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Old habits die hard: A tale of two failed companies and unwanted inheritance

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ABSTRACT

This article examines whether state-owned enterprises inherit the problems and stigmas resulting from the actions and inactions of their predecessor firms. In this direction, we advance two main theories of inherited background: the "wanted inheritance" and "sins of the father" perspective. We shed light on this issue using the cautionary tale of two failed companies: Ghana Airways (GA) and Ghana International Airlines (GIA). Our data indicate that GIA acquired some wanted inheritance such as former employees and their expertise, but this was accompanied by unwanted inheritance such as tainted 'image' and years of dissatisfaction of their customers from Ghana Airways, which affected its operations and precipitated its untimely demise. We conclude by outlining the implications of our findings for management and governments.

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1. Introduction

In the last few decades, the assumption that when companies die, their brands disappear and relationships terminate, has become increasingly difficult to sustain (see Bogomolova, 2010; Bogomolova & Romaniuk, 2009; Ewing, Jevons, & Khalil, 2009; Hallén & Johanson, 2004; Hoetker & Agarwal, 2007; Varadarajan, DeFanti, & Busch, 2006). However, it remains unclear whether the nature of their knowledge, routines, resources and relationships with customers can be inherited or diffused to other companies (Agarwal, Echambadi, Franco, & Sarkar, 2004; Hallén & Johanson, 2004). There is a possibility that state-owned enterprises (SOEs) may suffer a negative reputation effect induced by the actions of other state-owned firms (see Hallén & Johanson, 2004).

Nevertheless, our understanding of whether SOEs suffer from the 'sins' of their predecessors is limited. Research that could provide further insights on the issue of whether such firms suffer from the inherited problems of their predecessors is surprisingly limited (Agarwal et al., 2004; Hoetker & Agarwal, 2007; Yang, Phelps, & Steensma, 2010), given that the cause for companies failing and learning from failure is of considerable theoretical interest to both marketing and strategy scholars (Bogomolova, 2010; Kim & Miner, 2007; Knott & Posen, 2005). This paper extends this research stream by examining a cautionary tale of two failed state-owned airlines and whether the relationships and ties of the previous firm led to the demise of the firm created to fill the vacuum. In so doing, we integrate the literature on 'inherited background' and SOEs to develop an integrated framework of analysis.

The dramatic collapses of Ghana Airways (GA) and Ghana International Airlines (GIA) provide an opportunity to explore this issue. GA was best known for its role in post-colonial Africa as one of the pioneering firms in the 1950s. However, in the case of GIA, many may not have even heard of its existence let alone demise. It struggled throughout its short history to emerge from the shadows of GA. However, both companies offer a useful lesson about the relationship between the state and emerging firms within their jurisdictions.

For policymakers, the collapses of all "three Darlings" of post-colonial West African aviation (i.e. Nigeria Airways, Air Afrique and GA) sent a shock to the system and further rekindled the debate about the role of the state in the global industries and lack of robustness of such airlines' sources of competitive advantage. Indeed, between 2000 and 2007, an average of 13.6% of all African airlines disappeared annually, as shown in Fig. 1. The industry is largely underexploited, but an increasing number of state-owned airlines have become major casualties in recent years (Dunn & Uphoff, 2012). Therefore, scholarly inquiry is required to provide insights into the issue of whether public organisations inherit problems of their predecessors in the marketplace. Such analysis would enrich the traditional debate of the role of SOEs in today's global business.

The paper is organised as follows. The next section reviews the literature on SOEs and the 'theory of inherited background'. The following section examines the various approaches adopted to assemble and analyse the data. We then present our findings by first setting out conditions at the founding, factors that led to their demise, and then faulty resources, routines and processes diffused from GA to GIA. The final section presents the theoretical and policy implications of the findings.

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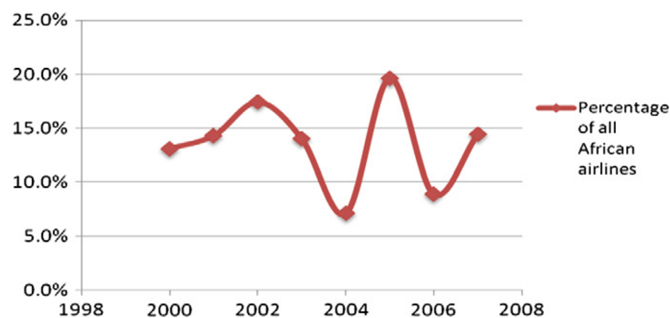

Data sources: SH&E (2010) and IATA

Fig. 1. Annual African failed airlines as a percentage of all African carriers, 2000–2007. Data sources: SH&E (2010) and IATA.

2. The state, state-owned enterprises and 'inherited background'

Although SOEs have always been part of the global economy (Vernon, 1984; Hafsi, Kiggundu, & Jorgensen, 1987), some scholars have suggested that they are actually in decline (e.g. Hughes, 2003). However, others indicate that they are surging in emerging markets (e.g. The Economist, 2012). At the dawn of the 21st century, the signs of remarkable economic growth in emerging economies were accompanied by the surge of emerging market multi-national enterprises from countries such as China and Brazil (Holstein, 2007). These firms are seen as the new players in the global economy and in many industries they have started to out-compete their developed countries' multinational companies' counterparts (Hennart, 2012). In sharp contrast to the assertion of the diminishing power of the state (see Hughes, 2003), the rise and spread of emerging market multi-national firms is largely supported by the funds of the state (The Economist, 2001, 2012).

There are three schools of thought on the relationship between the state and SOEs. One school of thought argues that because a large number of emerging firms lack the technical and managerial expertise required to succeed in global industries, they therefore require the state to help them find their feet (Hafsi et al., 1987; Mascarenhas, 1989). Emerging market firms usually lag behind their advanced economy counterparts in terms of technological expertise (Hennart, 2012) and therefore state support provides them with the necessary financial ammunition to survive. In this sense, the state plays an important role in shepherding of local organisations to help them find their feet in foreign markets and unknown territories. Emerging market firms also leverage ties with governments to provide them with access to financial resources to finance their international expansion (e.g. Acquaah, 2007). Although government subsidies to SOEs often distort competition, they are essential in industries where stiff competition often renders new entrants and local firms uncompetitive.

Another school of thought argues that state involvement in global industries is a recipe for disaster as the state has been found largely to be ineffective in picking winners and losers (e.g. Doganis, 2006). The view contends that reliance on the state to gain access to resources and expertise is an unsustainable strategy in global business. The reliance actually makes such firms less sensitive and less responsive to looming market changes due in part to political constraints (Afuah & Utterback, 1997; Rainey, Backoff, & Levine, 1976). The backing of the state is generally ineffective in achieving competitive advantage which may lead to the eventual decline and exit (Lioukas, Bourantas, & Papadakis, 1993). Instead, firms should seek to eliminate their reliance on the state to free them to compete innovatively.

Between these two opposing views, a third school has suggested that there are significant differences of autonomy within the sphere of "state ownership" which may influence such firms' behaviour and ability to deliver profitable results to governments (Bozeman, 1987; Lioukas et al., 1993). Due to the poor performance experienced by such firms in the past, governments have reduced its level of control or handed over the operations of such firms to a third party or independent agency (Hughes, 2003). Indeed, "only a handful of SOEs are still reporting directly to government ministries" (The Economist, 2012, p. 4). In China, for instance, the state exercises power through two institutions: the State-Owned Assets Supervision & Administration Commission and the Communist Party's Organisation Department (The Economist, 2012). The rise of public–private partnership model can be partly attributed to the increasing recognition among governments, regulators and industry that it delivers the best possible outcome for consumers and the general public. The failure of SOEs may be attributed to both market-based and firm-specific factors (Mellahi & Wilkinson, 2004).

3. A theory of 'inherited backgrounds'

We advance two schools of thought on the notion of 'inherited background': positive or "wanted" inheritance and the "sins of the father" perspective. The positive effects contend that there are inherent benefits to be gained through inheritance such as inheriting skilled personnel and intangible assets such as patents, brand and reputation which enable firms to reduce costs and compete (see Hoetker & Agarwal, 2007). For instance, in airline industry, where the cost of training pilots and aircraft engineers can be extremely expensive, the ability to inherit such skilled personnel can be a key cost advantage.

SOEs may inherit the network of relationships with customers, suppliers and partners stemming from the historical actions of the government. State-owned firms often established a bond with their customers through official and unofficial channels which may then be transmitted on when they depart their industry (Hallén & Johanson, 2004). Such inheritance may stem from government and other firms developed through the "passage of considerable time and extensive historical experience" (Nguyen, Weinstein, & Meyer, 2005, p. 215).

The mobility of former employees is also accompanied by the transfer of workplace-management routines, capabilities and connections from the departed to the new firm, which subsequently influence structure and culture of the new organisation (Higgins, 2005). When firms die, their networks of relationships, trust and reputation may diffuse onto other firms (Hallén & Johanson, 2004; Hoetker & Agarwal, 2007; Pérez-González, 2006). Relationships and networks of ties inherited from departed firms can enable the existing one to benefit from knowledge gained in the past as well as an ability to compete effectively (Hallén & Johanson, 2004; Hoetker & Agarwal, 2007; Kim & Miner, 2007). Trust is particularly important in emerging economies where market institutions such as property rights and enforcement of rule of law are underdeveloped and therefore it's often viewed as a basis for business transactions (Peng & Heath, 1996). This may influence consumers' attitudes towards the firm and its products. Indeed, such social capital remains the key strategic assets often "transferred from parents to their progeny" (Phillips, 2002, p. 475).

The contagion school of thought or "sins of the father" perspective contend that there are negative effects in inheriting features, resources and capabilities from departed organisations. The "sins of our father" are some kind of "stigmatised marks" placed on a person or organisation such that it becomes "discrediting dispositions" (Jones et al., 1984). Just by merely possessing features of a discredited organisation or entity, there is an inherent risk that the new organisation may be stigmatised by customers or even investors not necessarily through their actions, but those of their predecessors (see Goffman, 1963).

Past studies indicate that an organisation that shares features with others that endured negative customer evaluations leading to their exit, are more likely to be stigmatised (Okhuysen & Hudson, 2009; Sutton & Callahan, 1987). As former employees move across organisational boundaries, they also carry within them an imprint of prior cognition, relationships and experiences which are brought to bear in their new organisation (Beyer & Hannah, 2002; Phillips, 2002). The former

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