A unified framework for incorporating decision-.making into explanations of business failure.

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A B S T R A C T

Purpose – The purpose of the article is to examine how decision-maker attributes unfold to precipitate organisational failure. Our analysis brings to light how key attributes such as information processing capabilities and human capital decay interact to bring about business decline and exit.

Design/methodology/approach – The study is based on an integrated review and conceptualisation of the literature.

Findings – The study articulates how a set of attributes of decision-makers, i.e. human capital obsolescence, powerlessness, meaninglessness and institutional linkages, contributes to organisational failure.

Research limitations/implications – The paper concludes by setting out an array of strategies of learning from others' failures.

Originality/value – In spite of a growing body of research on organisational failure, scholars have placed overwhelming emphasis on ecological explanations and business failure prediction models. The study moves beyond the ecological explanations to offer a more fine-grained analysis of firm-level factors that precipitate business failure.

Introduction

Over the past five decades, management scholars have offered a plethora of business failure prediction models (see Aziz and Dar, 2006). Although organisational decision-maker characteristics (DMCs) have been identified as a contributory factor in organisational failure (Wiesenfeld et al., 2008), to date, scholars have relied mainly on either the embeddedness or ecological explanations of business failure, which place primary emphasis on a firm's size, age and density of the population (Hager et al., 2004).

One of the common limitations of both the ecological explanations and prediction models is that they offer little or no insight into the effects of DMCs. Both have also failed to capture the more intricate dynamics of decision-making processes which precipitate organisational failure. This omission is surprising given that scholars have long recognised that the "images of organizations and their leaders are intertwined" (Sutton and Callahan, 1987, p. 405) and organisational outcomes are a reflection of the characteristics of their decision-makers (Finkelstein and Hambrick, 1990; Rider and Negro, 2015).

The primary purpose of this study is to examine how DMCs unfold to precipitate organisational failure. We contend that the four sets of cognitive and psychological attributes of the decision-maker, i.e. obsolescence, powerlessness, meaninglessness and institutional linkages, interact to contribute to business failure (see also Seeman, 1971).

Our study builds on and extends the literature by developing an integrated framework to explain how DMCs interact with other factors to lead to business failure. The study thus adds to the growing body of literature that has recognised the crucial role played by human capital held by decision-makers in the rise and fall of companies (Semadeni et al., 2008).

In addition, one of the unintended consequences of a lack of a comprehensive overview of the effects of DMCs has been that research has largely flourished in silos and thereby providing

conditions for confusion to emerge, leading to poor understanding of the causes of business failure. Thus, our synthesis of the literature led to the identification of unchartered territories and pinpointed key factors that contribute to business failure. By incorporating DMCs and their dynamics, the study departs from much of the existing literature that has focused on mainly the prediction failure model (Aziz and Dar, 2006) and ecological explanations (Hager et al., 2004) to bring into focus the "decision-making processes".

The remainder of the paper proceeds as follows. In the next section, we set out the key pillars of our conceptualisation and key features of decision-makers. We then briefly examine organisational failure as a decision process. This is then followed by the development of a conceptual framework and examination of its components. We conclude by setting out the implications of our conceptualisation.

Definitions and decision-maker

Decision-making can be defined as the ability of organisational leaders to choose between competing courses of action based on careful evaluation of the alternatives (Balleine, 2007). One of the key elements during decision-making is timing. Decision time refers to a period "when the situation will be altered in the near future, after which no decision can be made or the decision can be made only under less favorable circumstances" (Billings et al., 1980, p. 301).

Organisational decision-makers are individuals in a position of responsibility, power and resource control who determine the right course of action for their organisations (Robbins and Judge, 2011). In many small organisations, there is often an individual with sole responsibility and power to influence or make all key decisions. Such organisations tend to have a less decentralised approach to decision-making and decisions are influenced by the individual's opinions and biases. However, the decision-makers are often not individuals in isolation, but

rather small groups of individuals such as committees, top management teams (TMT) and boards of directors with the responsibility and authority to ensure not only organisational success, but also the firm's long-term survival (Hambrick and Mason, 1984).

Although groups have access to a wider range of expertise across functional areas, it remains unclear whether groups actually make better organisational decisions relative to individuals (Kocher and Sutter, 2005). Past studies have indicated that decision-makers, whether individuals or groups, display errors in their judgments and choices (Frese and Keith, 2015). In this sense, business failure partly stems from the accumulation of errors of the decision-makers (Cannon and Edmondson, 2001). The decision-makers' survival and longevity often hinge on their ability to deliver organisational successes.

Organisational failure as a decline and decision process

For analytical clarity, organisational failure refers to "the actual demise of the organization when an entire company goes out of business or a plant, office, or other unit is closed...the organization completely ceases to exist" (Marks and Vansteenkiste, 2008, p. 810). It stems from a downward spiral of extended or unrestrained decline which leads to the loss of legitimacy and an inability to meet obligations (Hambrick and D'Aveni, 1992). Organisational decline can be defined as "a condition in which a substantial, absolute decrease in an organization's resource base occurs over a specified period of time" (Cameron et al., 1987, p. 224).

Past research has demonstrated that the locus of causality for business failure may entail actions and inactions of decision-makers and a period of decline (Nutt, 2002). In a similar vein, organisational failure is merely an outcome of top executives' incompetence, sloppy management and chronic mismanagement which causes organisations to lose their legitimacy and ability to self-govern (Chaganti et al., 1985).

Broadly speaking, the process of organisational failure can be conceptualised into two broad stages, i.e. incubation and trigger/dissolution periods (Turner, 1976). The precondition preceding failure can be referred to as the "incubation period". A plethora of scholarly works have uncovered factors known as "pathogens" to characterise the "incubation period" (Turner, 1994). These include miscommunication; poor operating procedures; barriers to information flow; out-of-date assumptions, routines and processes; inattention to minor errors; failure to carry out necessary checks; ill-defined goals; intolerance of errors; and a tendency to hide errors to provide the conditions for organisational problems and consequent failure to occur (Cannon and Edmondson, 2001).

During this period, organisational members may begin to deviate from normal routines, and errors and system breakdowns become prevalent across the organisation (Turner, 1994). The incubation factors may brew over time across the organisation and manifest in the absence of managerial actions to identify and mitigate decline (Reason, 1990). The "incubation period" is followed by a trigger (dissolution period) which further provokes and leads to the exit of the business (Turner, 1994). This period stems from the over-accumulation of errors, omissions and misperceptions (during the incubation phase) which create conditions for failure to occur (see Figure 1).

Insert Figure 1 about here

Over time, the firms reach "tipping points, thresholds of accumulated interruptions beyond which performance rapidly collapses" and exits occur (Rudolph and Repenning, 2002, p. 24). Failure may stem from the accumulation of unobserved issues and events within the organisation which can bring about decline and eventual exit (Turner, 1978). The features of this period may include the worsening of the business conditions, denial of access to finance and diminished reputation and legitimacy.

Another line of research has identified factors such as jumping ship and conflicts within the organisation as clues of impending failure (Wiesenfeld et al., 2008). One explanation for this is that some elite executives may opt to jump ship to avoid been stigmatised by failure and thereby further weakening the resource-base of the focal firm. Some studies (e.g. Sutton and Callahan, 1987; Semadeni et al., 2008) have suggested that such deteriorating of expertise actually accelerates firms' exit and reduces their ability to adapt. One of the reasons for demise is the novelty-induced nature of events, where in the face of hostile environmental jolts, the organisation does not possess the necessary expertise, knowledge and resources to either understand the nature of the threats or how to mitigate or neutralise them (Billings et al., 1980).

One of the thorny matters in business failure research is the extent to which business failure is attributed to either firm-specific factors such as lack of managerial expertise or external factors such as level of competition, rates of technological change, industry decline and globalisation. It is worth noting that the decision-maker often possesses the resources and expertise to respond to changes arising from the external environment (Amankwah-Amoah and Debrah, 2014).

Decision-maker characteristics as antecedents to organisational failure

We contend that a set of cognitive and psychological attributes of the decision-maker, namely: powerlessness, meaninglessness, obsolescence and institutional linkages, interacts to precipitate business failure (see Figure 2). As shown in the figure, both the incubation period (organisational decline) and dissolution/exit (organisational failure) are influenced by the actions and inactions of the decision-maker. We conceptualised firm-level factors (i.e. DMCs) as a continuum encompassing a high and low axis. The broad categories of factors influence the perceptions and decisions of organisational decision makers, which ultimately lead to business failure.

Insert Figure 2 about here

Quadrant 1: Meaninglessness

Meaninglessness stems from the inability to comprehend the nature of threats posed to the organisation (Seeman, 1972). This is a situation where the environmental analysis and interpretation convey no clear course of action or meaning. Research across fields has shown that meaninglessness leading to business failure is predicated upon factors such as lack of "foresightfulness" and information-processing capability. We restrict our focus to these two broad categories of factors.

Information-processing capability

The information processing perspective contends that decision-makers should seek to translate information and data into actionable knowledge in a timely manner to remain relevant (Ungson et al., 1981). This process entails information-seeking activities and then interpretation of the data to make sense of it. A stream of scholarly works has suggested that firms often face a barrage of information flows which are often complex and ambiguous, and thereby create conditions for meaninglessness to flourish (Lant and Hewlin, 2002). Organisational decision-makers require good data to make good decision (EIU, 2007).

Nevertheless, organisational decisions are often made with incomplete information and without advance knowledge of their consequences (Trepel et al., 2005). An explanation for this phenomenon is that decision-makers often lack the information-processing capabilities, which affects their ability to understand the nature of the environment and design appropriate firm-level responses (Ungson et al., 1981; EIU, 2007). Lack of understanding and poor sources of information are then fed into the decision-making process leading to inappropriate responses or poor strategy. Indeed, around 56% of top executives attribute poor choices and decisions to faulty, inaccurate or incomplete data input into the decision-making process (EIU, 2007). Such information not only impedes the decision-making process, but also leads to wrong diagnoses of the organisation's problems.

A line of research has suggested that business failure stems partly from the lack of an effective information processing unit within the focal firm, which then allows ineffectiveness and lack of attention to flourish across the organisation (see Irani et al., 2001). The inability to make sense of the environment often leads to misallocation of resources and ultimately business failure. One stream of scholarly work hinted that overoptimistic business owners/entrepreneurs are more likely to under-respond or over-respond to environmental shift and thereby create conditions for poor performance and business failure to occur (Lowe and Ziedonis, 2006; Amankwah-Amoah, 2014a). This partly stems from lack of understanding or lack of current and relevant information to guide decision-makers.

Another explanation is that decision makers and managers are often biased by their functional area of operations when scanning the environment, which often clouds their ability to recognise and interpret threats and opportunities (Dearborn and Simon, 1958). The managers may underestimate or overestimate the nature of the threat facing the business which then leads to inappropriate corrective actions being taken and misallocation of resources. This is a type of organisational blindness which stems from inability to identify and respond to changes in the environment. Another major factor is the quantity-induced nature of the event. This stems from a series of interruptions which over time engulfs the information processing capacity of firms leading to performance decline (Rudolph and Repenning, 2002).

Lack of "foresightfulness"

Anchored in the upper echelons' perspective (Hambrick and Mason, 1984), a line of research has suggested strategic foresight as an important characteristic of the decision-makers (see Sarpong et al., 2013). It has been suggested that lack of "foresightfulness" leads to ineffective response in the face of environmental change and thereby creates conditions for decline and eventual failure to occur (see Sarpong et al., 2013). This line of research suggests that the decision-makers suffer from inability to identify and take the correct course of action.

Under such circumstances, early-warning signals are left unattended which leads to misallocation for limited resources and inattentiveness, leading to business failure. Deficiencies in strategic "foresightfulness" often lead to inability to identify looming threats to the business including competition and potential customer defections to rivals. Indeed, organisational surprises are often attributed to "lack of awareness by the decision makers" or lack of strategic foresight of the current and future change in the business environment (Billings et al., 1980). Based on the above discussion, we propose the following:

> **Proposition 1:** *Decision-makers with high degree of information-processing capabilities and strategic foresightfulness are more likely to identify and respond to early warning signal of decline in timely manner.*

Quadrant II: Obsolescence

Obsolescence refers to where "the person requirements of a job which are demanded by its tasks, duties, and responsibilities become incongruent with the stock of knowledge, skills, and abilities currently possessed by the individual; given that the knowledge, skills, and abilities were previously congruent with job demands" (Fossum et al., 1986, p. 364). This can also be referred to as human capital decay which stems from lack of fit between the knowledge, skills and abilities held by the decision-maker and job requirements (Aryee, 1991).

An intriguing determinant of obsolescence is lack of timely upgrading of expertise. A key tenet is that decay partly stems from inattentiveness on the part of decision-makers to hostile environmental jolts or failure to upgrade their perceptions with current information and knowledge over a period of time. As such, timelessness is an important ingredient in the organisational decision-making process and in mitigating obsolescence.

One insightful work has suggested that obsolescence is a reflection of the inability of organisations to re-design job requirements and acquire new knowledge and expertise in a

timely manner to meet new demands in the business environment (Fossum et al., 1986). The central premise is that decision-makers lacking up-to-date technical and managerial expertise in the face of environmental shifts are more likely to be ineffective in their response to early-warning signals of firm decline. It is worth noting that lack of current information and up-to-date knowledge may misdirect or derail the decision-making process leading to misallocation of resources and capabilities. Decision-makers with limited expertise and without up-to-date knowledge are unlikely to be able to identify and respond to early signals of decline and exit. As organisations' expertise and resource bases become obsolete in the face of environmental shifts, their sources of competitive advantage also quickly dissipate.

Types of human capital decay

We contend that there are two types of decay: gradual decay and sudden decay. Gradual or step-by-step decline decay stems from a sequence of events which then drains the organisation's reservoir of expertise and resources relative to its needs and environmental demands. This view contends that business failures are like disasters which often stem from "long, complex chains of errors, inaccuracies, and inadequacies in accepted beliefs, standards and practices" (Turner, 1983, p. 165). When organisational expertise depreciates gradually, it often provides space and time at various stages for managers to adopt a turnaround strategy and upgrade the expertise in an attempt to mitigate further decline.

However, the protracted period can also covey a false impression and cloud the urgent need to reform to avert failure. In contrast, sudden decay stems from rapid changes in the business environment which ultimately renders the existing routines, expertise and processes ineffective. This is as a situation where previous ways of working and expertise have been rendered ineffective by sudden changes in the underlying conditions such as new work demands and regulatory changes (Amburgey et al., 1993).

Figure 3 demonstrates the key dimensions of our integrated framework of obsolescence. The explanations for the causes of obsolescence lie in factors such as lack of familiarity and necessary skills required to respond to hostile environmental jolts and job demands. A number of prominent factors have been identified to contribute to obsolescence leading to business failure. Below, we examine the two main umbrella concepts under this perspective, i.e. the "paradox of success" and "stale in the saddle".

The paradox of success

The paradox of success perspective (Audia et al., 2000) contends that past successes can breed overconfidence in the existing processes, resources, expertise, routines and course of action, thereby decreasing the chance of any change. This then creates the conditions and environment allowing obsolescence to occur, leading to organisational decline and failure (Amankwah-Amoah, 2014b). A basic tenet of this lens is that past successes can enhance the perceived value of executives' opinions and credibility which creates conditions for overconfident, complacency and inattentiveness in the face of changes in the competitive landscape (Miller, 1991). As Audia et al. (2000, p. 849) put it so eloquently, "once organizations achieve success, their natural tendency is to continue to exploit the strategies that worked in the past". One possible explanation is that past successes can lull decision-makers into a false sense of security and therefore blinds them to early-warning signals of an impending failure (Rhee and Kim, 2015).

Overconfidence limits decision-makers' ability to question existing belief systems and processes, and thereby leading to overlooking of alternative interpretations of the business environment meanings (Russo and Schoemaker, 1992). As such, the past routines and processes can then become obsolete or even present as liabilities in the face of changes in the

external environment. This often leads to the development of the blind spots where lack of clear understanding of the competitive environment leads to overconfidence of the decision-makers (Zajac and Bazerman, 1991). This stream of research suggests that past successes can lead to errors and lackadaisical attitudes amongst employees and thereby harming the competitiveness of the firm.

Related to the above discussion is executives' hubris. Hubris refers to the "exaggerated belief about one's own judgment that may deviate from objective standards" (Li and Tang, 2010, p. 46). Anecdotal evidence has suggested that overconfidence in the expertise and resources stemming from past successes often leads to lack of new knowledge, perspective and expertise required to respond to environmental shifts leading to business failure. A stream of research has suggested that overconfidence in decisions of managers and entrepreneurs is more likely to lead their ventures to failure (Russo and Schoemaker, 1992). Surprisingly enough, however, there has been relatively little scholarly attention to the effects of overconfidence in precipitating business failure. This issue warrants further attention.

"Stale in the saddle"

A stream of research, however, suggests that when organisations are confronted with sudden changes in the business environment which require "new ways of doing things", long-tenured TMT can become a source of liability (Miller, 1991). Although long-serving, the TMT accumulates knowledge and expertise but the experience may become obsolete in the face of sudden changes in the business environment (Darr et al., 1995). This has been referred to as "stale in the saddle" (Miller, 1991). This is partly because long-tenured executives may suffer from knowledge decay or depreciation of their levels of expertise as the environment changes (Darr et al., 1995). In addition, long-tenured executives often lure, recruit and promote second-tier managers with views very similar to their own, whilst concurrently "pushing out" dissenters (Miller, 1991).

Over time, the organisation becomes homogenised with individuals with similar views, experiences and backgrounds (Miller, 1991, p. 35). This makes little room for fresh thinking or new perspective to emerge. This allows "groupthink" to occur thereby blinkered managers of looming changes of the business environment and early-warning signals that fail to reflect their view of the world are often ignored or overlooked (Turner, 1994). The decaying knowledge and expertise of long-tenured managers eventually become barriers to change and their inability to adapt ultimately leads to business decline and failure (Aryee, 1991). The inadequate expertise within the organisation often leads to poor decision-making and misallocation of the limited resources of the firm which then imposes an additional cost and risk on the business.

There is a tendency among decision-makers to seek information that re-enforces their current course of action and beliefs rather than potential disconfirmation (Klayman and Ha, 1987). In a sense, "long CEO track records increase resistance to reorientation and erode the match between organisation and environment" (Miller, 1991, p. 35). Essentially, long-tenure/long-service tends to create an environment and conditions that foster examining and exploring organisational problems or changes from a common perspective. This line of research has shown that "teams with short tenures have fresh, diverse information and are willing to take risks, often departing widely from industry conventions" (Finkelstein and Hambrick, 1990, p. 488). It has been suggested that declining organisations may alter the board composition in an attempt to bring in new expertise and fresh thinking to approach the challenges faced by the organisation (Boeker and Goodstein, 1991).

Another strand of the literature suggests that assembling cross-functional expertise is essential in responding to decline and mitigating failure. Hambrick and D'Aveni's (1992) study uncovered that companies that are unable to achieve a successful turnaround (i.e. filed for bankruptcy) had fewer top executives with key expertise such as financial backgrounds,

relative to non-declining firms. Organisational ecologists have long emphasised that companies often fail due to inability to achieve effective alignment between the organisation and its environment (Hager et al., 2004). Organisational decision-makers are not immune to obsolescence; however, combating the issue requires financial resources and commitment from the firm and individual's motivation (Aryee, 1991).

During a period of environmental upheaval, firms that can upgrade and retool the skills of their employees also improve their survival chances (Fossum et al., 1986). As new technologies supplant old technologies, new sets of skills are often required to stay competitive. With retraining, continuing education and robust staff development programmes, companies can combat obsolescence and thereby improve their survival chances (Aryee, 1991).

Developing and updating the skills base of employees has been found to be particularly effective in counteracting obsolescence among technicians and managers (Fossum et al., 1986). It has been suggested that 'highly educated personnel is essential in overcoming human capital obsolescence (Rosenblatt and Sheaffer, 2001). Organisations that lag behind their rivals in updating their workers' skills level and expertise are more likely to fall behind them in the competitive race.

 Although some scholars have hinted that the impact of obsolescence may diminish with the passage of time (Aryee, 1991), in the case of organisational failure, it may be too late to save the firm. Given that obsolescence progresses hand in hand with organisational failure, there is a need for skills updating and upgrading as a means of learning from failure and mitigating failure. Based on the above discussion, the following proposition is offered.

> **Proposition 2a:** *Gradual human capital decay in the face of environmental shifts is more likely to lead to a protracted period of strategic persistence leading to business failure.*

Proposition 2b: *Overconfidence stemming from past successes is more likely to create an error-prone organisation.*

Quadrant III: Institutional linkages

A line of research anchored in the traditional institutional theory (Meyer and Rowan, 1977) has demonstrated that organisations can improve their chances of survival by obtaining support of legitimating actors such as consumers and investors, and demonstrating conformity to societal norms and expectations. Such actions enable them to signal their adherence to obligations imposed on them through conventions and codes of conduct (Baum and Oliver, 1991). It is through this process that some firms gain wider social acceptance, access to new resources and enhance their reputation. Indeed, firms with wider networks of ties and societal endorsement can gain legitimacy and are therefore better able to mitigate organisational failure (Baum and Oliver, 1991).

The relationship between bankruptcy and organisational legitimacy has been examined in the context of managerial prestige/elite and long-tenured TMTs (D'Aveni, 1990). Elites refer to "individuals who occupy formally defined positions of authority at the head of a social organization or institution" (Giddens, 1972, p. 348). Scholars have long recognised that powerful elite status can help to gain access to scarce resources (Clignet and Foster, 1964). Executives with elite status can obtain access to scarce resources which those of low status cannot access (Giddens, 1972). Having a TMT with such an elite status enables them to attract capital and recruit highly skilled individuals, which then equips the organisation for future challenges.

A growing body of research suggests that prestige of top executives can be seen by outsider firms such as creditors and banks as "an indication that the manager is competent, credible and trustworthy", which then confers legitimacy on the organisation (D'Aveni, 1990, p. 121). As

such, the loss of such executives affects the firm's reputation and ability to lure top talent from outside firms.

For resource-constrained and financially weak firms, "prestigious managers create the illusion that the existing top management deserves to continue in control of the firm even when a firm's financial troubles indicate that the firm is not being managed competently" (D'Aveni, 1990, p. 121). It has been ascertained that bankruptcy is therefore a reflection of loss of legitimacy and prestige of top executives, which prompts creditors to lose confidence in managers' ability to generate a turnaround of a floundering business (D'Aveni, 1989a).

In a related but distinct area, past studies indicate that firms led by long-tenured TMTs tend to persist with previously chosen courses of action in the face of environmental change (Finkelstein and Hambrick, 1990). This stream of research has uncovered that they are also more likely to conform to industry norms, averages and old ways of doing things. Long-tenured employees often lean towards preserving the old ways and resist attempts to change (Finkelstein and Hambrick, 1990). Consequently, the following proposition is offered:

> **Proposition 3:** *Prestigious top executives are more likely to engender confidence in the wake of environmental shocks and halt the process of decline.*

Quadrant IV: Powerlessness

Powerlessness refers to lack of power or being feeble in the face of hostile environmental jolts (see Seeman, 1972). The powerlessness perspective argues that organisational failure stems from lack of control and power to identify the locus of causality and respond to early-warning signals adequately. Two main sources of powerlessness have been identified in the literature: the power-hoarding executives (locus of control) and "leadership vacuum" (lack of control).

Power-hoarding executives

One of the most influential lines of research has suggested that organisations are often characterised by unequal distributions of power with some individuals having more power and being able to institute change, whilst others remaining powerless in the face of change (Finkelstein, 1992). This perspective suggests that the conflicting goals and interests of decision-makers influence how they use power and influence, and the "preferences of the most powerful prevail" (Child et al., 2010, p. 106). In this respect, Chief Executive Officer (CEO) duality has been identified as precipitating or providing warning signals of business failure. CEO duality refers to a situation where an individual is serving both as a firm's CEO and board chair.

Over a few decades ago, Argenti (1986) provided an indication that CEO duality provides one of the early-warning signals of impending organisational failure. This line of research demonstrated that CEO duality significantly increased the likelihood of organisational decline and failure partly due to the increased power afforded to CEOs which then encouraged strategic persistence in the face of a worsening business environment (Daily and Dalton, 1994).

In a related but distinct domain, it has been suggested that duality provides a basis for an individual to assemble a strong power base across the entire organisation. Indeed, the power-hoarding executives can become "so busy meddling" in daily routines and processes of the organisation, they become side-tracked from urgent strategic issues (Miller, 1977, p. 43). This then hinders environmental scanning activities. This "power-hoarding" perspective argues that the source of powerlessness is the centralisation of power which allows inattentiveness and poor communication between functional units of the firm to flourish.

The disconnect between executives at the top and subordinates often leads to a situation where strategic decisions demonstrate ignorance rather than the realities and changes required to

respond to brewing threats to the business (Daily and Dalton, 1994). The inability to delegate a line of authority means that the lower-rank employees often leave issues/problems unattended or are feeble in their response to them.

As the organisation expands in both operational and geographical scopes, the degree of skills required to manage multiple units escalates. This then requires executives to delegate to subordinates and failure to do so leads to an "overburdened CEO who is forced to run the firm by a 'seat of the pants' style" as inadequate attention is paid to looming strategic issues (Miller, 1977, p. 46). Consequently, lack of long-terms strategic planning ultimately contributes to the demise of the organisation. This argument partly relies upon the assertion that an individual's ability to address organisational problems is often constrained by power-hoarding executive management (Ungson et al., 1981). Power-hoarding eventually leads to under-utilisation of middle management talent and creates situations where executives continuously engage in firefighting. Consequently, the cumulative effects precipitate business failure.

Vacuous leadership

A stream of research has long recognised the inherent value of having a powerful CEO to provide clear direction for the firm (Miller, 1977). Scholars have long suggested that "headless" firms or those with weak leaders lack a sense of direction in responding to signals of looming business failure (Miller and Friesen, 1977). Headless firms are often characterised by their inability to adapt and aimlessness which caused them to become obsolete as the environment changed (D'Aveni, 1989a).

Over time, such features weaken their sources of competitive edge and the adaptation deficit relative to rivals precipitates an exit. Such firms often suffer from "a leadership vacuum and the consequent absence of a clearly defined strategy" (Miller, 1977, p. 48). This suggests a

close link between the DMCs and characteristics of the firm in which the decision-maker is situated.

The central insight of this line of research suggests that the leadership void ultimately leads to a lack of effective strategy to combat threats or to exploit looming market opportunities (Daily, 1994). As more opportunities are seized by rivals, the firm's competitiveness begins to shrink and resources drain away. Often the strategic plan initiated by a weak executive often lacks the potency required to mitigate decline. Recent studies, however, suggest that over time the lack of effective actions and frequent changes of the top management team eventually contribute to bringing about business failure (Amankwah-Amoah and Debrah, 2010). Fragile firms are often characterised by limited resources which affect their ability to adapt to changes in the environment.

Managers may feel powerlessness (lack of control) due to the severity of the threats and challenges imposed on the business to respond. In some cases, the decision-maker would remain powerless when the locus of causality resides in the external environment such as competitors' actions and changes in government policy, and internal factors such as lack of technical expertise (Ford, 1985). As the firm experiences resource depletion and shrinking market share, the leadership vacuum will fail to provide any clear line of response which ultimately pushes the organisation beyond the tipping point. The lack of clear direction for the firms may render any managerial actions feeble in the face of the threat. It is surprising, however, that limited scholarly attention has been paid to this issue. Consequently, we propose the following:

> **Proposition 4a:** *Power-hoarding executives are more likely to be side-tracked and blindsided by environmental shocks.*

Proposition 4b: *Power-hoarding decision-makers are unlikely to galvanise the necessary resources and expertise to mitigate organisational failure.*

Our arguments thus far suggest that the literature can be further conceptualised to bring together the multiple array of studies. DMCs such as quality of knowledge, level of expertise and managerial prestige influence firms' ability to mitigate organisational demise.

Conclusion and discussions

The paper sought to examine how DMCs unfold to precipitate organisational failure. In a broader conceptualisation of the literature, we articulate how four attributes of the decision-makers, i.e. obsolescence, powerlessness, meaninglessness and institutional linkages, interact to precipitate business failure. Our study viewed organisational failure as a decision-making process which entails a period of unrestrained decline leading to exit. It has been suggested that the over-accumulation of errors and omissions during the incubation stage of decline can lead to misallocation of resources and create conditions for dissolution to occur.

From the obsolescence angle, we uncovered two of types of decays, i.e. sudden and gradual within the firm, which create conditions for obsolescence to occur, leading to business failure. Obsolescence was traced to factors such as "the paradox of success" and "stale in the saddle". From the powerlessness standpoint, failure stems from two main sources, i.e. power-hoarding executives and leadership vacuum. From the meaninglessness perspective, we contend that the occurrence of organisational failure can be traced to factors such as information-processing capability and lack of "foresightfulness". These factors constrain decision-makers' latitude of action and ability to act.

From an institutional linkages viewpoint, we uncovered that failure can stem from acquiring legitimacy, which partly stems from the elite status of executives. The synthesis of the literature sheds light on the more intricate processes and dynamics precipitating business failure. Our

analysis shows how decisions can shift an organisation from a resilient footing towards life-threatening and exit. There is nothing in our conceptualisation to suggest, however, that all DMCs must be present to induce business failure.

On the contrary, some DMCs operate in isolation, whilst others operate in tandem with other firm-level factors. Our analysis brings into focus the influences of top executives' prior and existing experiences in responding to early-warning signals of decline leading to failure. One conclusion is that there is a need to move beyond the ecological explanations of business failure to offer a more fine-grained analysis of how DMCs precipitate and lead to business failure.

<u>Implications and directions for future research</u>

Our study makes two main contributions to organisational failure literature. First, although there has been a growing body of literature that recognises the role of decision-makers in business failure, to date, little effort has been made to integrate the largely scattered body of research across multiple social science disciplines. Our study moves beyond a mere review to integrate the largely scattered body of literature on DMCs into an integrated framework in an attempt to clarify the boundaries of the subject.

In addition, although some scholars have suggested that DMCs may contribute to business failure, they largely underemphasised the issue. The study highlights the more intricate processes and dynamics in precipitating business failure. In so doing, we respond to the recent calls to examine the micro-foundations of dynamic capabilities which has emphasised the importance of individuals' human capital in galvanising support and shaping the strategic direction of organisations (Helfat and Peteraf, 2015). Our analysis throws further light on the micro-foundation of resources and capabilities that have emphasised the influence of human capital in the rise and fall of companies (Amankwah-Amoah and Durugbo, 2015).

An interesting avenue for future research would be to examine organisational strategies to mitigate obsolescence and foster strategic renewal simultaneously. Although progress has been made by scholars in this area, we still know little about the underlying mechanisms that underpin these processes. There is a need for future research to examine the processes that allow lack of strategic "foresightfulness" to impair strategic renewal and provide conditions for obsolescence to occur.

Another avenue for future research would be to expand our conceptualisation to include additional factors such as motivation and rewards to help put the literature on a stronger theoretical footing. One of the caveats that apply is that our analysis focused mainly on internal factors, which overlooked external factors. The causes of organisational failure lie neither solely in the DMCs (internal organisational factors) nor in the external environmental context, but rather, are rooted in the interaction of both firm-level and external factors (Mellahi and Wilkinson, 2004). Therefore, there is a need for future research to examine how DMCs interact with other firm-specific and industry-specific factors in precipitating business failure. Future research can also test the propositions develop here.

The study has some important practical implications. First, the findings suggest that organisations that are able to pinpoint specific DMCs that provide an early-warning signal of faltering projects would be better positioned to mitigate decline and reduce waste in a timely manner. The ability to identify such factors can enrich our understanding of how firms can renew their routines and processes to improve their chances of survival.

In addition, the findings highlight the need for organisations to continuously renew the expertise and knowledge of their decision-makers to help ensure long-term survival. There is a need for skills updating and upgrading as a means of mitigating human capital decay. As the environment imposes new demands on the job, organisations must upgrade the skills and

expertise of decision-makers to remain competitive. Firms that are able to create new knowledge for new challenges can improve their chances of survival whilst simultaneously mitigating obsolescence in the face of environmental shifts. There is a need for organisations to seek to obtain the right information in a timely manner to make decisions and mitigate information decay and decline.

Another possible implication of the findings is the ability to learn from others' failure as this is essential for future success. Such actions would help firms to achieve resilience, i.e. ability to absorb and develop routines and processes to anticipate and respond to warning signals of decline. In a nutshell, the findings provide further ammunition that the accumulation of quality human capital is essential in mitigating failure. Decision-makers who are able to continuously upgrade and update their expertise in a timely manner would be in a better position to deal with new situations. We hope that the study enriches our understanding of the effects of DMCs. The study thus suggests the decision-maker as a fundamental pillar in explaining business failure.

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