swissair's collapse lie in the very clannishness of their society – the tightly interwoven corporate and financial relationships and the shared political, social and military connections that define life in one of the world's most intimate financial centers.*” (Buerkle and Anderson, 2002, p. 24)

The firm became more detached from wider society as the elites took on more prominent roles. Arguably, the “Hunter strategy” can be partly traced to the arrogance within the firm and desperation to “punch above its weight on the international scene” even though it was a small airline at the start of the strategy (Bonsu, 2001). Given that Swissair paid higher acquisition premiums for all the airlines, it became increasingly difficult to integrate them into its operations to create value. The top executives’ overconfidence also led to an underestimation of the level of resources required to make the acquisitions work. Overall, the acquisitions eventually became value destroying and contributed to the demise of the airline and its partners.

**Overreliance on outsiders**

In order to garner support, legitimacy and symbolic recognition for the “Hunter strategy”, the firm emphasised the support and advocacy of outsider agency with the necessary expertise. The strategy was crafted, advocated and promoted by McKinsey consultants which helped to confer legitimacy and credibility (Byrne, Muller and Zellner, 2002). McKinsey was considered to possess the expert knowledge on the issue and therefore provide ammunition for management to promote the strategy.

Historically, McKinsey has been regarded as one of the world-leading strategy firms, possessing "the high priest of high-level consulting, with the most formidable intellectual firepower, the classiest client portfolio, and the greatest global reach of any adviser to management in the world" (Byrne et al., 2002 p. 66–76). In 1998, McKinsey and Co recommended to the firm the adoption of the strategy by acquiring stakes in several European partners (Doganis, 2006). Over the subsequent two years, the so-called alliance-based strategy, Qualiflyer alliance, led to acquisitions across Europe. In an attempt to build a force in European aviation alongside the three leading players at the time – Air France, British Airways and Lufthansa – the Swissair Group acquired minority stakes in multiple airlines which were largely unprofitable (ILO, 2001).

The airline acquired stakes in European airlines including AOM, Air Littoral and Air Liberté in France, Sabena in Belgium, LTU in Germany and TAP in Portugal (The Economist, 2001). The weak financial position of these firms meant that at the outset, the financial position of Swissair was under strain (ILO, 2001). As a result, the firm ended its financial support to Air Littoral in 2001 and subsequently sold its stake. In the same year, AOM-Air Liberté also sought bankruptcy protection, signifying the looming and precarious position of the firm. For instance, the French airlines were operating in the shadows of Air France and had failed to overcome the threat from high-speed trains or deal with the need to reduce costs (The Economist, 2001). The acquisitions eventually cost the airline Sf3.7 billion ($2.3 billion) in operating losses and write-offs in 2000 alone (Buerkle and Anderson, 2002).

The failure was unsurprising given that British Airways acquired a stake in Air Liberte in 1997 as part of its failed attempt to enter the French market and then sold the stake to Swissair which was desperate to expand across Europe (Euronews, 2007). McKinsey and Co was seen to have advocated a risky strategy which sowed the seeds of destruction and harmed Swissair's long-term survival. However, it is worth noting that consultants have long claimed that they only provide innovative ideas, advice and strategy rather than responsibility for execution (The Economist, 2002). The relationship with McKinsey fostered trust and gathered confidence in the strategy. Indeed, McKinsey had historically protected and cultivated long-term client relationships which created conditions for the strategy to be adopted (Byrne et al., 2002).

## External environmental factors

A number of external factors altered the firm's fortune. Prominent among them was the aircraft accident in 1998 when flight SR111 crashed off Canada's Atlantic coast. The disaster led to the death of all 229 people aboard the flight from New York to Geneva (Brooke, 1999). The accident tarnished the established reputation of safety of the airline and started to affect its ability to attract customers (Gosling, 2013). Another contributory factor was the external constraints on the firm's operation. Given that the population of Zurich was merely 350,000 and Switzerland was also outside the European Union, Swissair did not enjoy the full benefit of Europe's open skies (Kay, 2007; ILO, 2001).

In the early 1990s, Swissair had lobbied for a "Yes" vote knowing the benefits of being in the centre of the European market which included gaining access to the European aviation market as its larger rivals (Buerkle and Anderson, 2002; The Economist, 2001). In December 1992, the Swiss voters rejected the country's bid to become part of the European Economic Area. Consequently, Swissair "had to watch as European carriers added flights to their schedules and entered alliances while its own attempts to grow were stymied by EU countries' reluctance to renegotiate individual aviation treaties with Switzerland" (Buerkle and Anderson, 2002, p. 24). This was in sharp contrast to most of its rivals who had the benefits of being situated within the European Union to obtain attractive slots and access to routes to expand their operations with little effort. Indeed, the European Union law denied Swissair majority control of the Belgian airline.

Prior to the "Hunter strategy", the firm sought to establish the so-called "Alcazar alliance" to enable it to sidestep the constraints on its ability to expand. At the core of the strategy was the creation of the "fourth force" in pan-European aviation alongside the big three rivals, i.e. Air France, BA and Lufthansa. However, after a period of negotiation, the main parties were unable to agree on a range of issues including the choice of a U.S. partner given that Swissair's alliance partner was Delta Air Lines, and KLM had a 25% controlling stake in Northwest Airlines (Buerkle and Anderson, 2002). "Swiss and Dutch national pride also put a damper on the entire effort, as it would have required surrendering flag carriers to a multinational" (Buerkle and Anderson, 2002, p. 24). The inability to resolve their differences led to the failure of the proposed alliance which prompted Swissair to acquire rival airlines as an alternative means of gaining a foothold across Europe.

**Environmental jolts**

Another factor that led to the firm's demise was environmental jolts, defined as "transient perturbations whose occurrences are difficult to foresee and whose impacts on organizations are disruptive and potentially inimical" (Meyer, 1982, p. 515). In this context, the September 11 attack had devastating effects on the operations of the airline. The events of 9/11 further altered the final position of putting it on a permanent path to decline. The airline, like others in the industry, was caught up in a thorny matrix of the effects of the "market's post-9/11 weakness, SARS (severe acute respiratory syndrome), the Iraq war, high fuel prices and, of course, the global economic downturn and persistent recession" (Sparaco, 2010, p. 70). These changes in the environment led to a sharp decline in passenger traffic. These factors interacted to precipitate the decline and collapse of Swissair which has been referred to as the "Swissair Syndrome" (Sparaco, 2010). By and large, the hidden problems of the airline came to the fore after the September 11 attack.

Also at the root of the firm's problems was its European expansion strategy which led to deployment of resources to acquire stakes in other airlines as well as diversify into new areas. However, by 1999, the firm was affected by the overexpansion even before the September 11 events. Under such harsh environmental conditions and sudden changes, cushions of slack resources appear to be a panacea in insulating such firms from the external shocks as well as providing space for an effective response strategy to be crafted (Meyer, Brooks and Goes, 1990). However, at this stage, the firm's financial resources had been depleted to the core, prompting them to rely on outsider organisations such as banks for continuation of services. The jolt revealed weak foundations in the firm's operations which were not highly visible during the tranquil period before the crisis. In the wake of this event, multiple airlines survived largely due to a well-developed strategy to mitigate risks and a robust business model that targets mass customers.

**Dissolution stage**

In early 2001, Philippe Bruggisser was fired in an attempt to repair the damage to the firm's reputation and balance sheet; this was "too little and too late" in bringing the costs under control (Kay, 2007). Although the arrival of Mario Corti as Chairman/CEO in 2001, just a mere six months before its collapse, ushered in a new atmosphere, the problems of the airline were deeply rooted and tied to past decisions made by the old management team stemming from the aggressive expansion (The Economist, 2001). A new strategy was unveiled in an attempt to turn the fortunes of the airline. At the core of the new strategy was a shift from the strategy of rapid expansion towards retrenchment by offloading of underperforming assets. The new head started to offload the loss-making subsidiaries including Atraxis, improving in-flight services and introducing a new business class (Floitau, 2001).

The main constraint to this strategy was that it could not reduce “costs fast enough to keep pace with falling profits per passenger” nor extricate its stakes in the other failing airlines such as Air Littoral, AOM and Air Liberté fast enough to improve its survival chances (The Economist, 2001, p. 55). In the case of the three airlines above, the firm was spending around SFr1 billion to support the operations (The Economist, 2001). Billions of euros were invested into airlines which subsequently were declared bankrupt. However, the inherited problems were far too severe to be resolved in the short term. The arrival was insufficient to alter the fortunes of the airline. The case suggests that during tranquil periods, the firm over-diversified its portfolio of activities rather than amassing slack resources to prepare it for sudden changes in the business environment.

**Case 2: Sabena**

The failure of Swissair precipitated the demise of Societé Anonyme Belge d'Exploitation de la Navigation Aérienne (known as Sabena), as the company owned a 49% share and depended on it for finance. Although both were traditional airlines with decades of experience, inability to adapt to changing circumstances ultimately contributed to their demise. The inability to find a suitable partner to inject capital into Sabena’s operations sealed its fate bringing to an end another sad chapter in the European aviation industry. The underlying problem was its cost structure which contributed to heavy losses and debts of around €2 billion ($1.8 billion) (James, 2001).

In 1995, SwissAir paid Sf267 million for a 49.5% stake in Sabena, however, its plan for the business was derailed when Sabena's unions staged strikes over the proposed cost reductions, thereby forcing the chief executive Pierre Godfroid to resign in 1996 (Buerkle and Anderson, 2002; Doganis, 2006). Although Godfroid was subsequently replaced by Paul Reutlinger, Swissair's cost-cutting strategy was disrupted. This was very important given that Swissair Group had the controlling stake.

Although Swissair could not exercise full control and management of Sabena as well as integrate the two airlines' fleets and route networks to gain synergetic benefits, it was still liable for Sabena's losses (Bonsu, 2001). Consequently, the demise of Swissair played an influential role in bringing about the demise of Sabena. On the verge of bankruptcy, the firm was diagnosed as having $10.5 billion in debts and draining financial resources (Olson, 2001). Sabena’s failure can be partly attributed to its long-term commitments and inability to act following the decision by Swissair Group to withhold a promised cash contribution of $116 million in October 2001 (Meller, 2001). Following Swissair Group’s decision to stop injecting money into the loss-making airline, the airline was on a permanent path of decline (Nwabueze and Mileski, 2008).

Although the terrorist attacks of September 11 and accompanying decline in air travel compounded the problems, Sabena had low exposure across the Atlantic (James, 2001). Indeed, around 80% of its flights were within Europe (James, 2001). Although a number of European and America airlines collapsed following the crisis, the fundamental business model of Sabena was far too weak to withstand the competitive pressures and the sharp decline in consumers' demand. The threat of competition from low-cost airlines such as Ryanair and Easyjet made it difficult for the firm to remain competitive. The high cost-base of the airline meant that a large segment of the market was carved out by the low-cost airlines. Indeed, the event merely disclosed historically hidden problems, risks and flaws in the firm's routines, processes and strategy, route network and scope of operations. In a nutshell, poor management, strong unions, September 11 attack and misallocation of resources meant that the loss-making operations were no longer sustainable.

**Case 3: Cameroon Airlines, 1971–2008**

Another company whose downfall provides us with some useful lessons is the case of Cameroon Airlines. The state-owned airline was founded in 1971 and ceased operations in 2008. The firm was founded following the decision by Cameroon to withdraw its financial and political support from Air Afrique in January 1971 (Flight International, 1985). Air Afrique was an airline formed in post-colonial Africa by former French colonies in west and central Africa, so the decision by the country to depart from the alliance was a blow to its members (Amankwah-Amoah and Debrah, 2010, 2014). In addition, it also weakened the route network of Air Afrique.

Immediately after its formation, Cameroon Airlines started passenger routes to regional cities such as Yaounde, Bangui, Cotonou, Abidjan, Brazzaville and Lagos from its Douala base. In the years that followed, the airline expanded to key European cities such as Geneva, Rome, Paris and London (Flight International, 1985). With the financial backing of the government, the airline was also able to develop an extensive domestic network. However, at the root of its success was the government support and subsidies. In 2008, three of its aircraft were grounded owing to non-payment of fuel bills and debts (Moores, 2008).

For decades, the airline's ability to compete for customers was affected by a number of problems including poor safety record, inability to meet and conform to international standards, and poor customer experience (Moores, 2008; New York Times, 2005). Indeed, in September 2005 the French Civil Aviation Authority banned all flights by Cameroon Airlines for an indefinite period over safety concerns (New York Times, 2005). During the tranquil periods, limited attention and resources were devoted to improving and meeting safety standards and thereby culminating in this decision. Such was the devastating effect, it automatically disrupted the operations of the airline on one of its most profitable routes, the Douala/Yaoundé–Paris network.

In addition, falling passenger traffic, poor decision making and rising oil prices exacerbated the precarious position of the airline, leading to its exit. In this case, the high oil prices merely unveiled the flaws in the firm's strategy such as high staffing levels, over-reliance on a few routes and intense competition from French airlines for its key market. The inability to "weather the storm" such as high oil prices and September 11 crisis meant that it was in far too weak a position to survive given the tight financial constraints on the government (see New York Times, 2005).

Furthermore, the airline was affected by declining passenger numbers which led to a number of flights being cancelled to cities including Paris. These events tarnished the reputation of the airline among its loyal customers. Even towards the end of the twentieth century, deregulation and liberalisation in the late 1980s had started altering the competitive landscape, paving the way for expansion of other regional rivals. The accelerated pace of liberalisation in the industry and accompanied competition from rival airlines had further-reaching consequences than had been anticipated by the firm. The industry entered some kind of the “Darwinian” phase of the survival of the fittest as more and more airlines disappeared due to the intense competition.

Another contributory factor was the decision by the government to end funding the loss-making operations of the airline. The cutback of public expenditure weakened the financial position of the firm and forced it to seek new sources of revenue. The story of Cameroon Airlines is that of a firm which failed to adapt and respond quickly to the changing times. In the face of a fast-changing competitive landscape, the firm was unable to reduce its dependency on the government for funding in a timely fashion to overcome the loss-making operations. The cases of Swissair and Cameroon Airlines suggest that inability to detect early warning signals means that the firms were left unprepared when the environment changed. The cases suggest that from time to time, sudden changes in the business environment render existing strategies ineffective in response to the shift. The cases highlight how competitive pressures can lead to business closure. Table 1 summarises the causes of failure and the opportunities for learning from the events.

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## Discussion and implications

Our primary purpose in this paper was to examine why companies fail and how failure lessons can inform strategic foresight of other firms. We uncovered firm-specific factors such as top executives' hubris, resistance to change and over-reliance on external consultants as precursors to organisational closure. Top executives' hubris can spur firms to venture into high-risk areas, as occurred in the case of Swissair. This broad category of factors is rooted in the managerial and leadership issues of the focal firm. At the external level, we uncovered factors such as new sources of competition and environmental jolts as some of the indicators of an impending closure of a business. Taken together, the findings suggest that understanding forces that precipitate organisational closure can equip surviving firms with the knowledge to improve their chances of success. Although some scholars have examined business closure (Hager et al., 1996), to date it remains unclear how it can inform outside firms' strategic foresight. By demonstrating why the companies fail, the study thus enriches our understanding of how factors "arising from within" and external factors interact to precipitate business closure. Our research builds on prior research on antecedents to business closure.

These contributions aside, our study has some important implications for practising managers. First, our findings suggest that, left unattended in a timely manner, early warning signals of decline can take on new forms and exacerbate the business conditions and thereby reduce the survival chances of firms. It is worth noting that the "environmental jolts rarely threaten the survival of soundly designed organisations with well-maintained environmental alignments" (Meyer, 1982, p. 515). Organisations need to improve their peripheral vision to help identify and respond to sudden changes in the external environment.

Furthermore, our findings indicate that companies should think twice before allocating resources and expertise to losing courses of action. Early rather than late termination might be beneficial when the firm has entered the "downward spiral" (Hambrick and D'Aveni, 1992). The cost savings might stem from eliminating misallocation of resources and expertise. Organisations can formally appoint individuals dedicated to learning from other businesses' failures. Such clear definition of roles could equip the organisation to better understand looming threats and changes in their environment. The ability to assemble such useful lessons and incorporate them into the organisational processes provides a foundation towards learning from others. Creating a long-term plan to learn from others would equip firms to improve their life chances.

Our findings suggest that follow-up research could proceed in two main areas. First, it might be useful for future research to examine the mechanisms through which businesses fail. Such analysis would also help to provide a fine-grained analysis of the sources of learning from business failure. Future studies can include more cases than have been used here. We would encourage more work in this area geared towards creating processes, structures and routines that foster learning from failure.

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**Figure 1: The relationship between the causes of business closure and strategic foresight**

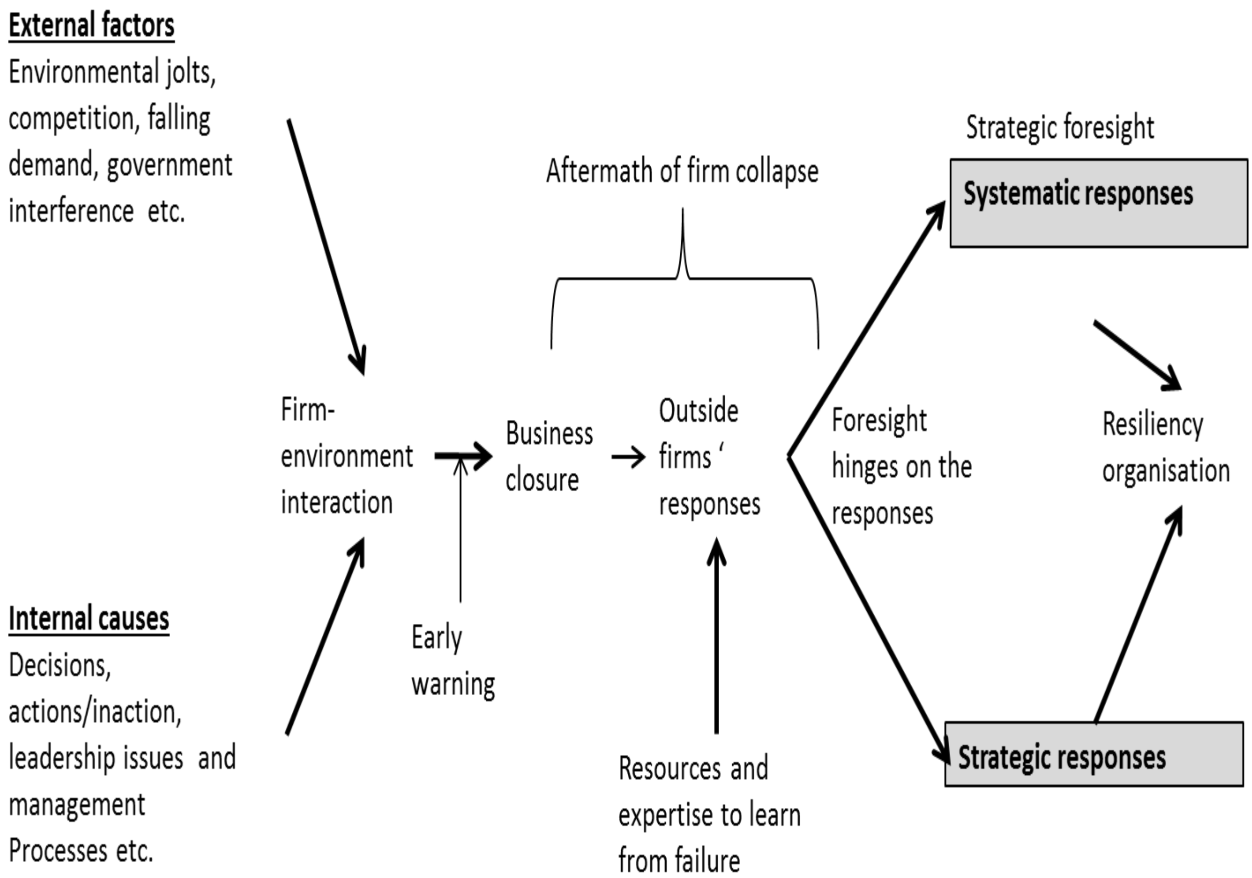

**Table 1: Key events in the evolution of the two companies**

| Years, | Key events | Causes of demise | Sources of learning for other companies |
|---|---|---|---|
| **Swisssair**<br>1931–2002 | • The airline was founded in 1931.<br>• In 1997, Philippe Bruggisser adopted the so-called "Hunter project".<br>• In January 2001, Mr Bruggisser was fired in an attempt to repair the damage to the firm.<br>• In October 2001, the airline announced 2,650 job cuts.<br>• In 2001, the airline abandoned its policy of acquiring stakes in foreign airlines.<br>• It ceased operations in 2002. | **Internal factors**<br>Top executives' hubris contributed to the collapse of the airline.<br>Overconfidence leading to higher acquisition premium payments, coupled with the constraints on integration, contributed to the demise.<br>Over-diversification via acquisition of stakes in multiple European airlines.<br>**External factors**<br>Environmental jolts – sudden changes in the business environment.<br>Intense competition from low-cost airlines and legacy carriers.<br>The September 11 attack. and its effects on the industry. | Forging strategic alliances that enhance rather than devalue firm value.<br>Mitigating risks inherent in expansion.<br>Skills of decision makers play an influential role in mitigating risk and achieving organisational longevity.<br>Creating conditions to foster risk awareness and learning from others' experiences. |
| Cameroon Airlines, 1971–2008 | • Cameroon Airlines founded in 1971and exited in 2008. | **Internal factors**<br>Poor customer service.<br>Poor safety record.<br>**External factors**<br>Sudden changes in the business environment.<br>Intense competition from legacy carriers.<br>The September 11 attack and its effects on the industry. | Creating conditions to learn from others' experiences. |

Data sources: synthesised by the authors.