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Business Failures In Institutionally Weak Environments: An Examination of Virgin Atlantic's Failed Adventure In Sub-Saharan Africa

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Abstract

In view of the paucity of scholarly work on how conditions in weak institutional environments at organizational founding can persist leading to eventual international joint ventures (IJVs), this paper utilizes the case of Virgin Nigeria Airways to illuminate our understanding of the subject. Based on semi-structured interviews, we developed a four-phase model that demonstrates the persistent interactions of internal and external factors. The four phases are as follows: pre-formation resource mobilization, formation and embryonic challenges, decoupling and rebranding, and phasing out. Phase 1 highlights political and non-political activities geared towards venture formation and resource mobilization. Phase 2 focuses on the decoupling of functional activities and the loss of legitimacy in response to changing political and economic conditions in the country. Phase 3 sheds light on triggers for corporate rebranding activities resulting from loss of identity and legitimacy. In Phase 4, we highlight the dispute with the government that typified and culminated in the airline's demise. We identify and examine the implications of these findings.

Key words: Africa; West Africa; Nigeria; Ghana; business failure; Virgin Atlantic Airline.

1 Introduction

Over the past 40 years, international business and strategy research has demonstrated that institutional environments shape firms' behaviors and can lead to a range of diverse outcomes for both large firms and small and medium-sized enterprises (SMEs) (Khanna & Palepu, 1999, 2005; North, 1990; Peng, 2014; Wu & Chen, 2014). A plethora of scholarly works has indicated that the challenges of the institutional environment in emerging markets - "institutional voids" (Khanna & Palepu, 2010) and institutional dysfunction (Barnard & Mamabolo, 2022) - such as lack of access to institutional support, government bureaucratic red tape, high levels of corruption, weak legal and contract enforcement mechanisms, unreliable governments, and poor information disclosures can impede market functioning (Boso et al., 2023; Cavusgil, Ghauri & Liu, 2021; Julian & Ofori-Dankwa, 2013; Ofori-Dankwa & Julian, 2013; Zhou & Poppo, 2010). Increasingly, contemporary research indicates that institutional dysfunction can stifle the ease of customer and firm interaction, leading to higher operating costs and market opportunism (Doh, Rodrigues, Saka-Helmhout & Makhija, 2017).

The suggestion that institutional dysfunction (Barnard & Mamabolo, 2022) can undercut firms' chances of success (Liedong, Peprah, Amartey, & Rajwani, 2020; North, 1990) provides an opportunity to conduct empirical research that examines how such dysfunction can lead to and shape

the process leading to business failure. Despite the growing body of research, we lack a solid understanding of whether conditions in weak institutional environments at the founding of international joint ventures (IJVs) can persist and be transmitted through changes in ownership, ultimately leading to business failure. More importantly, the fundamental issues of how IJVs fail in weak institutional environments remain largely unexplored within the field of international business.

Against this backdrop, the purpose of this paper is to examine how conditions in weak institutional environments can evolve and lead to IJV failure. This paper is motivated by the fact that in such environments, firms' products and blueprints for success often falter (Demil, Lecocq, Ricart & Zott, 2015). Therefore, failure may be induced and shaped by a set of conditions that differs fundamentally from those in advanced economies. Despite the growing body of research on business failure, most of the current literature has focused on firms in institutional environments characterized by stable, mature, and reliable legal systems, and lower levels of business uncertainty (Amankwah-Amoah et al., 2022). As a result, our understanding of how institutional dysfunction induces or shapes international business failure remains limited. Thus, we lack a solid understanding of whether conditions in weak institutional environments at the founding of an IJV can persist and lead to the demise of the business.

To illustrate our analysis, we will examine the global airline industry and focus on the case of Virgin Atlantic International Limited's (VAIL) Nigeria initiative - Virgin Nigeria, which was later rebranded as Nigerian Eagle Airlines and subsequently as Air Nigeria. This case demonstrates how circumstances at the birth of an organization can lead to its downfall. VAIL's Nigeria initiative was a bold and ambitious attempt to expand the airline's geographic reach to an environment characterized by institutional dysfunction (Khanna & Palepu, 2006). Virgin Nigeria was a new company that brought together foreign expertise and local partners to help develop a major African player in the global airline industry. It was one of the first attempts by a European airline to start a national airline from scratch in post-colonial Africa (Peel & Done, 2004).

This joint venture between international and domestic partners provides a unique opportunity to shed new light on the causes of failure in international business ventures. This approach was in sharp contrast to the previous investment strategies of Western airlines in Africa. KLM, the Dutch subsidiary of Air France-KLM, held a 26% stake in Kenya Airways, while British Airways had an 18% stake in Comair, a South African airline, and Air France held a majority stake in Air Ivoire (Debrah & Toroitich, 2005; Peel & Done, 2004). In the largely untapped African aviation market, the failure of Virgin Nigeria is particularly important given that major African airlines such as Nigeria Airways (1958-2003), Uganda Airlines (operated from 1977-2001), Ghana Airways (1958-2004), and Air Afrique (1961-2002) had all collapsed prior to the formation of Virgin Nigeria (Amankwah-Amoah & Debrah, 2010). One of the primary motivations behind Virgin Nigeria's formation was to fill the void left by the demise of Nigeria Airways. We use the Virgin Nigeria case to argue that history is essential to understanding business failure and predicting the future of international businesses that operate in institutional environments different from their founding.

This paper makes several contributions to the literature on international business failure. Firstly, we integrate insights from the institutional dysfunction literature (Barnard & Mamabolo, 2022; Peng, Wang & Jiang, 2008) with business failure research (Heracleous & Werres, 2016; Oertel, Thommes & Walgenbach, 2016) to develop a four-phase model. This sheds light on how founding conditions in weak institutional environments can persist and create conditions leading to international business failure. Secondly, although research on institutional dysfunction (Barnard & Mamabolo, 2022; Fon et al., 2021; Khanna & Palepu, 2010; Ofori-Dankwa & Julian, 2013) is gaining momentum, there are relatively few insights on how such dysfunction creates conditions leading to international business failure in institutionally weak environments. We contribute to the business failure literature by elucidating the mechanism through which institutional factors and firm-level conditions interact to shape the processes leading to the collapse of such enterprises. This is a new contribution to the literature, as prior studies have failed to account for the effects and influences of institutional dysfunction on the failure of international businesses.

In another novel theoretical contribution, we use historical data to illuminate our understanding of how business failure processes unfold and are shaped by the history of the organization. By charting the historical evolution of the company Virgin Nigeria and the effects of environmental factors such as local competition and political interference in the business activities that led to its failure, our study responds to the growing call to incorporate history into our understanding and explanations of how firms formulate their strategies and respond to environmental upheavals (see Cummings & Bridgman, 2016; Jones & Khanna, 2006).

The rest of the paper is organized as follows. After reviewing the literature on business failure and institutional dysfunction, we provide brief background information on the research setting, data collection, and data analysis. We then explore the case of Virgin Nigeria to illustrate our theoretical conceptualization and analysis. Finally, we examine the implications of the study.

2 Business Failure and Institutions: Conceptual Development

By business failure, we are referring to the closure of a business due to the depletion of resources and capabilities which hamper its ability to function and meet obligations imposed by the external environment (Mellahi & Wilkinson, 2004; Ucbasaran et al., 2013). Scholarly research has shown that business failures often result from a build-up of past events, actions, and inactions rather than being accidental (D'Aveni, 1989, 1990; Henderson, 1999). Therefore, the path to business failure is shaped by the journey that the firm has taken from its formation to the events that preceded its failure (Moulton et al., 1996). Scholars have extensively studied business failure and the factors that lead to a downward spiral resulting in exit (Hambrick & D'Aveni, 1988). Generally, two main theoretical perspectives exist on the causes of business failure: voluntaristic and deterministic perspectives (see Heracleous & Werres, 2016; Mellahi & Wilkinson, 2004).

The voluntaristic perspective attributes business failure to a variety of organization-specific factors, such as the mismanagement or lack of resources, leadership, and management style (Mellahi

& Wilkinson, 2004). Some of the earliest research on business failure highlighted the effects of firm age and size (Bruderl & Schussler, 1990; Henderson, 1999). These studies argued that at the time of founding, firms are typically well-equipped with initial buffer resources that help them reduce the risk of business failure. However, over time, the original resources that provided the firm with protection against initial shocks begin to fade, or they become ineffective in the wake of changes in the business environment (see Fichman & Levinthal, 1991; Henderson, 1999). Consequently, the "initial honeymoon period" effects fade, making failure more likely (Fichman & Levinthal, 1991; Henderson, 1999).

New ventures that can access buffer stocks and resources from allies after founding are better equipped to navigate their business environment. As the resources decline and initial expertise from partners dissipates, the organization becomes more vulnerable and more likely to fail. To avoid failure, such firms may need to rebrand and reposition their businesses (see Boyne, 2004). Consequently, strategic errors resulting from decay or a lack of knowledge about the market, rules and regulations, and standards may impose additional costs on the business. The ability to navigate such uncharted territory depends on obtaining current knowledge about the business environment to equip firms to improve their chances of success.

On the other hand, the deterministic perspective attributes business failure to external factors such as competition, economic recession (Heracleous & Werres, 2016; Van Witteloostuijn, 1998), and government interference. Arguably, the deterministic perspective focuses on external attributes or characteristics such as the presence of institutional dysfunction, liability of foreignness (LOF), and obsolescing bargain.

2.1 Institutions

Institutions are commonly understood as the "rules of the game in a society" and are characterized by both formal and informal features (North, 1990, p. 3). Informal institutions consist

of cultural norms and conventions that are largely socially shared and unwritten, created, communicated, and enforced outside of officially sanctioned channels (Helmke & Levitsky, 2006, p. 5). Formal institutions, on the other hand, include laws, political systems (such as government and legislative bodies), and regulations that shape firm behavior (Mbalyohere & Lawton, 2022; Peng, 2014). Unlike informal institutions, which exist outside the legal system and may be enforced by society members through social norms, formal institutions are enforced through legal channels such as courts and regulatory bodies (see Helmke & Levitsky, 2006; Peng, 2002; Wang et al., 2013).

Institutional theory aims to explain how organizations and actors understand their institutional environments (Kostova, Roth & Dacin, 2009; Suddaby, 2010). A branch of institutional theory known as the institutional dysfunction perspective (Barnard & Mamabolo, 2022; Khanna & Palepu, 1999, 2005) contends that market-supporting structures that exist in advanced economies are often lacking in emerging markets, leading to a diverse range of behaviors. Studies indicate that the characteristics of institutional dysfunction, such as lack of financial credit availability, lack of access to institutional support, government red tape, high levels of corruption, weak legal enforcement mechanisms, unreliable government, and poor information disclosures (Julian & Ofori-Dankwa, 2013; Ofori-Dankwa & Julian, 2013; Saeed, Riaz, & Baloch, 2022; see also Areneke, Adegbite & Tunyi, 2022; Fon et al., 2021), can hamper the competitiveness of firms (Chung & Luo, 2008; Luo et al., 2009).

Moreover, past studies on institutional dysfunction have shown that emerging countries exhibit high levels of red tape, bureaucracy, and administrative delays (Khanna & Palepu, 2010). Scholars have asserted that corruption (Cuervo-Cazurra, 2016), political instability, and lack of adherence to previous governments' agreements are some of the visible manifestations of weak institutions in developing economies (Cavusgil, Knight & Riesenberger, 2020). Corruption takes root when legal enforcement mechanisms are weak (Cuervo-Cazurra, 2016), as suggested by North (1990). When formal constraints prove dysfunctional or fail, informal constraints play a vital role in reducing market uncertainty. In light of deficiencies in formal institutions in emerging or developing

economies, informal institutions often shape and govern business activities (Barnard & Mamabolo, 2022).

Consistent with previous studies, researchers have indicated that factors specific to a location, such as laws, regulations, and governance, can deplete or render prior knowledge and experience obsolete (Peng et al., 2009). Knowledge obtained from one geographical area may not be applicable in another geographical area due to the well-established differences between developed and developing countries (Acquaah, 2007; Ofori-Dankwa & Julian, 2013). Indeed, the lack of institutional knowledge can create conditions that lead to misunderstandings of customer needs, frustration with domestic governments, and breaches of expected norms and rules. Firms from advanced economies, which are typified by stable and advanced institutional environments, often face different institutional conditions, such as the prevalence of political instability, the absence of contract-enforcing mechanisms, and weak legal enforcement systems when doing business in emerging economies (McCarthy & Puffer, 2016; Ofori-Dankwa & Julian, 2013). A body of literature has indicated that when the business environment is associated with greater uncertainty regarding the rule of law and enforcement mechanisms, firms are exposed to a much higher risk of failure (see Lee & Yamakawa, 2012). Accordingly, business failure is posited as an outcome of an array of environmental upheavals, firm responses, decision points, and failed responses, which culminate in the eventual closure of the business. The literature also highlights how resources and expertise at founding can erode or decay over time, leading to business failure.

2.2 Liability of foreignness (LOF) and obsolescing bargain

Related to the institutional dysfunction perspective, research indicates that failure in foreign markets may stem from liability of foreignness (LOF) (see Peng, 2014). LOF refers to the disadvantages that firms experience in foreign countries due to their non-native status (Benischke, Rietveld & Slangen, 2023; Peng, 2014; Pesqué-Cela, Li, & Kim, 2023; Wu & Salomon, 2017; Zaheer, 1995; Zaheer & Mosakowski, 1997). The theory suggests that insiders (domestic firms) and outsiders

(foreign firms) are treated differently (Benischke et al., 2023; Miller & Parkhe, 2002; Miller & Richards, 2002), leading to liability for foreign firms. Previous research has shown that such liability may stem from discriminatory government actions, such as preferential treatment, subsidies to local firms, and non-financial support for local firms (Miller & Richards, 2002). The government may also enforce or ignore rules to the detriment of foreign firms (Nachum, 2003). In addition, LOF may arise from differences in the formal and informal institutions that exist in both the home and host countries (Newenham-Kahindi & Stevens, 2018; Peng, 2014).

Host government actions may render the prior knowledge and expertise of foreign firms obsolete, leading to underperformance, divestment, or business failure. Previous research suggests that foreign firms may develop and leverage unique resources and capabilities as competitive weapons to help offset or neutralize the negative effects of LOF (Peng, 2001, 2014; see also Benischke et al., 2023). By acquiring and utilizing quality knowledge about the host country's institutions, firms can mitigate the risk associated with unfamiliarity regarding the host country setting (Petersen & Pedersen, 2002). It has also been suggested that, in the face of such pressure, organizational survival or success may depend on gaining legitimacy through conforming to taken-for-granted norms and rules (Meyer & Rowan, 1977).

Another important theoretical lens is the obsolescing bargain, which can be seen as a visible manifestation of the existence of institutional dysfunction. Scholars have demonstrated that the relationship between MNEs and national governments is characterized by a high degree of bargaining (Stevens et al., 2016; Vachani, 1995). The obsolescing bargain is a kind of regulatory risk that relates to the deal struck by MNEs and host governments who change their requirements after the entry of the MNEs (Peng, 2002, 2014). According to Ramamurti (2001), the bargaining processes involve both home and host country governments. It unfolds as follows. First, the MNE and the host government negotiate a deal that the MNE “usually is not willing to enter in the absence of some government assurance of property rights and incentives (such as tax holidays)” (Peng, 2014, p. 197).

Following this, the MNE enters, enjoys benefits, succeeds, and becomes more visible over time. The penultimate round is where the government comes under intense pressure from domestic political groups to renegotiate the deal due to perceived "excessive" profits accrued by the foreign firm (Peng, 2014). Accordingly, the previous deal is rescinded by the government in the wake of the pressures by taking measures such as removing incentives and demanding a higher share of profits and taxes. The change in the government's requirements or conditions may stem from changes in government or government policy. Such shifts alter the basic conditions leading to greater uncertainty. Prior research has emphasized that capital investments in many sectors in the developing world may entail greater risk due to the "obsolescing bargain" (Li et al., 2013). Hence, an important yet understudied area of research is how obsolescing bargain dynamics contribute to international business failures.

Insert Figure 1 about here

In the absence of a well-developed market functioning system and an effective legal/contract enforcement structure, friction between a MNE and the host government is likely to lead to a breakdown of relationship and deprivation of key resources and expertise to the MNEs leading to business failure. As host government-MNE relationship deteriorates, this also weakens firm resources and expertise exacerbating the conditions for business failure in weak institutional environments, as depicted in Figure 1. Despite these insights, there remains a gap on how such institutional dysfunction can lead to and shape the process leading to a business failure. Building on these relevant and important works, we examine how founding conditions persist in creating conditions leading to business failure.

3 Research Context and Methods

Before examining the research method, we first turn our attention to the research setting (the airline industry in Africa) and research case (Virgin Nigeria).

3.1 The airline industry in Africa

In Nigeria and many African countries, aviation is a relatively recent form of transportation. Businesses in maritime and river transport as well as human porterage were thriving in Africa but were not efficient before the advent of aircraft and the aviation industry (Ogbeidi, 2006). Aviation in Africa dates to the colonial era and was dominated by European carriers. Many state-owned airlines were formed during the post-colonial period in Africa (Cumming, 1962). To date, almost all the state-owned carriers in Africa have collapsed due mainly to mismanagement and safety concerns. On this issue, Nigeria is no exception. Historically, the Nigerian and for that matter, the African aviation industry has carried a stigma of poor safety records and high-security risks, with many of the airlines banned from European and American airspace (Amankwah-Amoah & Debrah, 2017). The poor track records have often made it increasingly challenging for new African airlines to move beyond their domestic operations into the global stage. Against this backdrop, many traditional African carriers have sought to forge alliances with major international airlines including British Airways, KLM, and Air France to help them enhance their capabilities and know-how and to gain legitimacy in the global aviation industry.

Growing out of the post-colonial era in Africa in the mid-1950s and early 1960s was the need to take the necessary steps to improve the competitiveness of African airlines (see also Pirie, 2020a, 2020b). Out of this came the Yamoussoukro Declaration at the Yamoussoukro Convention on Market Access for Air Transport in Africa in 1988, where African nations came together in Yamoussoukro, Cote d'Ivoire, and agreed to liberalize the airline industry (Amankwah-Amoah & Debrah, 2010). The agreement set into motion Africa's first major attempt at levelling the "playing field" for all national airlines through liberalization. Despite being one of the fastest-growing continents in the world (Mitchell, 2019; The Economist, 2013), Africa's airline industry is facing various challenges and obstacles. Local start-ups, in particular, find it difficult to compete with well-established continental and global airlines that have decades of experience and superior security and safety track records.

With the notable exception of airlines such as Ethiopian Airlines, Kenya Airways, South African Airways, Royal Air Moroc and Egypt Air, many small African carriers are often beset with challenges which include high accident rates, use of inefficient second-hand aircraft, and poor security and safety records. These have historically hampered their competitiveness when competing on routes with carriers with a strong reputation for safety and quality services such as British Airways, KLM, and Air France (Smith 2008). The attractiveness of the aviation market has underpinned the recent expansion of major players such as Ethiopian Airlines and Kenya Airways. These same incentives have also attracted Western and Asian airlines to expand into Africa. More recently, several Middle Eastern carriers such as Emirates, Turkish Airlines, and Qatar Airways have expanded to the region. Due to poor route networks, African travelers often pay more for air transport for both intra-Africa and inter-continental routes than passengers in most parts of the world on similar distances (Thisdaylive, 2021; The Economist, 2008).

3.1.1 A brief history of Virgin Nigeria

VAIL is a British airline founded in 1984 as British Atlantic Airways. Over the years, the airline has expanded across the globe to North America, Asia, Australia, and Africa. The company's interest in the formation of Virgin Nigeria reflects its wider global expansion ambitions and strategies to gain a stronger foothold in the fast-growing African market. In the early 2000s, some African nations were either in or moving into the status of an emerging economy. This attracted many foreign investors to the continent in tandem with the growth in the number of travelers on inter-African routes. With the intensity of competition among airlines in the European, North American, and Asian markets, it became a strategic imperative for airlines to seek and exploit new market opportunities. Virgin Nigeria was established as a private Lagos-based airline in the wake of the collapse of Nigeria Airways to help fill the void in the marketplace. At its founding, 51% of the stake was held by Nigerian institutional investors, and the other 49% was controlled by VAIL (supported by Singapore Airlines) (Ford, 2005). Although poor leadership and inefficient services contributed to the collapse

of Nigeria Airways, a major factor was the theft of over $400m from the airline by unknown individuals (Ford, 2005). This deprived the airline of much-needed resources. Over time, Nigeria Airways came to be seen as "a national embarrassment and symbol of public sector corruption and mismanagement" (Done & Peel, 2004, p. nd; Green, 2008). These problems were attributed to the state-owned structure of the airline which allowed state involvement and created conditions for mismanagement, misallocation of resources, poor leadership, and poor customer service and perception of the airline. Hence the birth of Virgin Nigeria as a private entity was welcomed by all stakeholders.

Besides being seen as a major symbol of investor confidence in the Nigerian economy (Green 2008), the new model which ushered in Virgin Nigeria meant that the government was not required to financially support the airline. From the perspectives of the government and other airlines, the new privately-owned airline also eliminated the preferential treatment and benefits such as subsidies and reduced airport charges which are often conferred on state-owned airlines. This also meant that Virgin Nigeria could begin to challenge its British, European, and a few African competitors on one of their most profitable African destinations/routes. Besides the potential market of a population of over 150 million people, Nigeria is also one of the world's oil-rich nations with a rising middle class. These made the nation an attractive destination for foreign firms. For Virgin Atlantic, this was an opportunity to expand its geographic reach from largely developed markets to the underexploited African market. However, such outward expansion to Africa by Virgin was seen as a journey into "unknown territory". At the time the agreement was signed in 2004, the *Financial Times* described it as "one of the most ambitious investments in African aviation" (Done & Peel, 2004, p. nd).

At its founding, the main objective was to operate domestic flights to cities such as Abuja and Kano, and regional and international flights (BBC, 2004; Ford, 2005). It was expected that the new airline would create about 20,000 jobs including suppliers (BBC, 2004). The proposed inter-continental routes included the Far East, Europe, and North America. At its founding, it also faced

competition from local rivals such as Arik Air and Bellview Airlines on both domestic and international routes. In 2005, the airline launched the inaugural flight from Lagos to London. Virgin Nigeria operated thrice-weekly flights to both London Heathrow and Gatwick for some time. On intra-African routes, the firm operated services to Johannesburg, Accra, Dakar, and Douala. At its height, it was able to obtain US Department of Transportation approval to operate transatlantic flights to/from Lagos to various destinations in the US pending confirmation of an aviation agreement between the US and Nigeria. The airline was supposed to become a dominant African airline but eventually collapsed in 2012. We seek to explore why and how the airline collapsed.

Table 1 provides a chronology of key events in the evolution of the airline. We now turn our attention to the research method approach adopted. The Virgin Nigeria was an international joint venture between VAIL and private investors in Nigeria. This was a new business model in the sense that it was not a subsidiary of VAIL but a new and separate airline in an environment typified by considerable institutional dysfunction. This initiative brought foreign expertise and local partners together to develop a new African airline capable of operating on a global scale. Thus, this was one of the first attempts by a European airline to help start a national airline from scratch in post-colonial Africa (Peel and Done 2004) in contrast to the previous approach by Western airlines to service the African routes/destinations or rarely to invest in an existing African airline as mentioned earlier (Peel & Done 2004).

Insert Table 1 about here

3.2 Qualitative inductive approach

Given the limited scholarly works on business failure in emerging economies, a qualitative inductive approach was considered the most suitable (Yin 2003). We draw on two studies to explore Virgin Atlantic's adventure in Africa. We essentially employed a snowball sampling technique which is appropriate given the exploratory nature of the study (Tayeb 1994). Study 1 took place before the

collapse of the businesses. It is worth noting that this data was originally collected to help understand the new business model, that is, the government-private partnership, airline operations, and how the airline strategized to respond to market competition as a result of the liberalization of the airline industry in Africa. In all, we obtained data via 10 semi-structured interviews with line managers and functional heads of Virgin in 2007/2008. Following the business collapse, we initiated Study 2, which focused on examining the causes of failure. In this study which took place in 2018, the informants were identified using social networks and the snowballing approach (Tayeb 1994). Given the historical [post-failure] nature of this study and the dispersion of former employees, we used multiple sources to trace and contact potential informants. We used industry contacts from the African Airlines Association, International Air Transport Association, and African Civil Aviation Commission, and information from personal networks, industrial magazine sources, and LinkedIn to help identify and contact former employees of Virgin Nigeria. Given the traumatic effects of business failure with its associated job loss and financial hardship, some of the former executives whom we traced were unwilling to revisit the negative experiences and opted out. Indeed, some had not been paid for around six months, lost their pensions and cooperative savings which were all linked to the defunct organization.

Given that the airline collapsed years ago, many had moved on to work for other airlines in different parts of Africa. After multiple discussions with them, we discovered that many were in Ghana or Nigeria. Accordingly, one of the authors travelled to Accra in Ghana, and then to Lagos in Nigeria to conduct interviews. After contacting several individuals, 8 former senior executives agreed to be interviewed. In addition, we had two telephone interviews with a senior manager and a pilot who had relocated abroad after the collapse of the firm. Thus, semi-structure interviews with a total of 10 former executives and senior staff were conducted in April and May of 2018. The semi-structured interview protocol is included in Appendix 1. The interview began with a general discussion about their roles, positions, and contributions to the organization. We then drilled down to the factors or issues which shaped the evolution of the airlines and culminated in the eventual demise.

Each interview lasted between 50 minutes and two hours and responses were hand-written and transcribed by one of the authors. The transcribed notes were shared with interviewees to check the accuracy of the data and to ensure all ambiguities were clarified with the informants. Appendix 2 provides a detailed background of the positions held by the respondents/informants.

Given that the formation of Virgin Nigeria and subsequent brands span several years, we also used an archival method (Ventresca & Mohr 2002) and relied on multiple sources of data and multi-method triangulation (Jick 1979). Archival records are particularly effective when seeking to construct a historical evolution of an event that has the potential to yield more detailed information about the phenomenon (Capaldo 2007). Indeed, such an approach is well "suited to generating developmental explanations" (Welch 2000, p. 198; Ventresca & Mohr 2002). Specifically, we conducted an extensive search which yielded materials including Nigerian government reports on the airline industry, trade magazines, transcripts of interviews to the press, newspapers, and airline industry magazines such as *Airline Business* and *Flight International*. The study also utilized the Flightglobal database which is one of the world's most comprehensive databases on global airlines. We also examined general business magazines such as the *Economist, Financial Times,* and *African Business* for archival stories on the airline and other brands. We then examined the annual reports and press releases of VAIL from 2004 to 2016 to extract relevant information pertinent to Virgin Nigeria. In addition to this, we also utilized key words such as "Virgin Nigeria", "new airline in Nigeria" and "Virgin in Africa" to search electronic databases such as *Scopus, Business Source Complete, ScienceDirect, JSTOR,* and *Emerald*. A combination of keywords (e.g., "airline" and "Nigeria") was used to discount studies that were not closely linked to this specific airline. The search continued for months until we were unable to obtain new information either from the government or secondary sources (David et al., 2013). A total of over one hundred newspaper cuttings, reports, articles, and newspaper features on the airline's formation, operations and collapse were examined.

3.2.1 Data analysis and emerging patterns

Regarding the data analysis for both Study 1 and Study 2 and the identification of the key themes for theory development, the approaches undertaken were anchored in an inductive qualitative approach (Glaser & Strauss, 1967; Miles & Huberman, 1994). We analyzed data using established coding techniques (Langley, 1999; Miles & Huberman, 1994) and adopted the approach advanced by Gioia, Corley and Hamilton (2013) for data analysis. After transcribing all the semi-structured interviews and individual narratives, we analyzed the interview and archival data via leveraging the established coding techniques (Ambos, Fuchs, & Zimmermann, 2020; Langley, 1999; Miles & Huberman, 1994) and in line with Gioia, Corley and Hamilton's (2013) approach and guidelines for data analysis. First, we sought to understand the background and story of each informant. We then coded each interview transcript separately for insights into the factors triggering the business formation, sources of tensions, and factors contributing to the business collapse.

We constructed a chronology of events, rebranding, effects of strategic changes, effects of ownership changes, effects of changes in government, and causes of business failure from the perspective of each of the informants. This also included the timeline of events and detailed explanations of how things unfolded over time in the firm (Langley 1999). After developing this chronology of events, we examined the data individually and as a research team, looking for commonalities and how they relate to or contradict the archival data to help enhance the reliability of the data. After examining the interview transcripts in tandem with the secondary data sources obtained from the informants and other sources, we were able to detect codes and similar insights across respondents. By comparing themes and timelines of events within and across informants (Eisenhardt 1989), we were able to identify common factors and events, and how they unfolded and contributed to the business closure. These processes produced several first-order categories/codes for our analysis. We then categorized these insights and distinct patterns represented by the codes into first-order categories.

Following the inferences from the first-order codes, we explored and gathered common themes to form the second-order dimension. In deducing the aggregate themes, we looked for relationships between our first-order categories to identify the actions, processes, and activities that the airline adopted. At this point, we further examined the emerging themes, which culminated in the identification of a few aggregated and theoretically informed themes. After deducing the first-order categories, we started identifying linkages among these categories. Guided by Gioia, Corley and Hamilton's (2013) approach and guideline, we then synthesized the second-order themes into aggregated dimensions that paved the way for us to complete the theory development from our integrated insights from the data (Nag, Corley, & Gioia, 2007). These themes were then synthesized into the aggregated four-phase dimensions which highlight resource mobilization and formulation, decoupling, corporate rebranding, and phasing out. Based on the data/evidence analysis, four distinct phases of the evolution of the airline have been deduced as depicted in the model in Figure 2.

Insert Figure 2 about here
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4 Phases in the Evolution and Collapse of the Airline

The phases capture the period from the formation through to 2010 when Richard Branson sold his minority stake, and then in 2012 when Air Nigeria announced the decision to terminate operations and lay-off over 500 employees. These periods capture the evolutions of the obsolescing bargain process leading to business failure in the weak institutional setting in Africa. Below, we tease out the contributory factors.

4.1 Pre-formation resource mobilization phase

This period focused on the Nigerian government's spearheading effort aimed at mobilizing financial and human capital inside and outside Nigeria to build a more sustainable national airline. For Virgin Atlantic, the desire to mobilize different types of expertise and resources was partially

motivated by the market opportunities arising from the collapse of three major airlines in the West African region, i.e., Ghana Airways, Air Afrique, and Nigeria Airways. For decades, the three airlines dominated the West African market which curtailed the development of new airlines and expansion by major carriers. Their collapse created space and an opportunity for Virgin to expand into the region and to operate internally in Nigeria and the West African region. More importantly, the promising growth of air transport in West Africa coupled with rising middle-class air travelers motivated it to seek to expand to the region. As one former executive asserted,

"West Africa was projected to be a new frontier market at the time, and we had to be there to be in the game there…it was a logical decision" (Interviewee A11).

Our analysis revealed that the Nigerian government, in turn, was motivated by the desire to facilitate the formation of a new carrier capable of filling the vacuum left by the collapse of Nigeria Airways. This meant shifting from the conventional post-colonial view that promoted state ownership of airlines to help project their national identity and "fly the Nigeria flag" to the private enterprise model. Past Nigerian governments also used the national airline to allocate jobs to their political allies and supporters, leading to overstaffing and mismanagement. Indeed, recruitment was not based on skills and expertise but rather, on political ties to the government at the time. For that matter, Nigeria Airways became a drain on national resources.

Against this backdrop, it was concluded by the Nigerian government in power at the time that bringing outside expertise would help to improve aviation services in the country. Hence, Virgin was invited to operate an airline in Nigeria. One former executive (Interviewee A13) captured this pivotal issue in the following terms:

> "*There was a lot of euphoria about bringing in Virgin to Nigeria. President Obasanjo envisaged that Virgin would bring technical and commercial expertise to the aviation industry in Nigeria. Indeed, this was the case, as Virgin replicated its commercial, technical and management and control system expertise they had in London, UK in Nigeria. Virgin brought modern, state-of-the-art systems into Nigeria. This included expertise in efficient crew*

scheduling, the setting up of an Operational Control Centre to monitor aircraft movement across the network including a radio frequency for on-time arrival and departure message systems, etc. Virgin's expertise brought on-time arrivals and departures of flights and hence reliability of service. This was a "revolution" in the aviation industry in Nigeria as local airlines were notorious for delays and unreliable services. It was expected this would stimulate a cultural change in the industry and local firms would emulate Virgin and hence bring general improvement to the industry in Nigeria."

During this phase, the British entrepreneur - Richard Branson – played a pivotal role in the formation of the airline. For Virgin to exploit an opportunity in this underdeveloped institutional environment, allying with the local government was seen as a viable strategy for success. It was clear that the technological and human capital deficit, which at times hampers many African airlines' ability to compete on the global stage, needed to be bridged. In 2004, the airline was established as a partnership between local institutional investors (51%) and VAIL (49%). The initial capital investment was around $50m (€41m or £27.7m) with $24.5m coming from Virgin Atlantic (Peel & Done 2004). Our data also indicates that Virgin Atlantic seconded 44 managers from its UK operations to Virgin Nigeria to assist in the formation and running of the airline and this facilitated the diffusion of international knowledge and industry expertise. As one informant (Interviewee A20) puts it,

"The [seconded] managers brought technical expertise, managerial know-how…we gained some knowledge on maintenance, safety, training, ground handling, procurement…"

4.2 Formation and embryonic challenges phase

The phase focused on the activities culminating in the triumphant advent of a new national airline. After its formation, the airline became Nigeria's largest airline. One head of a functional unit immediately after the formation captured the sentiment after Virgin Nigeria launched by noting:

"*There was … mixed feelings from the workers (fear of unknown and joy of employment). Fear because of uncertainty; having left other jobs and because of threats from former Nigerian Airways workers fueled by other competitors.*" (Interviewee A2)

Amid the euphoria, there was also some apprehension about the airline's fortunes. Perhaps a manifestation of the challenges ahead at the time was captured by Sir Richard Branson who asserted that the airline would be tested by the Nigerian business environment which is seen as "potentially hazardous as it is lucrative" (Peel & Done 2004, p. nd) and notorious for infrastructural problems including airport facilities and road networks connecting to major and secondary airports. The maiden flight of Virgin Nigeria was from Lagos to London-LHR using an Airbus A340 in June 2005. At the launch, Branson noted:

"*I'm delighted to announce the launch of a new airline for Nigerians. Nigeria is taking yet another bold step forward, and all of us at Virgin are honored and excited to be selected by the Nigerian government to play a role in creating a new, 21st-century airline for Nigeria's 133m people. We aim to create the best airline, not just in Nigeria, but in the world, based in Africa.*" (Quoted in Ford 2005, pp. 36–37).

This was vigorously pursued but at the inception of Virgin Nigeria, VAIL had a highly profitable route network with services between Lagos and London. Hence, Virgin Nigeria was started to operate and expand to more domestic and international routes. This was seen as a means of helping to gain a stronger foothold in the growing African market. This was quickly achieved and, in its heydays, provided services to regional destinations including Accra, Dakar, Douala, and Johannesburg; inter-continental flights to London; and domestic destinations including Abuja, Calabar, Kano, Port Harcourt, and Sokoto (Smith 2008). A former executive highlights the wider euphoria at the founding:

"*Having joined prior to launch and led the process to obtain the IATA IOSA Certification… I can say there was happiness on the part of the citizens."* (Interviewee A1)

Nick Fadugba, the then chief executive officer of African Aviation Services at the time of the founding of Virgin Nigeria warned Richard Branson that:

> "*If he's not careful Virgin Nigeria could turn out to be a PR disaster for his global business empire.*" (Quoted in Peel & Done 2004, p. nd)

Against this backdrop, Virgin Atlantic Airways made extraordinary efforts to avoid this fate. At its founding, most of the expertise in areas such as fleet utilization, revenue management, and general management was provided by Virgin Atlantic Airways. The Virgin brand enabled the Nigerian venture to gain instant credibility and attract customers as it provided a short-cut to overcoming the challenges facing new airlines in persuading travelers to opt for their services. Although Virgin experienced the liability of being seen as "foreign" in this context, this initial risk was mitigated by the Virgin brand, which was seen as synonymous with security, safety, and quality, and this set Virgin Nigeria apart from the perceived poor reputation of African airlines. On this, one founding executive (Interviewee A12) noted:

> *"The Virgin brand name worked very well for Virgin Nigeria. It brought in passengers in droves because the services in Virgin Nigeria were at par with those of Virgin Atlantic. The passengers had confidence in the brand."*

In addition to the good safety and security track record, the airline was also seen as punctual (Smith 2008), achieved 100% e-ticketing, and completed the IOSA safety audit (Endres 2008). These quickly became key selling points in attracting customers given that many international travelers might have used Virgin Atlantic before. One informant in the information and technology area of the business asserted:

> *"Virgin Nigeria endeared itself to customers by introducing some innovations in ticketing such as e-tickets, orderly boarding procedures and processes, excellent customer services and good safety practices."* (Interviewee A19)

4.3 Decoupling and rebranding phase

By decoupling we are referring to attempts aimed at creating and maintaining gaps between the firm and its partners. In 2007, the airline was diagnosed as being in "poor shape" which required fundamental restructuring, including reducing the number of managerial positions and jettisoning previous plans to add 600 workers (Wall 2007). Following the posting of a £41 million loss in 2007 which affected the financial performance of Virgin Atlantic (Moores 2008), Virgin Nigeria sought to reduce the number of employees by 200 personnel to 1,000 (Wall 2007). A turning point occurred in 2008 when the Nigerian government reneged on a "special deal" contract for Virgin Nigeria to use the international terminal at the Murtala Mohammed International Airport in Lagos (the commercial capital) for both international and domestic flights (BBC 2009). In view of the cost involved in using two terminals instead of one terminal, the need to operate both domestic and international services from one terminal was seen as more efficient and tailored to customers' requirements. However, President Yar'Adua who came to power in 2007 decided to overlook the previous deal, thereby souring the relationship between the airline and the Nigerian government (BBC 2009). Although the agreement was signed under President Olusegun Obasanjo, the administration of President Umaru Yar'Adua contended that the agreement was not legally valid (Naijablog 2008). The government contended that they were only drawing back deals with foreign companies that exploited the nation. The incentives to attract Virgin Atlantic to Nigeria were seen as exploitative. Although the government is generally seen as having the responsibility to create a beneficial atmosphere for businesses, there has been historical distrust in the Nigerian government in terms of meeting previous agreements. This distrust coupled with the government's ill-preparedness in reforming institutional conditions, improving governance, combating corruption, and ensuring effective enforcement of rules, which are key pillars in the effective functioning of the aviation industry, made it difficult for the airline to operate profitably. The government's failure to adhere to the agreement effectively increased the risk to the business, which contributed to its closure. On this, one informant (Interviewee A18) asserted:

> "*It appeared the arrangements were seen more as being personal between Richard Branson and Chief Obasanjo. Having tried all manner of approaches to bring the ailing Nigeria Airways back to life but failed, it was more or less a case of friendly appeal to Richard to assist by offering attractive concessions. For example, Virgin was granted the rare privilege of operating domestic flights out of the International Terminal which helped for seamless and safe domestic/international travels. This did not go down well with other local operators.*"

These local operators lobbied the government to compel Virgin Nigeria to relocate its domestic operations to the domestic terminal. On this, one informant (Interviewee A14) asserted that:

> "*Operating domestic routes from an international airport was the grouse. Others saw it as a skewed privilege giving undue advantage to Virgin. Don't forget a Nigerian just got Government concession and built a world-class terminal at the domestic wing; with VA not ready to use her space it was going bankrupt.*"

This point was echoed by another informant (Interviewee A12) who noted:

> "*Hostilities from some former Nigerian Airways employees who saw Virgin as a spoiler believing it was granted undue advantages were persistent. Other operators were forever lobbying the government against Virgin. The firm that owned the newly built terminal 2 in Lagos saw Virgin as the major source of its financial woes for not operating from the domestic terminal. Some in government believed the Obasanjo–Branson agreement was unfair….VA saw all this and a Ben [anonymized name] was appointed to be based in Abuja to lobby and stem hostilities … But when Obasanjo's tenure ended, it was difficult to hold on.*"

Accordingly, the airline was forced to relocate the domestic operations from the international terminal at the Murtala Mohammed International Airport to the domestic terminal (Wall 2009). To an extent, the dispute was unsurprising given that Nigerian governments for decades have faced accusations by multinational companies such as Royal Dutch Shell and Mittal Group that a new government often reneges on contracts signed under its predecessor's administration (Naijablog 2008). By 2008, this acrimonious dispute with the government had undermined the airline's relationship with the government. To compound the problem, the airline accused the government of using "Mafioso-style tactics" to force them out of the terminal (NY Times 2008). In a statement

issued in the wake of the disagreement, Mr. Branson succinctly explained the implications of the decision by noting:

> "*It is regrettable that events have caused us to review our shareholding and whether it is appropriate that the Virgin brand should remain linked to Virgin Nigeria.*" (Quoted in Green 2008, p. nd)

The decision to renege was seen as a breach of trust and prior understanding which contributed to the decision to remove the right to use the "Virgin" brand name from Virgin Nigeria. The forced relocation of Virgin Nigeria's domestic flights away from the international terminal added additional travel time and costs for connecting travelers and deviated from the strategy of the airline (Green 2008).

In August 2008, Virgin Atlantic entered preliminary talks with domestic investors to sell off its 49% stake amid the dispute. During an interview, the interviewees were unable to provide significant insights regarding Virgin Atlantic Airlines' dominant role in the Virgin Nigeria Joint-venture and its potential political risks. It appeared that Virgin Atlantic Airlines overestimated its political connections and did not believe there would be any major future political problems.

Another contributory factor to the airline's failure was the increased competition on long-haul routes. This was largely due to the increased pace of liberalization because of the implementation of the Yamoussoukro Declaration and the granting of fifth- and sixth-freedom rights to many Asian and Middle Eastern airlines. Indeed, the number of frequencies granted by the Nigerian Government to Middle Eastern carriers surged from 29 in 2007 to 55 by 2008 (Moores 2009). The increased competition was accompanied by a sharp decline in fares which contributed to Virgin Nigeria's decision in 2009 to withdraw from the Lagos–London market and redeploy the resources towards domestic and regional routes. On this issue, one informant (Interviewee A17) noted:

> "*Against a background of deterioration in the relations between Virgin Nigeria and the Nigerian government and the increasing competition from other international airlines with*

adverse effects on Virgin Nigeria's bottom-line, it decided to withdraw from the Lagos–London route."

Although Virgin Nigeria became a major player on the local and West African routes, the international operations were below the government's expectations. One of the most intense criticisms levelled against Virgin Atlantic was that Virgin Nigeria was being used for its operations elsewhere. However, this overlooks the fact that by seconding executives and managers to manage the operations, Virgin Atlantic actually facilitated the transfer and diffusion of technical knowledge and best practices to Virgin Nigeria. In addition to poor airport infrastructure and air safety issues caused by poor upkeep of the air traffic management system, the fuel prices at the Nigerian international airport were four times higher than the charges for refueling at London Heathrow (Wall 2007, p. 72). This was surprising given that Nigeria was one of the leading oil-producing nations. Poor and inadequate airport support systems can curtail airlines' ability to get travelers to airplanes on time and utilize point-to-point networks. Although these factors staved off many low-cost competitors, they also created conditions for major airlines to enhance their competitiveness. In 2009, the then Virgin Nigeria Chief Executive, Conrad Clifford, noted that fast turnaround times were near impossible due to institutional and infrastructure constraints (Wall 2009).

Our data revealed that based on the operational problems discussed above, the airline felt there was a need for corporate rebranding. By corporate rebranding, we are referring to a systematic attempt by an organization to develop a new identity and acquire legitimacy. During this phase, Virgin Atlantic withdrew from the day-to-day management, and decided to deny extending brand rights to Virgin Nigeria and which meant the airline needed a new name to operate (Airline Business 2009). By distancing itself from the airline, Virgin Atlantic was better able to isolate itself from any potential pitfalls arising from the Nigerian brand. By conferring legitimacy and higher credibility through the association with the Virgin brand, the airline was able to attract customers compared with local rivals who were often associated with poor security and safety track records. Accordingly, the severing of the Virgin brand name represented the loss of a key strategic asset in the form of brand reputation.

Thus, the path-dependent strategic assets from Virgin Atlantic which were transferred to Virgin Nigeria were quickly eroded with the withdrawal of the "Virgin" brand. In describing the benefits of the rebranding and its effect on the organization, one senior member of staff (Interviewee A16) who was with the airline from the start to just before the closure asserted:

> "*It (Virgin brand) was of huge benefit at a high cost; VA was a known brand; boosted customers' confidence, drove sales positively; seamless integration; raised standards, etc. More importantly, it attracted customers*."

After the withdrawal of the brand in 2009, the airline was forced to rebrand and reorganize. This included suspending the London and Johannesburg routes. In September 2009, the airline unveiled its new brand, Nigerian Eagle Airlines, with a new logo and promising to become a major regional carrier. This was accompanied by a new strategy focusing on developing a strong presence on regional routes. Following the rebranding as Nigerian Eagle Airlines, the airline also sought to raise at least $185 million to shore up its ownership and financial status. In addition, the airline also retired the Airbus fleets in favor of leased Boeing 737s (McMurtry 2016). Lacking the financial backing and reputable brand name of Virgin, the airline struggled to persuade customers about its offerings. When Jimoh Ibrahim became Nigerian Eagle Airlines' new chairman after Virgin offloaded its stake, the new leadership developed a new strategy to further rebrand the airline. Indeed, within nine months of being rebranded as Nigerian Eagle Airlines, the airline announced another rebranding in 2010.

Following an arrangement with Nicon Group (a private conglomerate) to take a controlling stake in the airline, the name was changed to "Air Nigeria". The then Chairman Ibrahim argued that the rebranding was needed to make the carrier "fully indigenous" (Kaminski-Morrow, 2010). This happened when the airline was still in the middle of changing its logos, repainting the fleet, and promoting the new brand name. Indeed, when the second name change occurred, many customers and employees were still referring to it as "Virgin Nigeria" as observed by one informant (Interviewee

A19). This was further surprising given that the airline had previously argued that the "Eagle" in the new name exemplifies "strength and foresight" following intensive market research into African traditions and culture. Accordingly, the name change failed to match the previous performance for high quality, punctuality, security and safety. One informant highlighted the potential effects of the name change by noting:

> "*Yes some, but there were others who would have done business joyfully if profitable. We grew Air Nigeria to 11 aircraft and repositioned to prosperity with the Ethiopian Airways partnership before it was 'killed'.*" (Interviewee A11)

As another respondent (A20) also asserted,

> "*You see the temporary transfer staff was key in developing the local workers…the workers also gained exposure to good and high workplace and safety standards. In the end, the reputation was strong at the start".*

Regardless of the effectiveness of the new management team, the airline's inability to utilize the famous brand meant that considerable resources were needed to promote the new brand and convince travelers that the new organization was reliable in terms of safety and security. The analysis indicates that each name change drained the resources of the organization.

4.4 Phasing out phase

This phase was ushered in by another dispute with the government which eventually led to the demise of the airline. Phasing out broadly refers to the period and series of events that put the nail in the coffin of the airline. During this period, the effects of the removal of the Virgin Atlantic and the "Virgin" brand became more apparent. With the withdrawal from the airline of scarce international expertise, the reputable brand and resources which gave the airline its competitive edge, the precipitous decline of the airline commenced. On 13 June 2012, the Nigerian government discovered that Air Nigeria was in breach of aircraft security and safety measures (McMurtry 2016). Accordingly, the airline was forced to ground its aircraft until they could attest that they were safe

and had undergone the required maintenance. Following this tumultuous period characterized by the conflict with the national government and rebranding, the airline took its last breath. This avoids the repetition of nail in the coffin above.

After multiple failed attempts to generate a turnaround, the management team decided to close the venture, bringing to an end another sad chapter and the collapse of yet another airline on the African scene which started with full of promise. In September 2012, the carrier had no aircraft airborne largely due to the bans imposed by the Nigerian government and the airline eventually collapsed with a loss of 800 jobs (McMurtry 2016). This triggered a lawsuit by the employees for non-payment of work. When discussing the exit, one informant attributed the demise partly to the government:

> "*Government may have been the problem; VA existed more on the government support in the form of the concession given based on the agreement. But, once the government turned against the airline, it had no legs to stand on.*" (Interviewee A12)

Our preceding analysis demonstrates how a host of internal and external factors interacted in bringing about the failure of the airline. The business failure stemmed from an accumulation of events and poor decision-making by top management which were identified but not adequately addressed before the eventual closure of the airline. Based on the above analysis, we postulate:

> **Proposition 1:** *The greater the level of collaboration between the host country's government and an IJV in a weak institutional environment, the better the IJV is likely to withstand the effects of institutional dysfunction.*
>
> **Proposition 2:** *The depletion of political capital accumulated (such as political ties, government support, subsidies, and preferential deal/treatment) during the business formation stage is more likely to accelerate the pace of international business failure in a weak institutional environment.*

5 General Discussion

This paper explores how the conditions of organizational founding in weak institutional environments evolve and create conditions leading to the failure of international joint ventures (IJVs). The analysis of Virgin Atlantic's experience in Africa through Virgin Nigeria (later rebranded as Nigerian Eagle Airlines and then as Air Nigeria) provides insights into how a host of endogenous and exogenous factors can persist over time and create conditions leading to international business failure. Based on our findings, we have developed a four-phase model that demonstrates the persistent interactions of internal and external factors leading to the failure of Virgin Nigeria. The four phases are pre-formation resource mobilization, formation and embryonic challenges, decoupling and rebranding, and phasing out.

The first phase highlights political and non-political activities geared towards venture formation and resource mobilization. The second phase focuses on the decoupling of functional activities and the loss of legitimacy in response to changing political and economic conditions in the country. The third phase sheds light on triggers for corporate rebranding activities stemming from loss of identity and legitimacy. In this phase, the case demonstrates that building a successful organization in an unstable and underdeveloped institutional environment is partly predicated on developing, nurturing, and maintaining corporate political activities. In the fourth phase, we highlight the dispute with the host country government that typified and culminated in the demise of the airline. It also sheds light on key activities and events in phasing out the airline.

In the third and fourth phases of the airline's evolution, the analysis revealed that the erosion of the government-firm relationship created an uncertain environment which culminated in the rebranding and subsequent divestment of Virgin Atlantic from Virgin Nigeria. We observed that many of the institutional impediments at the founding stages such as an unreliable host country government and the high level of corruption and failure of past governments to adhere to previous agreements have largely remained unchanged and unresolved over the four phases in the evolution of

Virgin Nigeria. Accordingly, the business environment for international airlines and IJVs continues to be typified by institutional impediments.

An interesting finding is that the change in the host country government rendered the previous network, gentlemen's agreement, and ties obsolete, which then required new ties to be cultivated with the new government officials. Although failure was always a possibility, the secondment of managers from the parent to the venture provided the platform for the airline to grow. The historical analysis demonstrated that the decoupling depleted the airline's scarce human capital, which included industry knowledge and expertise. The analysis also indicated that the corporate rebranding diverted attention and resources away from operations toward brand promotion. By losing its reputation following the departure of Virgin Atlantic, the airline was brought to the same level in terms of prestige as many local rivals, making it difficult to demonstrate distinctiveness. To a certain extent, the collapse of Virgin Nigeria can be partly attributed to the loss of reputation, legitimacy, and managerial ineffectiveness after Virgin Atlantic's departure.This research lends support to the proposition that strategic renewal through corporate branding and rebranding is unlikely to yield a fruitful outcome unless it is underpinned by the acquisition and/or development of exceptional resources and capabilities.

5.1 Contribution to theory and practice

The study offers some key contributions to strategy and international business research. First, while past studies have attempted to explain the processes that lead to business failure (Heracleous & Werres 2016; Mellahi & Wilkinson 2004), research thus far has largely overlooked the effects of founding conditions over time in weak institutional environments and how they contribute to business failure. Drawing on the institutional dysfunction perspective (Barnard & Mamabolo, 2022), we deepen our understanding of business failure in weak institutional environments by developing a model that sheds light on the process of business decline leading to organizational failure. The study

also enhances our understanding of the stages inherent in how business failures unfold in institutional environments where market-supporting mechanisms are weak.

Moreover, prior research has paid relatively little attention to the importance of incorporating liability of foreignness and obsolescing bargain features into explanations of organizational failure. By using the case of Virgin Nigeria, we have extended our understanding of the obsolescing bargain dynamics (Li et al. 2013; Ramamurti 2001) and how country-specific conditions and the erosion of the host country government-firm relationship can contribute to creating an uncertain environment for IJVs to thrive. Additionally, while the obsolescing bargain literature has elucidated how the breakdown of political relationships between IJVs and host country governments could lead to exit from a particular country (Stevens et al., 2016; Vachani, 1995; Peng, 2014), this is fundamentally different from business failure. In this paper, we contend and demonstrate how the obsolescing bargain process feeds into the interaction of firm-level and external factors that shape the process which leads to business failure in weak institutional settings.

From a practical standpoint, one of the key factors that contributed to the collapse of Virgin Nigeria was its reliance on an agreement with the previous host country government. Rather than renegotiating the terms with the new government, the airline used the previous agreement as a basis to argue for legitimate operations at the international terminal at the Murtala Mohammed International Airport. This forced the new government to take a hard stance and resort to several "underhand tactics" to compel the airline to relocate its domestic business to the domestic terminal.While this approach may be uncommon for businesses in the West, it is not uncommon for host country governments in developing countries to disregard contracts made by previous administrations. Therefore, agreements signed between foreign firms, joint ventures (IJVs), and governments in countries with institutional dysfunction should not be considered to be "cast in stone." This finding suggests that executives of IJVs should pay particular attention to the weak enforcement environment in emerging economies, especially with regards to successive governments. It also suggests a need to

shift from relying on gentlemen's agreements to a proactive strategy of continuously scanning and bargaining with successive governments to maintain legitimacy and mitigate sudden changes in government policy.

Furthermore, the study has shown historical evidence of government failure to adhere to agreements. By learning from the trials and tribulations of other firms in such institutional environments before entering the market, organizations can gain valuable knowledge to improve their chances of success. Our research suggests that learning from business failure may be an untapped source of new knowledge for firms to draw on to enhance their effectiveness. To overcome institutional voids, firms could consider entering such markets by cultivating enduring political ties and strategic alliances with local firms that have rich institutional insight and understanding.

5.2 Limitations and future research

Notwithstanding these practical and theoretical implications, this study may be generalizable. First, it is noteworthy to consider the unique governance system and traditions of Nigeria, as well as the regulatory environment of the aviation industry when examining the limitations of the study. Nigeria is recognized for having higher levels of corruption and limited transparency compared to many neighboring nations, as highlighted in Nakpodia et al. (2016). Therefore, the analysis should be interpreted with regards to the distinctive institutional setting in Nigeria. Furthermore, Africa is currently at a different stage of economic liberalization compared to Europe or Asia, resulting in limited market competition in the airline industry. Many intra-African routes remain protected, while others are still governed by “gentlemen’s agreements” established during colonial rule, which restrict competition. Despite these limitations, the findings of this study can be generalized to other developing countries experiencing institutional dysfunctions in their business environment.

The study suggests the need for additional analysis of weak enforcement environments. The study's finding on changes in government policy is linked to government succession, which often

leads to the suspension or alteration of the legal framework, consequently undermining or impeding contract enforcement. This is especially true in undemocratic governments in the region, where military coups can mean the suspension of the country's constitution. These major external upheavals are unique circumstances that also provide opportunities for further scholarly examination of business failure in environments with institutional dysfunction. Another limitation is that the study focuses on a single venture in the airline industry, which offers limited insights into other IJVs that other airlines may engage in with domestic firms. This area represents a promising avenue for future research. Additionally, a multiple-case approach may offer a promising opportunity to enhance our understanding of the stages leading to business collapse.

Due to the high upfront cost of starting an airline, coupled with stringent aviation certifications and regulatory requirements, there are a limited number of international airlines in Africa. Thus, the failure rate is high but from a very low base. This is fundamentally different from other industries, such as the banking industry in Africa, where the majority of banks are not under government control and are typified by government interference. Therefore, there is an opportunity for future research to examine why some foreign firms have a lower failure rate relative to domestic firms. Similarly, the retail industry in Ghana and Nigeria, which is still dominated and typified by numerous small and medium enterprises (SMEs), is also different from the airline industry. The retail industry is characterized by an extremely high number of start-ups leading to higher failure rates. Therefore, there is an opportunity for future research to examine industry-based drivers of business failure and how failure compares between the aviation and retail sectors in Africa.

Another promising avenue for future research would be to explore the post-failure effects on former employees. Prior work has implied that business failures could stem from external factors. By charting the process of business failure, linking the obsolescing bargain dynamics to business failures, and highlighting the effects of the erosion of the government-firm relationship, this study has generated new insights on business failure in emerging economies. We hope that our study would

provide the foundation for furthering our understanding and insights on how and why organizations fail in emerging economies in general, and Africa, in particular.

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Figure 1: Manifestation of IJV failure processes in weak institutional environments

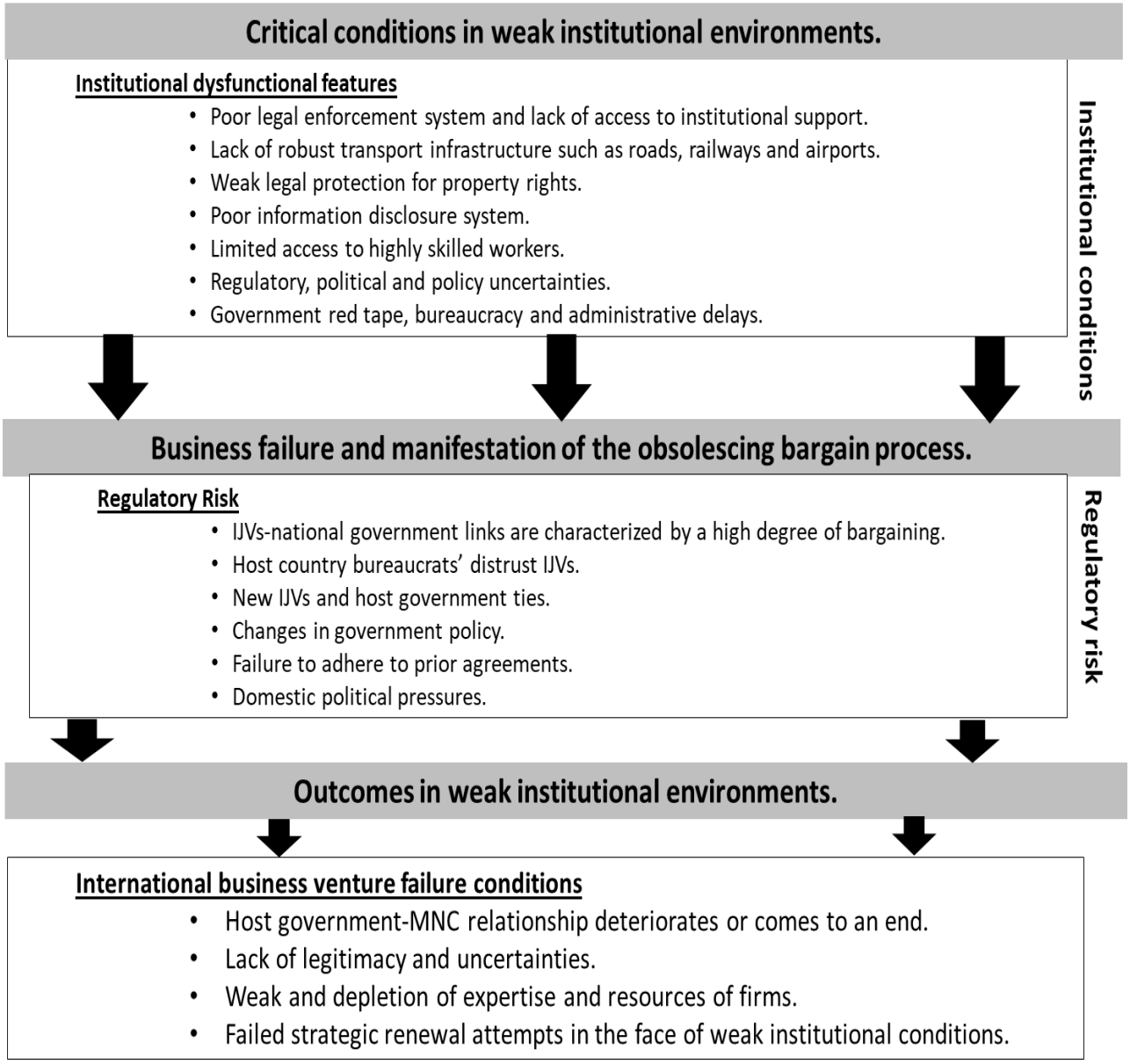


Figure 2: Phase model of business failure in weak institutional environment.

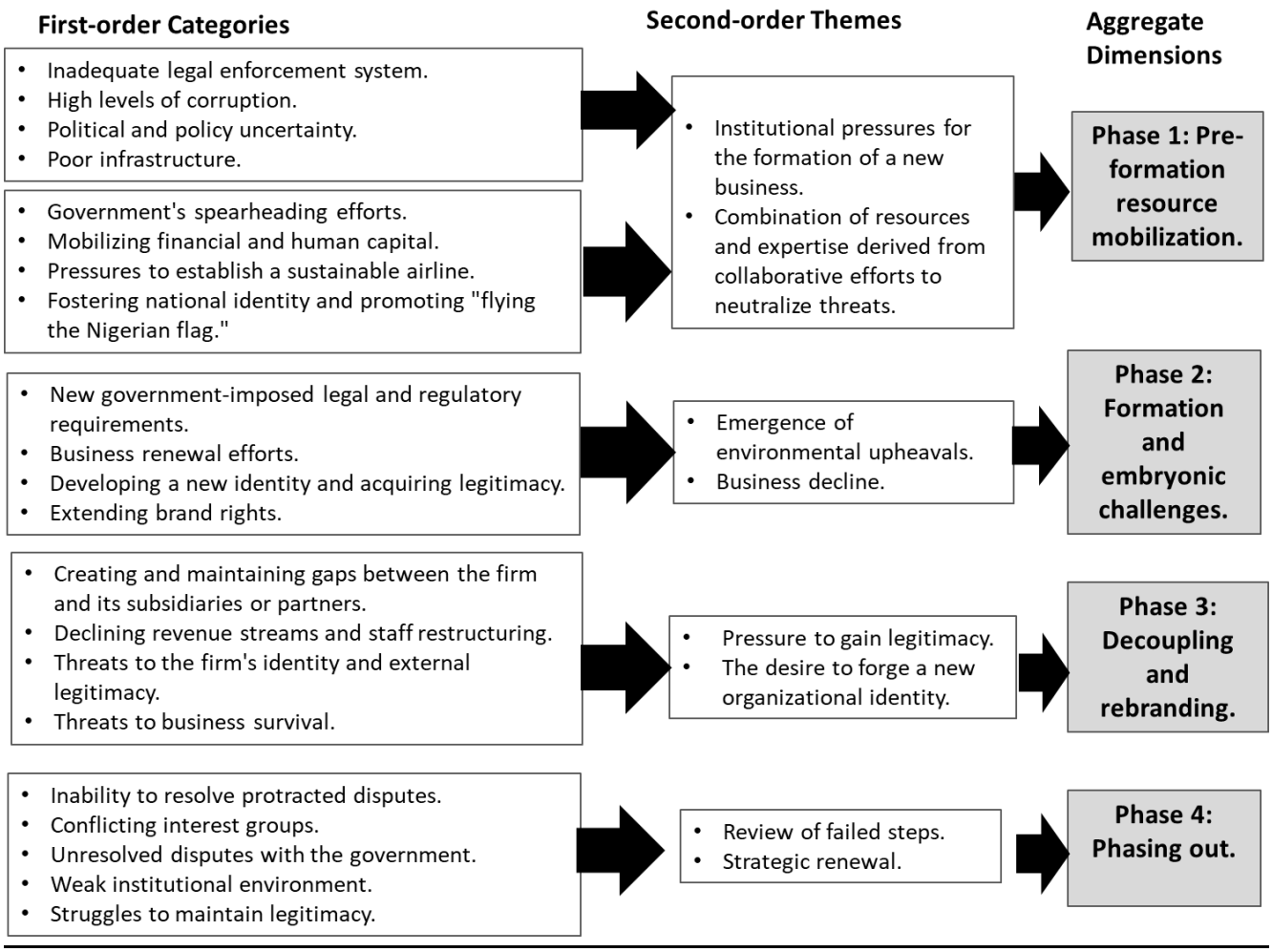


Table 1: Salient events in Air Nigeria (initially branded as Virgin Nigeria Airways and later Nigerian Eagle Airlines)

	Firm-level and external issues/events from 2003 -2012
DELETE This Column?	• In 2003, Nigeria's national carrier, Nigeria Airways, collapsed after decades of underperformance. • In 2004, Virgin Nigeria was founded with local and foreign investment – 49% owned by Virgin Atlantic and Singapore Airlines; 51% owned by Nigerian institutional investors. • In 2004, Sir Richard Branson signed an agreement with the Nigerian government which led to the formation of Virgin Nigeria. • In 2005, the inaugural flight for Virgin Nigeria was from Lagos to London. • In 2007, the airline carried 1.5 million passengers with 1.2 million on its domestic routes. • In late 2007, the airline ordered seven Embraer 170s and three 190s. • In August 2008, the airline entered preliminary talks to offload its 49% stake amid disputes with the national government about the location of the domestic operations. • In 2008, the airline was stripped of the rights to operate domestic flights from the international terminal at Lagos airport. • In 2008, the airline was forced to relocate the domestic operations from its Murtala Mohammed International Airport to the MMA2 terminal. • In 2009, the newly rebranded Nigerian Eagle Airlines announced the decision to seek to raise over $185 million from the market. It also projected to operate 20 aircraft by 2011. • In 2009, Virgin Nigeria discontinued flights on its loss-making Lagos–Johannesburg and Lagos–London routes. • In 2009, the airlines suspended the loss-making long-haul routes to the UK and South Africa to redeploy resources towards the domestic market. • In 2009, the airline postponed long-haul operations to Johannesburg and London. The airline also reduced staff and rescheduled flights to circumvent costly overnight stays for crew. Virgin withdrew its brand name. • The long-term managing director of Virgin Nigeria, Conrad Clifford, was replaced by Dapo Olumide after the rebranding in 2009. • In May 2010, Virgin Atlantic was exploring the possibility of offloading its 49% stake in Nigerian Eagle Airlines. • In September 2012, Air Nigeria announced the decision to close the business.

Source: constructed from field notes.

Appendix 1: Interview Protocol after collapse

Job title(s):

Position within the firm(s) and time period:

Position in the business and period:

Background

- How did you come to work for Virgin Nigeria, Air Nigeria or Nigerian Eagle Airlines or all? [Prompts: prior experiences and knowledge]
- What was the feeling when in 2004 Virgin Nigeria launched its service with the support of the Obasanjo administration?
- Please can you describe what your roles and responsibilities were either within Virgin Nigeria, Air Nigeria or Nigerian Eagle Airlines or all?
- Can you please provide some detailed information on the range of services/products offered by the business?
- In your view, what were the benefits of having the VA name on the airline? Did it entice consumers to the company and in what ways?

Advent of a new national airline

- Can you shed some light on the government effort to bring Virgin to Nigeria and Africa? Was there any kind of support or measures/incentives made available to the airline?
- At one point, VA operated on regional routes including Accra, Dakar, Douala and Johannesburg and domestic destinations including Abuja, Calabar, Kano, Port Harcourt and Sokoto? Can you provide some insights into the decision process and why these routes were selected?
- At some point, the airline appeared to have some problems with the new government and its policies; can you shed some light on some of the issues and steps taken within the company?

Exit and disputes

- In your opinion, why do you think VA eventually decided to exit the airline and asked for its brand name to be removed? Was the government the issue or did the executives misjudge the nature of the culture, norms, corruption and traditions in Nigeria?
- What was the relationship between the firm and government like? How did this change with changes in government?
- Can you describe the dispute about airport use for domestic services?
- Do you think the change in government also contributed to this dispute? And why?
- Did you think VA's success in Europe made it complacent when coming to Africa 'and did cultural differences play a part? And why?
- Do you think VA was prepared to tackle the difficulties in doing business in Africa such as corruption and a weak legal system?

Name change

- Can you assess the effects of the name changes for me: first the exit of the Virgin brand; second in 2009 when Virgin Nigeria was rebranded as Nigerian Eagle Airlines; and then in 2010 when it was rebranded as Air Nigeria? Were the name changes in any way beneficial?
- Did the name change affect your access market intermediaries such as financial analysts, investment bankers and venture capitalists and your ability to expand?
- In your view, what were the effects of the name changes in terms of the way you worked and how the business operated? Did it affect the way you operated or even sought new customers and partners?
- What happened to the workers after ownership changes? Was there transfer of some best and bad practices?

Responding to changes

- In your experience, how did the firm (Virgin Nigeria, Air Nigeria or Nigerian Eagle Airlines) try to respond to changes in the industry such as new government policy directions, safety guidelines and liberalization?
- Can you share your experiences regarding sensing and identifying new market opportunities in the company and how did this change over time?

Cessation of operations and lessons.

- What are some of the constraints the business faced as failure was looming? How did you try to overcome them and learn from them for the future? Can you tell us some stories here?
- Can you describe what you took away from this experience regarding business strategy?
- What has been the effect of this experience of business failure on you personally?

Appendix 2: Summary of Informants

List of Informants/Interviewee	Positions held at the time of the interview	
Formation stage informants/Study 1		
A1	Line Manager/ Executive Officer	
A2	Line Manager/ Executive Officer	
A3	Line Manager	
A4	Line Manager	
A5	Line Manager	
A6	Line Manager	
A7	Line Manager	
A8	Line Manager	
A9	Functional head/key personnel	
A10	Key personnel	
List of Informants after the business collapse//Study 2		
List of Informants	**Positions held**	**Prior experience**
A11	Former executive	Decades of experience in the industry at the time of collapse.
A12	Former executive	20 years in the industry.
A13	Former executive	Decades of experience in the industry.
A14	Former executive	Over a decade of experience in the industry.
A15	Former line manager	8 years in the industry.
A16	Former executive and line manager	20 years in the industry.
A17	Former line manager	8 years in the industry.
A18	Former line manager	Over a decade of experience in the industry.
A19	Former line manager	Over a decade of experience in the industry.
A20	Former line manager	Over a decade of experience in the industry.