Factors impacting firm failure and technological development: A study of three emerging-economy firms

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ABSTRACT

Several studies examine the successful globalization and technological development of emerging-economy firms. However, few discuss why some other emerging-economy firms do not develop sufficient technological capabilities, and thus, fail in domestic and global markets. Consequently, the understanding of emerging-economy firm diversity is limited. By analyzing the failure of three firms in two major industries in Turkey, this study identifies a complex set of factors contributing to this outcome. These factors include political risk, macroeconomic regime, national technology policies, and industry dynamics, as well as firm-related factors such as ownership, strategic intent, and the approach to, and current stage of, technology capability development. The results indicate that some of these factors support firm success in the short term but discourage learning and technological capability building, and thus, cause firm failures in the long term. Thus, the study illustrates the importance of studying emerging-economy firms from an extended contextual and temporal perspective.

1. Introduction

The international success of emerging-economy firms (EEFs), such as Embraer (Vértesy, 2017), Huawei (Fan, 2006), Hyundai Motor Co. (Kim, 1998), and Arçelik (Karabag & Berggren, 2014a), as well as Indian pharmaceutical firms (Chittoor, Sarkar, Ray, & Aulakh, 2009), has been the subject of many studies in the fields of development economics, management, and innovation. Some studies argue that the firms in these countries have been successful because of their national economic and institutional contexts (Jenson, Leith, Doyle, West, & Miles, 2016). However, few discuss why some industries from the same emerging economies develop unique competitive advantages, while others do not (Hung & Whittington, 2000). Moreover, existing studies seldom explain why some EEFs succeed, while others within the same industry fail. For example, Korea has developed internationally competitive capabilities in the automotive industry. However, it is not clear why Hyundai succeeded both in the national market and globally (Amsden, 1992), while Samsung Motors and Daewoo Automotive failed (cf. Hundt, 2014).

Studies of firm failures are dominated by findings from developed economies (Thornhill & Amit, 2003). Studies of EEF failures have only recently emerged, and the majority of these predict organizational failure by using economic models and analyses (Amankwah-Amaoh & Zhang, 2015; Canbas, Cabuk, & Kilic, 2005). Barring a few exceptions (Amankwah-Amaoh, 2014), differentiated analyses of EEF failure are lacking. While existing studies highlight the fact that diversified business groups create competitive advantage, there is limited critical analysis of the ambiguity of this type of ownership and its role in causing EEF failures. Further, the role of firm strategies and technology development in relation to firm failure in emerging economies is insufficiently studied. Furthermore, existing studies tend to portray the political and economic context, including the role of state protection in emerging economies, as supportive of the development of competitive advantage. Few analyze how political and economic instability (e.g., sudden liberalization) and other contextual factors may also create disadvantages, hinder firm learning and capability development, and lead to firm failure. Finally, while existing studies acknowledge that EEFs have limited resources and capabilities, the rise and potential fall of their technological capabilities have only recently been recognized (cf. Amankwah-Amaoh & Durugbo, 2016).

This study aims to bridge these gaps in the literature by analyzing the impact of both external and internal factors in relation to firms’ failures and truncated development in an emerging economy. To this end, three firms in the white-goods and automotive industries in Turkey are analyzed with a focus on their technology development capability and overall performance from inception to the time of exiting the market.

The study contributes to the existing literature on the failure of EEFs (Amankwah-Amaoh, 2016) and their capability building in several ways. While most studies of EEF failures typically use statistical methods to predict firm failures, this qualitative study shows that the reasons for firm failure are complex. In particular, we identify three sets...
of factors: national (e.g., political instability, volatile economic context, and lack of relevant technology policies); industry dynamics (e.g., changes in competitive intensity, regulatory standards, and consumer demand); and firm-related (e.g., ownership characteristics, strategy, technology management approaches, and stage of technology development). Specifically, we show that the technological upgrading of EEFs from one stage to the next cannot be taken for granted, as implicitly assumed in influential studies (Bell & Figueiredo, 2012; Hobday, 1995). The study shows that a firm may fail even if it moves to a more advanced capability stage; this is owing to a combination of internal and external factors. The findings also illustrate the problems of ascribing a generally positive and stabilizing ownership role to diversified business groups, which are common ownership types in emerging economies (Colpan & Hikino, 2010). Moreover, the study suggests that some factors, such as the national economic and political regime, may lead to general success and firm learning in the short term, but limit learning and innovation capability building in the longer term.

The remainder of this paper is organized as follows. Section 2 reviews the literature on the factors that lead to firm failures. Section 3 describes the research methods used in this study. Section 4 summarizes the post-war history of the Turkish economy and the country’s major political changes in order to describe the external environment of the analyzed firms. Section 5 presents detailed case analyses of three firms. The concluding Section 6 discusses the factors that lead to firm failures and hinder learning and technological development; it also provides managerial implications, and limitations of this research, as well as suggestions for future studies.

2. Theoretical framework: factors impacting on organizational failure

The central question in management studies—“Which key factors make some firms more successful than others”—has been researched extensively (Karabag & Berggren, 2014b: 2212). However, this question cannot be fully understood without answering the related research question why some firms fail (Whetten, 1980). However, despite research over the past three decades (Amankwah-Amoah, 2016), there is little consensus on what firm failure is and the factors that cause it (Mellahi & Wilkinson, 2004; Sheppard & Chowdhury, 2005). Cameron, Sutton, and Whetten (1998: 8) define firm failure “as a deterioration in an organization’s adaptation to its micro niche and the associated reduction of resources within the organization”. Other researchers interpret firm failure as a discontinuance of the business or an exit from the industry (Amankwah-Amoah, 2016). This study builds on both these definitions.

To explain firm failures, the literature uses two main types of theoretical frameworks: deterministic and voluntaristic (Amankwah-Amoah, 2016; Mellahi & Wilkinson, 2004). While the deterministic view assumes that managers have little or no control over their environment and that external factors determine firm failures, the voluntaristic view suggests that managerial decisions and strategic actions (i.e., internal factors) are the key causes of firm failures.

2.1. Deterministic perspective

The factors used in deterministic studies are rooted in industrial organization and ecology studies (Hager, Galaskiewicz, Bielefeld, & Pins, 1996; Mellahi & Wilkinson, 2004) as well as in theories of economic regimes and political risk, which are considered to be part of the overall institutional context (Luo & Tung, 2007). Industrial organization scholars argue that firm performance is influenced by the industry structure and its dynamics, including such factors as changing customer demand, competitive intensity, and regulatory standards (Baum & Singh, 1994; Porter, 1990). Moreover, innovations and new technologies create discontinuity in a firm’s products and drive some firms out of the industry (Tushman & Anderson, 1986). Based on this literature, the current research explores the role of industry dynamics in firm failure. Organization ecology theories provide complementary views on the role of the density of firms in a particular market and why high density may cause failures (Amankwah-Amoah, 2016; Hannan, 1997).

EEFs are also influenced by their country’s economic regimes, which tend to differ from those in developed economies (Dornbusch, 1992). While developing countries protected their economies and restricted import of goods between the 1930s and the 1970s as a means of supporting local businesses, developed economies increasingly favored free trade regimes and open market policies (Finger, 1991). Owing to anti-statism, poor economic performance and pressure from the World Bank and IMF, many developing countries started to open up and liberalize their economies in the 1980s (Dornbusch, 1992). These liberalization policies increased their export performance and productivity, but also created macroeconomic instability, such as financial turbulence, liquidity shortages, balance of payments deficits, and unemployment (Erb, Harvey, & Viskanta, 1996); all these may play significant roles in firm failures.

Further, a nation’s institutions, such as its rules, regulations, universities and technological and R&D infrastructure, determine firms’ innovation capability building (cf. Jenson et al., 2016). Thus, national technology development policies can play a role in firm survival and capability building; however, not all firms have the same ability to benefit from those policies (Hung & Whittington, 2000; Lee, 2013). Moreover, such policies evolve over time, and the resources allocated to the innovation system depend on domestic economic conditions and political preferences.

Not only are economic regimes and technology development policies different in emerging economies from those in developed countries. There is also a difference in terms of political (in-)stability. Political instability “involves all non-business risks that have the potential to change the prospects of the profitability of a given investment” (Bastian & Tucci, 2011: 2). The stability of political leadership, the presence of tensions (political, religious, ethnic, or regional), terrorism, and armed conflicts are indicators used to understand the political instability of a country (Erb et al., 1996). Empirical studies of political instability focus on the impact on FDI, tourism, household savings and consumption, and stock market behavior (Knoll, Macchiavello, & Morjaria, 2014). However, existing studies rarely explore the impact of political instability on EEFs’ survival, investments, capability building, and entrepreneurship activities (Brück, Naudé, & Vervimp, 2013).

2.2. Voluntaristic perspective

Whereas deterministic studies focus on external factors, research inspired by the voluntaristic view argues that firms can determine their future, including their failure, by their strategic decisions (Sheppard & Chowdhury, 2005). Such internal factors include top management actions, the quality of human resources, the presence of distinctive capabilities, and the availability of financial capital (Amankwah-Amoah, 2014; Hambrick & D'Aveni, 1992). Firms gain competitive advantage and survive by selecting a distinctive core strategy and developing their organization to implement this strategy (Porter, 1980). Hence, from this perspective, an EEF's strategy, intended and realized, is crucial. Empirical studies show that a firm’s intended strategy might not be realized because of biases in managers' perceptions and decisions, conflicting intentions in the organization, unpredictable markets, and technological changes (Mintzberg & Waters, 1985). In this study, intended strategy is specified as “a deliberate conscious set of guidelines that determines decisions into the future,” while realized strategy is defined as “a pattern in a stream of decisions” (Mintzberg, 1978: 935).

Firm failure studies highlight that young firms are fragile and that the failure rate falls with increasing age (Levinthal, 1991). However, older firms that have developed strategic persistence may also fail in a changing industry and regulatory environment if they are unable to develop the relevant new technological and organizational capabilities.
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