Failure in Motion: A Framework for Capability Erosion and Institutional Dysfunction

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Failure in Motion: A Framework for Capability Erosion and Institutional Dysfunction

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ABSTRACT

Drawing on the literature on capability erosion and institutional dysfunction (ID), this study develops a conceptual framework that sheds new light on how the interaction between capability erosion and ID creates conditions for business failure across borders. By articulating two dimensions of heterogeneous capability and resource erosion (i.e., sudden and incremental) and two types of ID (i.e., formal and informal), the paper clarifies the nature of, and mechanisms through which, organizations become increasingly susceptible to the risks of obsolescence and resource erosion that culminate in business failure. The analysis explicates the dynamic and intricate interplay between capability erosion and the institutional difference hypothesis, highlighting the role of time and the pace at which failure manifests. The resulting multidimensional typology advances a more practice-oriented scholarly discourse on business failure worldwide.

1 | Introduction

In an era characterized by intensifying global competition and an accelerating pace of technological advancement (Cavusgil et al. 2020; Liu et al. 2025; Schilling 2023; Zhang et al. 2025), no firm is immune to the risk of obsolescence (Gallarotti 1991; Pazy 1996, 2004). As the global economy becomes increasingly interconnected, organizational resources and expertise face a persistent and heightened risk of declining effectiveness across borders (Cavusgil et al. 2020). Consequently, today's hypercompetitive business environment is often portrayed as a graveyard of business failures, encompassing once-dominant multinational enterprises such as Enron Corporation and Lehman Brothers as well as domestic new ventures (McDonald and Robinson 2009; Mawutor 2015; Mellahi and Wilkinson 2004, 2010). Reflecting these shifting realities, business magazines and the popular press have become replete with accounts of the demise of trailblazing firms (e.g., BBC 2024). Recent years have also witnessed renewed scholarly attention to business failure following the COVID-19 pandemic and the 2007–2008 global financial crisis, both of which precipitated new waves of firm collapse (Gourinchas et al. 2021; Jin et al. 2022).

Historically, many practicing managers have tended to attribute business failure to external conditions, including economic downturns, unfavorable business climates, inflation, and hostile regulatory environments (Miller 1977; Mellahi and Wilkinson 2004, 2010). Parallel to this practitioner focus, the past three decades have witnessed substantial growth in scholarly research on failure across social science domains such as strategy, entrepreneurship, organization studies, and international business (Altman and Hotchkiss 2010; Habersang et al. 2019; Kücher et al. 2020; Ucbasaran et al. 2013).

A sustained stream of research demonstrates that capability erosion (D'Aveni 1990; Hambrick and D'Aveni 1992) and institutional dysfunction (Garcia and Orsato 2020; North 1990; Ofori-Dankwa and Julian 2013) can undermine firm competitiveness.

This study develops a conceptual framework showing how the interaction between heterogeneous capability erosion and institutional dysfunction creates conditions for business failure across borders.

Research Highlights

- Differentiation between sudden and incremental capability erosion trajectories.
- Clarification of how formal vs. informal institutional dysfunction intensifies failure risks.
- Advance a typology explicating the mechanism of business failure across borders.
- Advance the strategic change scholarship by integrating capability erosion with institutional theory.

However, much of the extant literature on business failure has focused predominantly on domestic market conditions, thereby neglecting the potentially consequential role of cross-national institutional differences. Although institutional dysfunction (ID) is grounded in a deterministic perspective and constitutes a defining feature of many developing economies (North 1990; Rodgers et al. 2022), it has received limited systematic attention in the business failure literature. Moreover, prevailing research often treats institutions as background conditions rather than as active explanatory forces (Yamakawa et al. 2015), leaving institutional and contextual effects largely underexplored (Abbott et al. 2016). The institutional difference hypothesis posits that disparities between advanced and emerging economies play a critical role in shaping variation and resilience in firm performance (Julian and Ofori-dankwa 2013; Mair and Marti 2009; Ofori-Dankwa and Julian 2013). Integrating institutional differences therefore offers considerable potential to enrich scholarly understanding of business underperformance (Ofori-Dankwa and Julian 2013).

Alongside institutional impediments, capability erosion constitutes a parallel challenge for firms operating across multiple markets and national contexts. Notably, existing research has largely overlooked the complex interactive processes through which heterogeneous forms of capability erosion and ID coevolve. As a result, the literature remains fragmented and calls for further systematic investigation.

Despite the insights generated by existing research streams, the contemporary literature remains marked by inconsistency and conceptual ambiguity regarding how business failure unfolds. This problem is compounded by the absence of an organizing framework capable of integrating the interactive processes that culminate in failure. Addressing this gap, the objective of the present study is to examine how heterogeneous capability erosion and ID interact to illuminate the process of international business failure. Drawing on a comprehensive review of the business failure literature, we develop a typology that integrates capability erosion and ID within a two-by-two conceptual framework, thereby elucidating the mechanisms through which business failure manifests. In doing so, this article seeks to synthesize two interrelated phenomena to advance a more coherent and nuanced scholarly understanding of business failure.

This study offers several important contributions to the organizational literature (Legro 1997). First, by integrating insights from research on resource erosion (Rahmandad and Repenning 2016) and ID (Doh et al. 2017), we propose a two-by-two framework that captures the evolution and interaction of heterogeneous capability erosion and ID in precipitating business failure. This integrative approach yields a unified organizing framework that bridges deterministic and voluntaristic perspectives on failure. Second, drawing on work on temporality and process (Blagoev et al. 2023; Branzei and Fathallah 2023; Kunisch et al. 2017), we advance the literature (Gallarotti 1991) by distinguishing between sudden and incremental trajectories of organizational decline and failure, and by explicating how these trajectories are intensified by formal and informal institutional dysfunctions.

The remainder of the article is organized as follows. Section 2 present a review of the relevant literature on business failure and institutional dysfunction. Section 3 develops the integrated typology of the business failure process. Section 4 discusses the implications of the study's insights.

2 | Theoretical Background and Conceptualization

2.1 | Defining Business Failure

Generally speaking, some confusion persists surrounding business failures, which resonates in the range of definitions proposed by past studies (Amankwah-Amoah 2016; Amankwah-Amoah et al. 2023; Amankwah-Amoah, Boso, and Kutsoati 2022). Table 1 summarizes the diverse approaches taken by scholars to define the scope of business failure. In the fields of accounting, finance, and project management, some scholars have often equated business failure with various performance problems and underperformance.

Across various scholarly disciplines such as organization studies and strategy, business failures are often viewed as a spectrum of organizational outcomes ranging from underperformance to financial insolvency, and finally, the actual closure of businesses (Mellahi and Wilkinson 2004, 2010; Amankwah-Amoah 2016; Amankwah-Amoah, Boso, and Kutsoati 2022). For analytical clarity, we define business failure as a situation in which a business is no longer able to operate and is then compelled to discontinue operations (see Fleisher and Wright 2010; Hamilton 2006; Miller 1977; Sheppard 1994). The defunct firm is then delisted from national and local records of existing companies. This unfolding event is often typified by conditions such as loss of legitimacy, deterioration of resources and expertise, and changing institutional conditions, coupled with the organization's inability or failure to respond effectively in a timely manner (Hamilton 2006).

A review of the current literature thus far suggests that business failure is a function of a multiplicity of factors reflecting two competing schools of thought: deterministic or voluntaristic perspectives (Costa et al. 2023; Heracleous and Werres 2016; Vivel-Búa et al. 2023). The deterministic perspective contends that business failure is predicated on and triggered by external factors such as social, cultural, and economic factors over which managers have little or no control (Costa et al. 2023; Mellahi and Wilkinson 2004). This first stream of research has identified factors such as market competition and deregulation as causes of business failure (Doganis 2005; Silverman et al. 1997). On the other hand, the voluntaristic perspective

TABLE 1 | Selected Basic definitions of business failure.

Author (s)	Key definitions
Sheppard (1994)	An organization is said to have died “when it stops performing those functions, we would expect from it… critical and irreversible loss” (p. 796–797).
Shepherd and Wiklund (2007)	Business failure is said to have occurred “when a fall in revenues and/or rise in expenses are of such magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding… it cannot continue to operate under the current ownership and management” (p.1–4).
Ahn et al. (2000)	Business failure refers to firm discontinuation due to inability to operate as a sustainable entity or operate profitably.
Marks and Vansteenkiste 2008	It refers to “the actual demise of the organization when an entire company goes out of business … the organization completely ceases to exist” (p. 810).
Walsh and Bartunek (2011)	Impossibility to continue operations/discontinuance of the firm. Failure is viewed as the departure of the business from the marketplace.
Petrucci and Milanesi (2022); Fleisher and Wright (2010)	“A situation where the firm is no longer able to operate as a sustainable entity and is forced to cease operations and lay off any employees” (Petrucci and Milanesi 2022, 65).
Honjo (2000)	Where “firms cannot meet their liabilities and hence cannot conduct economic activities anymore” (p. 559).
Everett and Watson (1998); Habersang et al. (2019)	Discontinuation of the firm ownership.
Altman and Hotchkiss (2010)	Unfavorable state of affairs in firms leading to decline and inability to meet current and/or future obligations to creditors, employees, and other stakeholders.
Carroll and Delacroix (1982), 180	“When two organizations combine, at least one ceases to exist, and this must be considered a death. If a merger involves a dominant partner… then the subordinate organization dies…”

traces the causes of business failure to firm-specific factors such as resource endowment, actions, and inactions of internal stakeholders (Headd 2003; Thornhill and Amit 2003; Hambrick and D'Aveni 1992). As one advocate for this school of thought succinctly asserted, “failure almost always stems from decision-maker actions and not from bad luck or situational limitations” (Nutt 2004, 13). Drawing on the resource-based theory (RBT; Barney 1991; Barney and Clark 2007; Helfat and Peteraf 2003), some scholars have traced business failure to capabilities malfunction coupled with inefficient utilization and deployment of firm-specific resources (Zhang et al. 2019). Other studies have attributed business failure to the possession of inferior resources and capabilities (D'Aveni 1989; Knott and Posen 2005) which impede organizational functioning and its ability to capitalize on market opportunities. Whereas the deterministic view suggests that managers and organizational leaders have a limited role in business failure, the voluntaristic perspective suggests that managers play a pivotal role in creating conditions leading to business failure (Mellahi and Wilkinson 2004).

2.2 | Defining Institutional Dysfunction

The first strand of literature concerning our conceptualization is institutional dysfunction (ID). Following North (1990, 3), we define institutions as the formal and informal “rules of the game in a society…that shape human interaction.” There are formal and informal institutional components, which can create uncertainty and hinder the effective functioning of markets. Informal institutions include features such as customs, behavior, traditions, values, and social norms, whereas formal institutions include laws and regulations (North 1990). Thus, dysfunction refers to some kind of defect in enforcing the “rules of the game” (North 1990), which can then impede organizational performance. In line with prior scholarly works (North 1990; Khanna and Palepu 1999, 2010), ID refers to the absence, deficiencies, or underdevelopment of institutional pillars that underpin the functioning of markets, such as governance mechanisms designed to curtail corruption, protect property rights, and facilitate effective legal enforcement (Marano et al. 2017, 387; Doh et al. 2017; Khanna and Palepu 1999, 2010; Ofori-Dankwa and Julian 2013). Formal ID can be defined as the “absence or underdevelopment of regulatory institutions or the formally codified, enacted, and enforced structure of laws in a community, society, or nation” (Doh et al. 2017, 296). The deficiencies in the guardrails of market competition mean the foundations of legitimate firms to compete are weakened as other actors are able to profit from their investments via measures such as counterfeiting and rampant imitation and copycat production (Amankwah-Amoah, Boso, and Kutsoati 2022). Such impediments can impede access to resources, expertise, as well as curtail access to business and economic opportunities (Khanna and Palepu 1999). Institutional impediments have diverse ranges of dimensions including cumbersome or outdated laws, poor transport infrastructure, bureaucratic inefficiency, and lack of access to education and training, which can impede the competitiveness of firms (Julian and Ofori-dankwa 2013; Mair and Marti 2009; Khanna and Palepu 1999, 2010; Ofori-Dankwa and Julian 2013).

Past studies have revealed institutional dysfunctional features such as lack of access to institutional support, lack of financial credit availability, high levels of corruption, weak legal protection for property rights and contracts, limited access to effective dispute resolution mechanisms, and weak legal enforcement mechanisms that underpin the functions of the market, which can weaken the competitiveness of firms, especially in emerging economies (see Doh et al. 2017; Khanna and Palepu 1999; Ofori-Dankwa and Julian 2013). In this unpredictable terrain, organizations operating across borders are confronted with multifaceted dual challenges of ID pertaining to the malfunctioning of the norms and regulations that shape organizational decisions. Researchers have found that professional monitors and "watchdogs" play a vital role in the institutional environment in terms of shedding light on illegitimate corporate practices (Xia et al. 2022). Based on the literature, we contend that failure to adhere to institutional differences can pose an existential threat to businesses.

2.3 | The Importance of Timing and Speed in Strategic Decisions

Time and resource utilization are inextricably interlinked with the risk of business failure (see Miller 1977). Speed in strategy decisions largely refers to the capacity of firms to identify and respond to changes in the business environment in a timely manner (Dykes et al. 2019). Broadly speaking, timing has a profound effect on developing or eroding firms' market positioning and competitiveness (Kunisch et al. 2017; Ancona, Goodman, et al. 2001; Ancona, Okhuysen, and Perlow 2001; Blagoev et al. 2023). Previous research indicates that "time is a precious resource" (Branzei and Fathallah 2023, 834; Blagoev et al. 2023) and is also associated with the availability of valuable information and timely resource deployment, which are crucial in developing strategic agility (Grzymala-Busse 2011; Blagoev et al. 2023; Kunisch et al. 2017). Thus, such a resource can be leveraged by organizational leaders to buffer their firms against uncertainty (Raaijmakers et al. 2015; Blagoev et al. 2023) and even reverse the process of decline. Nevertheless, sudden events are characterized by their abrupt nature, leaving little room for delay in responding. Thus, a delay in responding to new opportunities could lead to the dissipation of the opportunity (DiBenigno 2020; Blagoev et al. 2023; Grzymala-Busse 2011).

2.4 | Pace of Core Competencies (Unique Capabilities and Resources) Erosion

Another strand of literature contributing to our conceptualization concerns capabilities and resource erosion. The resource-based theory emphasizes organizations' core competencies (unique capabilities and resources) as a key differentiator in achieving sustainable competitive advantage (e.g., Barney 1991; Barney and Clark 2007; Peteraf 1993; Helfat and Peteraf 2003; Hill and Schilling 2023). Rooted in the RBT argument, organizational resources are subject to the threat of obsolescence in the face of a changing business environment (Le Breton-Miller and Miller 2015). Obsolescence is viewed as the outcome of the mismatch between firm core competencies and the new changing demands of the external environment (Aryee 1991). Following this line of thinking, organizational capability erosion refers to the processes of diminishing effectiveness of firms' resources and capabilities (Rahmandad and Repenning 2016; Ross et al. 2021), leading to the loss of firm competitiveness and underperformance (Ross et al. 2021; Helfat and Peteraf 2003; Rahmandad and Repenning 2016).

Similarly, capability and resource erosion can be viewed as a process through which firms' distinctive resources and capabilities deplete and become threshold (ordinary) capabilities and resources (see Grant 2021; Johnson et al. 2020). Ordinary resources and capabilities often exhibit characteristics such as being easily replicable and imitable, which ultimately fail to provide a competitive edge (see Barney 1991; Grant 2021; Johnson et al. 2020). Further buttressing this argument, studies indicate that when the "rules of the game" change, firms that have perfected routines and processes over time are often rendered ineffective (Cohen and Bacdayan 1994). Many scholars generally concur that resource and capability erosion might reflect deficiencies within the focal organization such as mismanagement, lack of flexibility in innovating, and failure to respond to the changing business climate (see Aryee 1991; Le Breton-Miller and Miller 2015; Rahmandad and Repenning 2016; Pazy 1996; Nguyen et al. 2025).

It has been suggested that the erosion of organizational capability might stem from the loss of highly skilled personnel to rival firms (Gardner 2005). One notable feature of capability erosion is that the gradual deterioration of resources and capability is difficult to reverse without replacing the entire top management team. Some studies have emphasized that the decay of firm-specific routines, resources, and technology can divert vital resources towards unproductive activities, undercutting the profitability and competitiveness of businesses (Ross et al. 2021; Karadag and Poppo 2021). Capability erosion can also manifest as an outcome of external environmental factors (Le Breton-Miller and Miller 2015; Ross et al. 2021) such as natural disasters, new sources of competition, national economic downturns, and political conflicts and instability, which can simply deplete the resources of focal firms or weaken their effectiveness, thereby creating conditions for failure. Scholars have emphasized the inherent structural impediments and resource difficulties in attempting to recapture diminished competitive advantages (Dierickx and Cool 1989; Garud and Nayyar 1994). A gradual or sudden weakening of an organization's resources threatens its legitimacy and ability to survive. Cumulatively, the inability to reverse the process of decline via upgrading their internal competencies eventually leads to business failure. Figure 1 demonstrates a graphic depiction of the state, pace, and steps inherent in the organizational capability and resource erosion pathway.

3 | Towards A Typology of Business Failure Process

In light of the preceding discussion of institutions, two dimensions of ID can be delineated: formal ID and informal ID. The pace of capability erosion may be triggered by internal and external conditions that exert pressure on business competitiveness (see Levinthal 1998). Building on this analysis, heterogeneity in the pace of capability erosion comprises two dimensions: sudden or abrupt erosion and incremental or gradual erosion. Sudden or

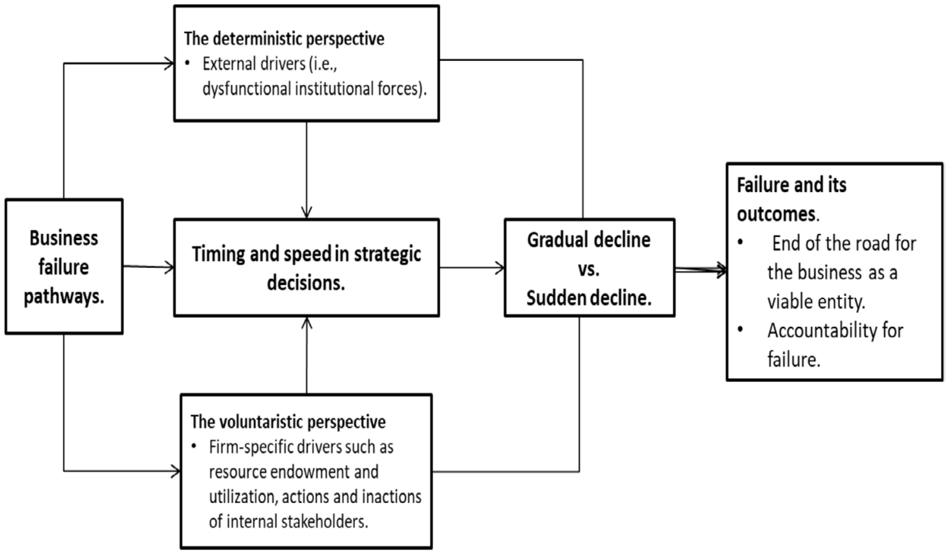

FIGURE 1 | A model of resources and capability erosion pathways.

abrupt capability erosion refers to the rapid weakening of a focal firm's capabilities and resources. Diminished capability effectiveness may be precipitated by major external shocks, such as natural disasters, market crashes, technological breakthroughs, and conflicts. Within this stream of literature, anecdotal evidence suggests that natural disasters, including flooding, heat waves, droughts, earthquakes, hurricanes, landslides, tornadoes, tsunamis, volcanic activity, and wildfires, have increasingly become a primary driver of sudden business failure. Indeed, extreme and unfavorable weather conditions have had a substantial impact in driving many businesses to collapse (see Neslen 2018). As the frequency of such disasters continues to rise, the risk that these events will deplete firm resources has become increasingly common (Gregg et al. 2022). By contrast, incremental capability erosion refers to a gradual process through which firm capabilities become progressively less effective. Internal causes may stem from factors such as mismanagement, poor leadership, decayed routines, and unaddressed internal deficiencies (see Aryee 1991; Pazy 1996), which hamper firms' ability to outcompete rivals and, over time, create conditions conducive to failure. This slower pace may afford firms opportunities to initiate change and attempt recovery.

To advance the integrated framework, we identify two dimensions for capability erosion, namely sudden or abrupt erosion and incremental or gradual erosion, and two dimensions for ID, namely formal and informal ID. Crossing these dimensions yields a 2×2 matrix of integrated factors that shape the complex process through which firm-specific, endogenous factors and exogenous forces interact to lead to business failure. This four-quadrant framework elucidates distinct pathways through which these interactions can trigger and shape the processes culminating in business failure, as illustrated in Figure 2.

3.1 | Quadrant I: Sudden Erosion, Formal Institutional Dysfunction

Quadrant I demonstrates sudden capability erosion triggered by formal institutional impediments. Sudden capability erosion can also be seen as an outcome of rapidly changing business climates, such as the introduction of new government regulations, political instability, government overthrow, and anti-competitive laws that fundamentally alter the cost structure of businesses. From this perspective, political instability can also lead to currency devaluation and economic decline, thereby depleting existing firms' stock of resources and expertise. In formal institutional settings, political systems such as totalitarianism have direct effects on business closures through government confiscation of assets and government directives. Governments seizing corporate assets can exert a detrimental effect on businesses, manifesting in two major ways: confiscation (i.e., seizure of corporate assets without compensation) and expropriation (i.e., seizure with some form of compensation) (Cavusgil et al. 2020; Griffin and Pustay 2015). By freezing assets, such governments often deprive firms of vital resources essential for their survival, thereby accelerating the process leading to business failure. Even the mere threat of dissolution by governments can jeopardize viability and quickly erode a business's competitiveness. It is not uncommon to see many national governments in developing countries with weak and underdeveloped legal frameworks confiscating assets of both domestic and foreign companies and then transferring tangible and intangible assets to the nation-state, which can lead to business dissolution (Cavusgil et al. 2020). This type of transfer of private property and assets to the nation-state represents a major source of risk to international business (Griffin and Pustay 2015). On the other hand, in developed economies within the EU, freezing and confiscating assets often occurs after criminal offenses and convictions (European Commission 2022).

3.2 | Quadrant II: Sudden Erosion, Informal Institutional Dysfunction

Quadrant II illustrates the erosion of capabilities induced by sudden informal institutional conditions such as unwritten rules, norms, and unrealistic societal expectations. In this quadrant, we assert that an abrupt shift in the business environment can be triggered by informal factors like spontaneous

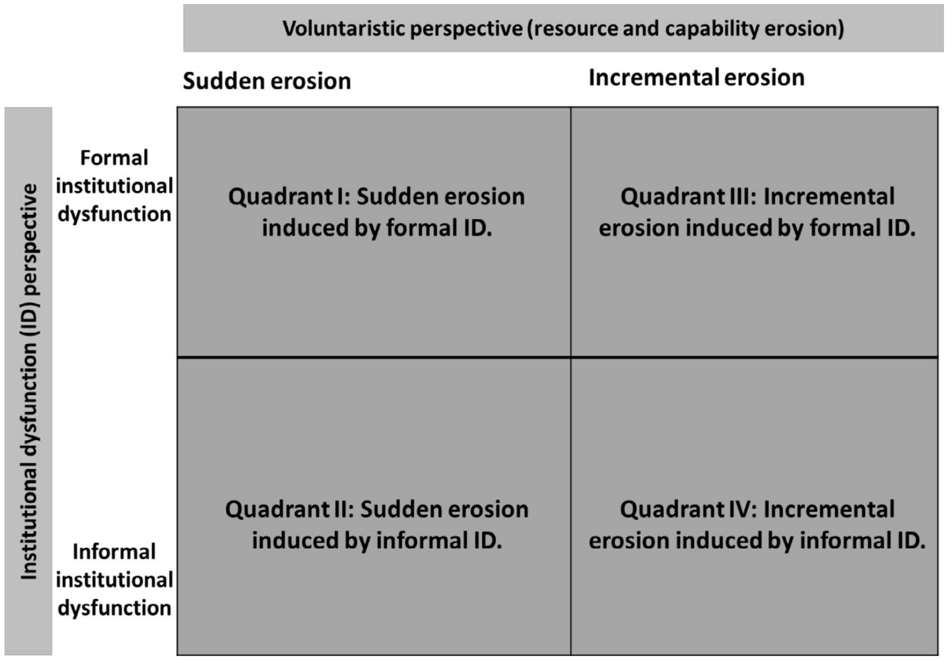

FIGURE 2 | A typology of business failure.

demonstrations and unplanned political protests. A pivotal aspect of sudden change induced by informal institutions pertains to consumers' product boycotts. Following Friedman (1985, 97), a consumer boycott denotes:

> an attempt by one or more parties to achieve certain objectives by urging individual consumers to refrain from making selected purchases in the marketplace.

Boycotting represents consumers' attempt to utilize their "purchase votes" to penalize firms that fail to adhere to societal expectations (Dickinson and Hollander 1991; Klein et al. 2004; Balabanis 2013). Product boycotts can be motivated by various factors such as harmful environmental practices (e.g., air and water pollution and deforestation) and unethical and immoral actions by firms. These factors can attract the attention of many stakeholders and prompt consumers to cease purchasing a particular firm's products or services (Klein et al. 2004; Balabanis 2013). Research evidence indicates that boycotts significantly reduce the market share of affected brands while simultaneously benefiting non-affected brands (Sun et al. 2021). Such actions can abruptly cause a product to lose its appeal, decrease sales, and diminish the financial resources of affected firms (Klein et al. 2004). Indeed, international stock boycotts can also rapidly deplete firms' resources, depress stock prices, and lead to divestments (Ding et al. 2020). Thus, a highly successful boycott campaign for product boycotts can result in damaged corporate reputation, reduced sales, and eventual business failure.

3.3 | Quadrant III: Incremental Erosion, Formal Institutional Dysfunction

Quadrant III displays a situation where incremental capability erosion is induced by formal institutional impediments pertaining to laws, regulations, and national policies. This brick-by-brick dismantling of a firm's source of competitiveness might be less resource-intensive to respond to the forces of decline and generate business turnaround. A limited but growing body of research exists to demonstrate that cumbersome regulatory environments and their compliance represent a cost burden to firms striving to expand or innovate (Paraskevopoulou 2012). Indeed, a higher tax burden has also been linked to business failure (Efrat 2008). This is more of an issue in developing economies and can erode the competitiveness of firms (World Bank 2020). A number of case study research has demonstrated that state-owned enterprises (SOEs) fail via "gradual decline" punctuated by organizational actions and responses (Doganis 2005). In this direction, studies on SOEs (Amankwah-Amoah and Debrah 2014) have found factors such as political interference and liberalization-induced market competition that are interconnected to the nation-state as contributory factors leading to failure. For instance, in the aviation industry, SOEs were designed to "fly the flag" of the nation-state and lacked a focus on profitability, creating conditions of inefficiency and loss-making that eventually culminated in the closure of such firms (Doganis 2005). Accordingly, some scholars (e.g., Griffin and Pustay 2015) postulate that SOEs tend to be "unprofitable, undercapitalized, and overstaffed" relative to privately-owned firms, which eventually cascade into their failure.

Relative to non-state-owned enterprises (non-SOEs), state-centric firms' failure tends to be heavily driven by the burden of inefficiency, misallocation of resources, mismanagement, and loss-making operations that often become too heavy for the national government to ensure survival, as demonstrated in Table 2.

Since the global financial crisis of 2007–2008, a plethora of scholarly works has emerged focusing on the concept of "too-big-to-fail" (TBTF) (also known as "too big to liquidate," "too

TABLE 2 | The state of causes of business failure research based on firm ownership types.

Dimension	State-owned enterprises (SOEs)	Privately-owned enterprises (POEs)	Mixed ownership	Non-governmental organization (NGO)
Ownership structure.	Owned and controlled by the nation state. Deemed "fly the national flag" and therefore supported with government financial and non-financial resources. Appointments are largely based on political connection and ties to political actors such as government ministers and bureaucrats. Thus, there is little or no consideration of academic or professional merits.	Owned and controlled by private firms/individuals/groups. Management and leadership appointments are largely based on merit. Relative to SOEs, they tend to have a higher level of efficiency and innovation.	Mixture of private and public. Professionalization of management and merit-based decision making and appointments.	Governed by rules related to charitable status. Reliance on volunteers.
Founding objective.	Founded to fulfill government objectives and subjected to political interference. Maximizing profit-maximization often not necessarily the supreme objective and thereby creating conditions to inefficiencies. Typified by bureaucratic decision-making processes.	Maximizing value for shareholders. High level of market-driven decision processes.	Harnessing the power of governments to boost the business whilst making way from the best elements of private status including professional management.	Private not-for-profit firms.
Failure process.	Buoyed by government subsidies and support, which often lead to a protracted process before closure.	Exit process and pace are determined by market conditions/forces.	Market conditions shape the exit process and pace.	Nonprofit status.

interconnected to fail," and "too big to jail") (Kaufman 2014; Moosa 2010; Strahan 2013). It is contended that some large firms (particularly financial institutions and large multinational enterprises) are so vital to some nations that their failure could not only undermine the economy but also lead to the collapse of many firms connected to their activities (Hetzel 1991; Moosa 2010; Strahan 2013). As observed by Dash (2009).

> policymakers fear companies like these are so enormous and so intertwined in the fabric of the economy that their collapse would be catastrophic.

Therefore, such firms undergo managed decline to avoid or minimize the potential deleterious effects of failure (Kaufman 2014; Strahan 2013). The TBTF is seen as an outcome of the political power of large enterprises and the unbalanced relationship between large firms and the nation-state (Moosa 2010). In today's globalized world, many large multinationals have emerged to acquire such status. Correspondingly, large multinational companies often hold sway in many developing countries, such that a substantial part of their economies is predicated on the presence of such firms.

3.4 | Quadrant IV: Incremental Erosion, Informal Institutional Dysfunction

Quadrant IV displays a situation where incremental erosion is induced by informal institutional constraints. This quadrant is generally typified by a protracted period of decline and underperformance leading to bankruptcy. Societies typified by an informal economy also tend to have a flexible attitude towards copyright and trademark infringement, exposing firms to the risk of incremental erosion, which depletes firm resources over time. In developing countries with high levels of informality in the economy, there is also a prevalence of personal connections and informal ties as a potent mechanism for accessing resources (Boso and Adeola 2023). This, coupled with corruption and bribery, can gradually deplete the resources of legitimate organizations and drive them to exit due to unfair and unequal market competition. In support of Quadrant IV's argument, previous research has reported that product boycotts can stem from actions of consumers, religious, and activist groups to exert pressures on organizations via social and media pressure (Al-Hyari et al. 2012; Albrecht et al. 2013; Balabanis 2013). As product boycotts commence, organizations' resources begin to deplete via lost product sales and damaged brand and organizational reputation.

Table 3 summarizes profiles of failed companies such as Flybe, Air Namibia, Nigeria Airways, and Ghana Airways across the quadrants. The companies operated in the global airline industry and illustrate the issue of incremental collapses of companies. We turn to West Africa and focus on the cases of Ghana Airways and Nigeria Airways. These were two prominent postcolonial West African giants in the civil aviation industry. Some of these once-prominent international airlines (i.e., Air Namibia, Nigeria Airways, and Ghana Airways) demonstrate capability erosion and also suffered from deep-seated political influences and institutional dysfunction.

4 | Discussion and Implications

To address the gap in the current literature, this study aimed to examine the intricate interplay and mechanisms through which heterogeneous capability erosion and ID interact to pave the way for international business failure. Building on a literature review, this study developed a 2×2 matrix that captures two dimensions of heterogeneous capability erosion (i.e., sudden and incremental erosion) and two types of ID (i.e., formal and informal ID). The conceptualization and operationalization of business failure (Quadrants I, II, III, and IV) shed new light on the intricate process represented by infusing organization-specific forces such as resources and capability erosion, and external forces such as political instability, selective confiscation of assets, and product boycott. While both sudden and incremental capability erosion can trigger organizational change, a timely response is much more crucial for sudden erosion due to its speedy force in creating conditions of instability and uncertainty leading to business failure. The analysis indicates that incremental capability erosion can be less disruptive and allows for organizational adjustments and responses to help avert business failure. Nevertheless, this also carries the risk of leading to inconsequential changes, thereby failing to address inefficiencies and creating conditions that only postpone failure rather than avert it. By failing to solidify a set of distinctive capabilities, organizations become more susceptible to the risk of failure in the face of a changing institutional environment.

4.1 | Theoretical Implications

From a theoretical standpoint, although existing research on business failure has contributed to researchers' understanding (Mellahi and Wilkinson 2004, 2010; Hambrick and D'Aveni 1988, 1992), there is recognition of the need to integrate external and firm-specific conditions in explaining business failure (Habersang et al. 2019; Weitzel and Jonsson 1989). While some researchers have offered useful insights on business failure (e.g., Hambrick and D'Aveni 1988, 1992; Ucbasaran et al. 2013; Shepherd et al. 2009), the analysis has thus far largely circumvented how heterogeneous capability erosion and ID interact to illuminate the process leading to business failure. Thus, this study extends prior research by elucidating and delineating the underlying interactive processes of business failure in different institutional settings. In addition, while previous studies have highlighted institutional effects on firms' competitiveness (Doh et al. 2017; Peng et al. 2008), there is limited scholarly attention devoted to how ID interacts with capabilities and resource erosion to precipitate the unfolding processes inherent in business failure. In this direction, we contribute to the business failure literature (Costa et al. 2023; Zhang et al. 2019) by defining, redefining, and clarifying the pace of business failure. Thus, this sheds light on the complex interdependencies processes of how informal and formal institutions interact with resources to illuminate the role of speed in shaping the processes leading to business failure.

4.2 | Managerial Implications

Notwithstanding the theoretical implications, the study also has some vital implications for practicing managers. First, our analysis

TABLE 3 | Case company profiles and vignettes.

Company	Date founded	Year ceased operations	Case vignette and conditions leading to the business failure
Flybe	1979	2020	Flybe was founded in 1979 as Jersey European Airways. In the 1980s and 1990s, low fuel prices and increased travel demand helped the airline grow and prosper. As the COVID-19 pandemic began to rock the aviation industry, Flybe collapsed. Even though the downturn in bookings certainly didn't help, Flybe's problems were deeply rooted and historical rather than triggered by the virus outbreak. Flybe's problems began when it was first listed on the stock market in 2010. With the exception of 3 years, Flybe has always made a loss. The referendum in 2016 sealed the fate of the UK, which put Flybe in a poor position. This resulted in a significant loss for the airline due to the devaluation of the pound following the Brexit referendum. By deferring some of Flybe's unpaid taxes, the UK government provided limited assistance. With no further plans to reorganize as a going concern, the airline ceased operations on the same day it entered administration.
Air Namibia	1946	2021	On February 11, 2021, the Namibian government decided to dissolve Air Namibia because of COVID-19. The decision to close the 75-year-old carrier comes after the airline's board resigned on February 3 and the problems the country is facing as a result of the pandemic, which has forced the government to make "extraordinary sacrifices" to minimize the impacts. The airline's failure was ultimately caused by a number of factors, including persistent low demand that was exacerbated by the COVID-19 epidemic, low profitability, a large workforce, and an unwelcome and grounded fleet. Furthermore, the airline has operated on a loss-making basis since the beginning of its operations, with only 4 of its 19 flights demonstrating profitability. The nation's economy can no longer support Air Namibia financially at the expense of vital social services and economic growth. The kinds of aircraft, the routes, the large workforce, and further structural inefficiencies have all contributed to the company's financial difficulties.
Nigeria Airways	1958	2003	The aviation industry in Nigeria faces many challenges due to the unfriendly environment. Poor business plans, high maintenance costs, choice of operational equipment, high interest rates on loans, and poor corporate governance were among the factors that contributed to Nigerian airlines' failure. As a result of too much involvement of successive governments, Nigeria Airways collapsed. In spite of the government's role in setting up an enabling environment for players, it is not something that just belongs to the government. Banks believe that aviation is too hard to invest in. As a result of the military government's breakdown of British culture, Nigeria Airways had to close its doors. The majority of African airlines' partnerships with European carriers have failed. The relationship between the now-defunct Nigeria Airways and British Airways as well as KLM of the Netherlands briefly collapsed.
Ghana Airways	1958	2004	Ghana Airways was a joint venture between the British Overseas Aircraft Corporation (BOAC) and the local authorities, who owned a 60% part in the airline, and was founded by the Ghanaian government in 1958. Ghana Airways ran into operational issues. With $160 million in debt, the airline needed a foreign partner to stay afloat. The rising demand for travel made it difficult for overworked and ineffectively managed airlines to compete with the more creatively operating commercial carriers. In the early 2000s, Ghana Airways' financial issues surfaced as demand for travel rose and the airline's workforce grew significantly. Additionally, the airplane struggled to compete with other private carriers who were implementing cutting-edge methods of operation. The airline's board was removed by the government when it chose to seize complete control of the company in 2004. In 2004, the airline filed for bankruptcy, with a total of approximately US$200 million in demands from creditors against an asset value of US$32 million.

indicates a need for organizations to forge alliances and join strategic groups as a means of gaining access to scarce resources and offsetting the effects of ID. There is also potential value for organizations to forge political connections with government offices and industrial associations towards streamlining bureaucratic processes. This would also be useful in gaining expertise in interpreting uncertain regulations and learning to navigate bureaucratic barriers and regulatory uncertainty more effectively.

In addition, organizations can guard against capability and resource erosion via investment in human capital development activities such as training and mentoring schemes geared towards updating the existing knowledge and skills of employees. The analysis also indicates the need for organizations to formulate strategies towards capability renewal and reversing erosion via investments in training and workshops, coupled with financial incentives to retain highly skilled workers. This reinforces earlier scholarly assertions (e.g., Aryee 1991; Pazy 1996) that to prevent and reverse capability erosion, organizations must proactively review and update their routines and processes in the face of changes in the external environment. To combat the risk of capability erosion, organizations are required to prioritize proactive environmental scanning as a means of gaining insights and understanding of the new and future skills required for current workers to remain competitive in the future. In addition to the above, there is also a need for organizations to develop early warning systems geared towards identifying potential deterioration of workers' expertise and resources, and institute measures to arrest the situation.

From a public policy standpoint, our analysis indicates a need for governments and policymakers in developing economies in the global south to prioritize policy interventions geared towards addressing institutional deficiencies such as curtailing government red tape and improving the legal enforcement environment as a means of creating a more conducive environment that helps to mitigate the risk of business failure. Additionally, there is also a role for governments via the introduction of tax incentives and grants to foster collaborations between higher education institutions and businesses to deliver on work-based training and education to help update the expertise of current and future managers and leaders. There is also a need to foster collaboration between public and private sectors as a mechanism for addressing formal institutional barriers to help create conditions for innovation and improvement. Moreover, there is also a need for governments to create a culture of lifelong learning and work-based training and learning as a means of helping to encourage updating knowledge and expertise of current workers in organizations to help reduce the risk of obsolescence.

4.3 | Limitations and Directions for Future Research

The conceptualization has led to the identification of some noteworthy limitations, as well as promising avenues for future research. First, by limiting the dimensions of heterogeneous capability erosion and ID, the study fails to capture all the contours of the subject. This limitation also extends to capturing other dimensions of timing of resource depletion and ID, thereby presenting fertile ground for further scholarly inquiry. While this approach helps provide a clear framework with greater analytical clarity, future research could take an additional step forward by accounting for other distinctive features, such as the ownership structure and country of origin of firms. To further enrich the analysis of this study, future research could examine the processes of other extreme events as causes of business failure, such as floods, earthquakes, and tsunamis. Additionally, future research could utilize our framework with a sample of SMEs to examine how capabilities with ID affect their failure in emerging and developing markets.

The conceptual analysis represents a major step forward towards better integration of process-based explanations for business failure into the international business literature. It is hoped that our framework will stimulate further work that will enrich our understanding of capability erosion and ID in particular.

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The authors declare no conflicts of interest.

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