Human Capital Flows in Failing Organizations: An Integrated Conceptual Framework

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Human Capital Flows in Failing Organizations: An Integrated Conceptual Framework

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Abstract

Purpose – The paper examines the dynamics of human capital accumulation and human capital depletion in the processes leading to business failure.

Design/methodology/approach – Building on the human capital theory, strategic human resource and business failure literature, this paper develops a conceptual framework which links the inward and outward dimensions of human capital flows in the business failure process.

Findings – The analysis sheds light on why some highly skilled individuals may opt to flee declining firms to avoid being stigmatised whilst others become motivated to joint such firms.

Research limitations/implications – The paper suggests that understanding the nature and dynamics of both flows are essential when seeking to avert collapse.

Originality/value – In spite of a growing body of research on business failure and intense competition for top talent, much of the existing literature has circumvented the relationship between them. This study develops a unified model towards enhancing our understanding of the human capital flows. Keywords: failing organizations; human capital; business failure; personnel poaching.

Please cite as:

Introduction

Over the past couple of decades, a burgeoning stream of research has demonstrated that when companies are collapsing or experiencing declining performance, some highly skilled individuals jump ship to avoid being stigmatised and stereotyped (Jiang, Cannella, Xia and Semadeni, 2017; Semadeni, Cannella, Fraser and Lee, 2008; Sutton and Callahan, 1987; Pozner, 2008). Indeed, threat of business failure has an emotional and psychological effect which then influences employees’ mobility just before or after the collapse (see Shepherd, 2003). Given that top-management team members are often stigmatised by failure, it makes sense for some to jump ship (Wiesenfeld, Wurthmann and Hambrick, 2008). Nevertheless, there might be another side of the coin where some highly skilled individuals and reputable organisations decide to get “on board” such failing firms. Indeed, human capital accumulation can play a pivotal role in reversing the business decline process (see D’Aveni, 1990). Yet the theoretical grounds on which the current streams of scholarly works have been reformulated and examined have yet to fully embrace and explore both dimensions of human capital flows just before business collapse.

Although human capital diffuses in, out and through declining organisations before collapse, many of the existing scholarly works have examined one type of human capital flow at a time (Jiang et al., 2017; Semadeni et al., 2008), with little or no attempt to integrate these streams of research. This lacuna in our understanding is surprising given that there still remains a lack of a comprehensive and integrated conceptual model to articulate different aspects of human capital flow into or out of collapsing firms. Given that human resource remains one of the most valuable organisational strategic assets (Crook et al., 2011), inflows and outflows can play a pivotal role in determining a firm’s ability to combat performance decline (see Pennings, Lee and Van Witteloostuijn, 1998). Although the possession of scarce human capital is important to sustain
competitive edge, the ability to control the flow is a quintessential element during turbulent periods (Ployhart et al., 2009; Ramadan et al., 2017).

Accordingly, the purpose of this article is to examine the dynamics of human capital accumulation and human capital depletion in the processes leading to business failure. This issue of human capital flows is particularly important given that most collapsed firms experience some level of performance deterioration, and inward and outward flows of human capital preceding the actual business failure. Indeed, such analysis could help to differentiate the varying effects of human capital flow in determining organisational life chances.

In advancing our arguments to address this deficiency, the study offers several contributions to human resources, organisational behaviour and business failure research. First, although past studies have made great advances in elucidating the dynamics of business failure (Shepherd, 2009; Byrne and Shepherd, 2015; Walsh and Bartunek, 2011) and human capital flows (Nyberg and Ployhart, 2013; Tung, 2008; Madsen, Mosakowski and Zaheer, 2002), the relationship between the two remains largely underexplored. Thus, the study contributes to our understanding by developing an integrated framework of human capital accumulation (inflow) and human capital depletion (outflow) which illuminates our understanding of “black box” between the two. In addition, notwithstanding the body of research that has suggested that organisational decision-maker characteristics can determine the success or failure of their organisations (e.g. D’Aveni, 1990), it remains unclear how human capital flows can alter the pace and process of business failure. The study provides insights into the business failure processes, career trajectories and effects of talented individuals on board declining or underperforming organisations. Thus, the study deepens our understanding of the trigger factors, processes and steps inherent in “the road to disaster” or business failure (Heracleous and Werres, 2016).
Furthermore, although human capital accumulation has been examined within the resource-based perspective (Crook et al., 2011; Ployhart and Moliterno, 2011; Ployhart, Van Iddekinge and MacKenzie, 2011), human capital losses (resource depletion), in general and in the context of business failure, remain underexplored (Shaw, Park and Kim, 2013). The study deviates from the existing literature that has relied on business failure prediction models (Altman, 1984) which offer little or no insight into the effects of depleting the expertise base of declining firms. Accordingly, the article contributes to the literature by offering an integrated conceptual model which sheds light on human capital flows.

The rest of the paper is organised along the following lines. In the next section, a brief historical overview of business failure and human capital is presented. After presenting the linkages between the two streams of research, we draw out the key issues which lead to the identification and examination of the key pillars of our conceptualisation. The implications of the analysis are then examined.

**Business failure: A review and overview**

The concept of a business failure is not new to practitioners or academics. The past few decades have seen a growing body of theoretical and conceptual research on business failure across the social science domains. For analytical clarity, business failure is conceptualised as when a firm facing severe performance decline falters in its attempt to reverse the deterioration, culminating in the closure of the business (Hamilton, 2006). Over the years, different political, economic, social and legal factors have played a role in precipitating failures (Amankwah-Amoah, 2015a, 2015b; Amankwah-Amoah and Zhang, 2015). One stream of research attributes business failures to personal deficiencies of the managers or founders such as managerial incompetence and lack of relevant industry experience (Brüderl, Preisendörfer and Ziegler, 1992). Explanations for the
causes of business failure have focused mainly on either firm-level factors such as inferior resources and capabilities, or external factors such as competition and demand (Mellahi and Wilkinson, 2004).

The English philosopher Herbert Spencer coined the phrase “survival of the fittest” in 1864 and since then it has been utilised to explain an array of phenomena (Verma, 2015). In the context of business failure, the deterministic school of thought argues that business failure is attributed to “survival of the fittest” factors such as market competition and liberalisation (Mellahi and Wilkinson, 2004). These factors are outside the boundary of the business over which managers have limited or no control. Indeed, liberalisation of industries around the globe has ushered in new sources of competition and created conditions for many new entrants (Amankwah-Amoah and Debrah, 2010, 2017). Accordingly, business failure has surged in line with the growing number of newly formed ventures. It should be noted, however, that eventually poorly performing firms are weeded out by the forces of competition. Another source of change has been the decline of state-owned enterprises in industries including aviation, mining and construction since the 1980s (see Doganis, 2005; Millward, 2005). Government subsidies and preferential treatment which benefited such firms for decades in maintaining their operations in many ways curtailed new business formation and competition. Around the globe such firms were not allowed to fail and were kept in business by government supports and subsidies. In tandem with the support, their privileged positions enabled them to recruit highly educated nationals into the fold, thereby depriving potential rivals of access to such talent (see Doganis, 2005).

Another possible explanation for this is that the generous national benefits and pension schemes enabled such firms to build loyalty among their employees (Amankwah-Amoah and Debrah, 2014). By the late 20th century and commencement of the 21st century, many states divested their interests and involvements in state-owned firms (Doganis, 2005). In addition, many industries
both the developed and developing world had been deregulated. In developing countries, including much of sub-Saharan Africa, it was through the Structural Adjustment Programme (SAP) which entailed liberalisation and deregulation of industries such as energy, finance, agriculture and aviation. This shift was imposed and spearheaded by the World Bank and International Monetary Fund (IMF) (for detailed review, see Kiggundu, 1989). On the other hand, in the developed world, it was largely through government policy and growing recognition that such firms needed to be privatised to create space for entrepreneurship and economic development, and reduce loss-making operations to allow new firms to flourish (Millward, 2005). It is worth noting that incumbents and new entrants both fail at different failure rates, with new entrants more likely to fail (Brüderl et al., 1992).

Another visible manifestation of change in the 21st century is information and technological advancements through the spread of the internet. This has broadened the scope and spectrum of sources of competition in the business environment. By taking advantage of technological improvements such as the advent of high-speed internet and improvements in data storage technology, many consumers have been able to purchase items such as books and music with ease. This has also exerted pressure on brick-and-mortar stores that have historically provided such services. This in tandem with the boost of internet businesses means that firms increasingly compete not only on the high street, but also online which demands a different set of skills. At times, business failure may stem from an underestimation of the nature of external threats such as competition and effects of new technology. Many companies underestimated the effects of the internet and how it would transform the way we purchase goods and services. It has been shown that technological advancements helped to facilitate the increasing shift from “bricks to clicks” (Avery, Steenburgh, Deighton and Caravella, 2012). The shift from “bricks to clicks” has also rendered many third-party distributors obsolete.
The negligible steps taken by firms were often not only insufficient in masking the ominous shift to online shopping but, more importantly, in also stemming their protracted process of decline (The Economist, 2016). Accordingly, many brick-and-mortar firms that were unable to adapt in an opportune manner and embrace these changes have collapsed (Bernstein et al., 2008; The Economist, 2016). Although many bricks-and-mortar shops and retailers are reconfiguring for the 21st century by introducing schemes such as “click and collect” and “clicks-and-mortar”, the changes are often not fast enough to stem the process of decline, culminating in closure (Bernstein, Song and Zheng, 2008). There is a commonly held belief in society that business failure is bad and is typically portrayed as a stigmatising event, however, business failure can facilitate human capital diffusion from the collapsed organisations to the existing ones (see Amankwah-Amoah, 2011). Indeed, a recent stream of research has demonstrated that we learn more from failure than success (Desai, 2011). Although firms often chart their own path to business failure, the historical evolution of industries and external factors can play a pivotal role, culminating in collapse.

**Human capital: A review and overview**

Scholars have long recognised high human capital accumulations as an essential ingredient in delivering superior firm performance, whilst human capital depletion can reverse superior performance or lead to sub-optimal performance (Becker, 1964; Price, 1977). In the last half a century or so, the general management literature has become increasingly replete with concepts and phrases such as top talent, star performers, top executives and star managers to capture the intense competition for highly skilled individuals in many industries (Gardner, 2002; Groysberg, 2010; Groysberg and Abrahams, 2006; Groysberg and Lee, 2009; Rao and Drazin, 2002). These individuals are also often rewarded with a “golden parachute”, “golden handshake”, “golden hello” or “golden goodbye” before their arrival, upon arrival or after departure from an
organisation even in the wake of business failure (see Dash, 2011). Broadly speaking, these capture the human capital accumulation and human capital losses linked to business failure.

Human capital refers to the individual knowledge, skills, experience and abilities (Becker, 1964; Schultz, 1961). Human capital theory (Becker, 1964) is a key theoretical underpinning in talent acquisition and human capital depletion. In the face of declining performance, timely recruitment of top talent into the organisation would undoubtedly help in altering the fate of the organisation and will go a long way in restoring the competitiveness of the business (see Kumar at al., 2015). In addition, human resources have been recognised as superseding physical resources as a competitive strategy for the 21st century (Gardner, 2002). It has been considered necessary for firms competing in local and global industries to seek to assemble highly skilled individuals as the basis of their strategy (Debrah and Ofori, 2006). This is precisely because quality decisions and ability to reduce errors are underpinned by quality human capital. A body of research has hinted that underperforming and less innovative incumbents often poach top talent from more innovative start-ups to bridge the human capital gap (see Groysberg, 2010). This has been spurred partly by the increasing realisation that the diffusion of knowledge and expertise from the originating firm can be “competence-destroying” in disrupting its research and development activities and levelling the competitive game. By establishing a dominant design in an industry (Suarez and Utterback, 1995; Bayus and Agarwal, 2007) or incumbent advantage (Rothaermel, 2001), some firms are able to gain competitive edge. This can persist for some time unless others are able to mimic the model or develop an alternative. To restore the balance, firms need to build or acquire unique expertise and human resources (Barney, 1991). This is also predicated on luring highly skilled individuals from the dominant design team to form a nucleus of new project development. Under such circumstances, poaching appears the most effective mechanism.
Based on the foregoing analysis, we extract insights human capital flow from external-to-internal (inward human capital flow) and internal-to-external (outward human capital flows) as pillars of our conceptual model, as shown in Figure 1. The integrated framework links the human capital accumulation and human capital depletion during the process leading to business failure. Based on the above analysis, in the wake of declining performance, firms often adopt divergent approaches relative to human capital, i.e. accumulation and depletion. Besides the possession of scarce human capital, the visibility of highly skilled individuals could incentivise outside firms to lure them into their organisations (Fee and Hadlock, 2003; Golan, 2005).

Insert Figure 1 about here

**Business failure process: inward and outward flow of human capital**

Having set out a detailed overview and dynamics of the conceptual framework, we now turn our attention to the pillars.

**Human capital depletion (outflow)**

Human capital depletion or outward human capital flow refers to the spread of knowledge, skills and expertise from the declining or departed organisation to outside firms through employees’ inter-organisation mobility. In seeking to avert collapse and reverse performance decline, some firms may also offer an incentive package to offload some existing staff as a means of improving the balance sheet. Such a strategy can also be a means of eliminating overlapping activities and underperforming units and employees. In light of growing global competition, organisations are under increasing pressure to incentivise to retain and attract highly skilled individuals (Cappelli, 2008a, 2008b). This becomes more difficult during periods of decline not only because of the pressure on limited resources, budget restrictions and a shrinking resource-base which curtails
rewards, but also individuals begin to question their future prospects. Accordingly, they become more open to employment offers from external (Groysberg, 2010).

For firms combating underperformance and decline, such depletion of know-how can hamper their ability to recover. Research into declining firms and organisational misconduct has shown that some executives may opt to “jump ship” to avert the potential stigma of being associated with an underperforming firm which ultimately collapsed (Jiang et al., 2017; Marcel and Cowen, 2014; Semadeni et al., 2008; Pozner, 2008). Besides helping to protect the top-management team from being stigmatised and the possibility of being undervalued after failure (Semadeni et al., 2008), jumping ship enables them to create space between themselves and the looming business failure. It has been suggested that the experience of business failure can cause former employees of departed firms or entrepreneurs to become stigmatised as incompetent by others in many developing countries or possessing devalued human capital (Amankwah-Amoah, 2016). Indeed, the visibility of prior experience of business failure can raise questions about individuals’ judgement as well as the quality of their decisions. Accordingly, investors may become increasingly reluctant to lend money to such individuals or they may be deprived of jobs because of their diminished level of expertise or human capital.

Regardless of industry-specific factors, most firms learn from others to either innovate or improve their competitiveness (see Yang, Phelps and Steensma, 2010). In some cases, outside firms can view poaching from the declining firm as an attempt to learn the lessons of the departed or departing firm (Amankwah-Amoah, 2011). The recipient firm’s capacity in diffusing such insights to employees is also essential in their ability to harness such knowledge. At times, outside firms might receive less than what they bargained for in luring the employee, i.e. winner’s curse (Perri, 1995). Prior research has demonstrated that due to imperfect (asymmetric) information, firms may
at times poach from rivals only to discover they have over-valued the individual and their actual performance does not actually bear relation to their rewards (Laing, 1994).

On one hand, it has been demonstrated that the depletion of highly skilled individuals from the organisation can actually accelerate the process of decline, bringing about failure sooner rather than later (Amankwah-Amoah, 2016). On the other hand, it follows that there is a possibility that firms experiencing higher human capital depletion during performance decline might be better positioned to weather the storm due to possible depletion of obsolete knowledge and expertise. For the originating organisation, losing highly skilled individuals could be detrimental to their operation in cases where such individuals might have been the linchpin of new product development and organisational success. For outside firms, the utilisation of such talent is often predicated on high knowledge transfer mechanisms to create conditions for the knowledge to diffuse to the whole organisation and then translate into improved performance. Figure 2 demonstrates the natural interactions and different types of knowledge flows between collapsing firms and outside firms. These lead us to propose the following:

**Proposition 1:** Firms attempting to reverse the process of decline are more likely to succeed when there are characterised by a modest degree of outward mobility. Thus, low level of “jump ship” can provide opportunity for injection of new knowledge and expertise.

**Human capital accumulation (inflow)**

Human capital inflow is where employees of outside firms decide to join the focal firm. This can be attributed to the better prospects of promotion and high rewards offered by the firm. Much of the research on human capital accumulation is rooted in the “upper echelons perspective” (Hambrick and Mason 1984) and resource-based view (Barney, 1991). These emphasise that
assembling or parachuting in highly skilled individuals during the process of decline can help to halt the processes by injecting new perspective and insights into solving the organisation’s problems. Accumulating new sets of expertise and repertoires of knowledge by replacing existing executives with new ones in a declining organisation has long been regarded as a recipe for recovery (Bibeault, 1982). Managers and executives might seek highly skilled individuals to firefight the organisational problems in an attempt to generate a turnaround. Early warning signals of failure can trigger a quest for new sources of talent to revitalise the organisation to avert failure. There is a growing recognition that deficiency in human capital during the period of performance and organisational decline can hamper a firm’s ability to generate a turnaround. To make matters worse during the struggle to stay afloat some valuable and rare knowledge and skills leak as a result of employees’ mobility. Besides depriving the firm an opportunity to utilise accumulated known-how to reverse the decline, such leakages could also strengthen rivalry, further hampering the firm’s chances of success (Shaw et al., 2013).

In a parallel fashion, some large firms often seek external consultants as means of bringing on board necessary human capital to halt the process of failure. One of the key advantages of poaching from over-performing or high-performing firms at this stage is that it can inject a sense of optimism that things are about to change for the better. Besides obtaining and applying external knowledge through personnel poaching, firms can also bring in a new perspective to look at routines, processes and strategy which might have been rendered obsolete in the wake of environmental changes. In the face of the existential threat, external knowledge acquisition to reinforce internal strengthen may appear essential. Nevertheless, it has been suggested that replacing top executives in response to persistent underperformance can be viewed as “ritualistic scapegoating” (Chen and Hambrick, 2012; Hambrick and D’Aveni, 1992). Under pressure to improve performance and deliver success, some underperforming organisations may “unwisely
force out” highly skilled individuals with expertise to help turn around the business (Chen and Hambrick, 2012). In so doing, they deprive the organisation of the necessary expertise required, thereby creating conditions which culminate in eventual closure and exit. Some of the recent contributions have highlighted that, largely due to the intense competition for top talent, companies lack the incentive to spend time and resources grooming top star managers who could easily be poached by rivals (Groysberg, 2010). The immediate need for firms often means acquisition of readymade talent or individuals who often demand upfront rewards and lucrative severance at the time of poaching (Dash, 2011). Table 1 summarises the key features of both types of flow.

On this basis, it does follow that human capital depletion would be most damaging during the early stage of business decline but the effects might be offset in the long run due to injection of new talent and new perspectives in exploring the organisational problems brought by new recruits. Accompanying the waves of business failure is increasing personnel mobility out of declining firms. Based on the above analysis, we propose the following:

**Proposition 2:** Firms attempting to reverse the process of decline are less likely to succeed by relying on mainly existing knowledge stock. Thus, injection of new expertise is more likely to improve their chances of success.

**Inward–outward interactions**

It is suggested that, based on the foregoing analysis, the inward and outward flow of human capital might be connected to some extent. It is contended that the flows are predicated on activities of third parties, who connect the current firm to the outside firm and vice versa. We conceptualise the activities of head-hunters/talent brokers and management consultants as inward-
outward connecters. Indeed, one of the primary roles of head-hunters/talent brokers is to connect
the outside firm with the current firm during the poaching process (Finlay and Coverdill, 2002).
This entails identifying the target employees, and discussing rewards and pay, if she or he decides
to accept the unsolicited offer to interview and job change (Finlay and Coverdill, 2002). In the
past, most large organisations attempted to reverse declining performances by seeking to exploit
their own human resources and capabilities.

However, in recent years, an increasing number of firms have turned to management consultants
not only as a means of gaining and applying external knowledge assets but also to help bring a
fresh perspective in looking at the organisational problems (see also Sturdy, Handley, Clark and
Fincham, 2009). In the past, the focus was on utilising knowledge inside the organisation in the
wake of changes in the external environment, however, the opportunities and benefits of applying
external knowledge and expertise of those not ingrained with the current situation and perspectives
of the focal firm were often neglected. By hiring reputable management consultants with strong
financial performance, firms would signal to investors that they were on the verge of identifying
the root cause of their problems and designing solutions aimed at stemming the processes of
decline, and therefore able to generate a turnaround (see Dambolena, Khoury and Sarkis, 1980).
By assembling and utilising both external and internal knowledge through hiring of consultants,
declining firms might be better able to identify and root out the causes of decline and be better
positioned to avert failure. This strategy is limited given that many small businesses are resource
poor and therefore not financially endowed to acquire and utilise the services of outside firms.
Accordingly, the effects of outside firms in helping to reduce business failure rates may be
predicated on the resources and size of the firm during the process of decline.

By poaching from rivals, firms not only signal their intent to the market but also concurrently
deprive the rivals of essential strategic assets to counter the environmental threats. The potential
threat from more nimble, new entrants may force incumbent firms to poach their employees not only to weaken their positions but also deal with the changing business environment. This could foster investors’ confidence and legitimacy, and signal to markets that the organisation is on the mend and failure is more likely to be averted. On the other hand, the departure of such individuals during crisis could also lead to a downturn in confidence with the business and its ability to function (see D’Aveni, 1990). Co-workers might follow their seniors outside the organisation, thereby depriving it of necessary expertise. This is more so for small firms where a large percentage of their staff could be lured by large firms with more lucrative offerings, leading to a depletion of human capital.

Furthermore, declining firms may call upon management consultants to help identify root causes of performance decline, identify solutions to the problems, and design new strategies and a plan towards change and implementation (Bergh and Gibbons, 2011; Sturdy et al., 2009). Management consultants in these instances may view themselves as “troubleshooters” whose distinctive competence rests in assisting underperforming organisations to arrest the causes of decline and generate a turnaround. On the other hand, as Bergh and Gibbons (2011, p. 544–567) noted that, “to the stock market, the hiring of management consultants could convey trouble”. In addition, the availability of complementary assets to allow the external knowledge to the applied also helps in achieving better outcomes. Firms combating decline can improve their chances of success by acquiring readymade talent through personnel poaching rather than through securing services of management consultants, which they have limited control. On the basis of the foregoing analysis, the nature of interaction between the inward and outward flow of human capital is illustrated in Figure 3. These also lead us to propose the following:

**Proposition 3:** Firms attempting to reverse the process of decline heading to business failure are more likely to succeed when they poach from rivals.
Discussion and conclusions

At the outset of this article, it was noted that much of the existing literature has focused on either human capital accumulation or human capital depletion. As such, we lack a complete picture of the nature of human capital flows in the business failure process. In an attempt to address this lacuna in our understanding, we developed an integrated conceptual model which explicates dynamic inward and outward flow of human capital in processes leading to business failure. The detrimental effects of the departure of highly skilled individuals from declining firms include hampering turnaround efforts and depleting the knowledge base of the firm. However, the analysis emphasises the benefits of the departure of highly skilled individuals in declining firms in paving the way to bring in new blood and perspectives to restore and develop the business. The analysis also highlights that inward flows may stem from actions to generate a turnaround by turning to highly skilled individuals and organisations with prior experience of generating successful turnarounds. The analysis indicates that outflows can be triggered by factors such as attempts to mitigate stigmatisation, diminished value of human capital and pursuit of more promising opportunities elsewhere. Thus, we provide a comprehensive set of factors that influences the direction and flow of human capital just before business failure. The inflows and outflows are linked through third-party organisations such as talent brokers and management consultants, who play a pivotal role in not only influencing the pace of decline leading to collapse but also in signalling to markets the benefits of fresh human capital inflows.
Contributions to theory and practice

From a theoretical standpoint, in light of the growing scholarly quest for a better understanding of business failure, the study integrates research on business failure and human capital to deepen our understanding of the inward and outward flow of human capital from the perspectives of originating firms, employees and recipient firms. Another point of departure from much of the existing research on financially distressed firms heading towards business failure has been the focus on selling of assets or divestment as a strategic response to averting failure (see Altman and Hotchkiss, 2010). The analysis contributes to our growing understanding of the human capital dimensions inherent in the business failure process. Although past studies have illuminated our understanding of business failure (Amankwah-Amoah et al., 2016, 2017; Shepherd, 2003), the dimensions of inward and outward human capital flows during the business failure process remains largely underexplored. In an attempt to explain these flows, this paper developed a conceptual framework linking the inward and outward flow of human capital in the processes leading to business failure. The argument that highly skilled individuals are sought in the quest to reverse organisational decline is not new (e.g. D’Aveni, 1990) but the dynamics and nature of flows remain underexplored. In this direction, our study deepens our understanding of human capital flow by exploring the interactions between inflows and outflows, and factors that influence the flows.

Regarding practical implications, the analysis indicates that companies on the verge of decline heading to exit could regain their competitiveness through personnel poaching whilst concurrently altering the competitive atmosphere in their favour by weakening rivals. In order to reverse the process of decline, firms can revitalise their existing repertoire of expertise and knowledge by “tapping up” highly skilled individuals from rival firms (Amankwah-Amoah, 2015c; Groysberg, 2010). By revitalising their knowledge base, the risk of failure is more likely to be mitigated. To
gain competitive edge and survive in the 21st century new world, organisations need to embrace the introduction of new talent in seeking to reverse protracted decline. The study has stressed that this could potentially be a means of injecting not only new blood but also new perspectives in seeking sustainable solutions.

**Limitations and directions for further research**

Although some of our arguments should be valid for firms in different industries, there are some limitations which must be borne in mind. First, the analysis assumed that organisations exist, experience performance decline and then eventually collapse. Many organisations that collapse do not pass through these clean phases. The integrated framework is limited in the sense that some organisations collapse suddenly with no prior notice; this is often attributed to natural disasters. There are also organisations that exist purely through legislative mandates (Freeman, 1979) and as such withdrawal of such mandates effectively leads to collapse. Indeed, business failure could also be accelerated or slowed down by national laws on bankruptcy, social norms and national culture which have not been accounted for in our model. There is a need for future studies to explore these intricacies and paths through which different organisations collapse. In addition, it seems reasonable to conclude that factors preceding failure may be shaped by other firms’ experience of failure and its consequences. Future research could tell us whether this issue has such an effect.

Another possible line of research would be for our arguments to be subjected to empirical scrutiny. Obviously, we limited the analysis to only the human capital accumulation and dispersion during the business failure process. It might also be worthwhile for future research to move beyond the human capital arguments to encompass social capital and relational capital, and their effects on the process of business failure. During the process of business failure, there is likely to be unequal flow of talent or individuals from and into the organisations. Future research
should compare whether individuals who join declining firms just before collapse or those who depart are more likely to suffer damage to their reputation. Finally, it is hoped that the preceding analysis and discussion would ignite new streams of research on the relationship between human capital and business failure.

References


Figure 1: A framework of human capital flows

- Inward–outward interactions
  - Management consultants
  - Labour market
  - Healthy firms

Current firm

Human capital accumulation (inflow)

Sources of human capital

P1 Internal-to-external

P2 External to the focal firm

P3 Inward–outward interactions

Labour market

Human capital depletion (outflow)
Figure 2: Knowledge diffusion

**Recipient firm**

**Originating firm**

**Quadrant I**
- Direct knowledge diffusion
  - Unilateral flow

**Quadrant II**
- Direct knowledge diffusion
  - Unilateral flow

**Quadrant III**
- Multilateral diffusion
  - Direct flow
  - Reverse flow

**Quadrant IV**
- Multilateral diffusion
  - Direct flow
  - Reverse flow

- Superior performance (small to big)
- Winner's curse
- Same level performance

Size of the circles illustrates the benefits accrued from lateral hiring.
Figure 3: A unified framework of directions of human capital flow in failing businesses
<table>
<thead>
<tr>
<th>Inter-firm flows</th>
<th>Dynamics</th>
<th>Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inward human capital flow</td>
<td>Human capital accumulations stem from hiring management consultants and highly skilled individuals. Facilitate knowledge acquisition.</td>
<td>Knowledge flow from outside into the firm. This can provide a false sense of confidence in the organisation. It encourages short-termism.</td>
</tr>
<tr>
<td>Outward human capital flows</td>
<td>Human capital losses through personnel mobility often motivated by desire to avoid stigmatisation, and devalued human capital. Motivated by financial and non-financial incentives including a promising career prospective.</td>
<td>Human capital losses impinge on firms’ decisions and strategising. Dis-incentivise costly human capital development initiatives.</td>
</tr>
<tr>
<td>Intersect</td>
<td>The role of management consultants and talent brokers as intermediaries between the two.</td>
<td>Intermediaries can insulate firms from the negative effects of external knowledge through vetting and ensuring effective alignment between the requirements of the firm and expertise of the individual.</td>
</tr>
</tbody>
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