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Integrating the dark side of competition into explanations of business failures: Evidence from a developing economy.

Abstract

In spite of the growing body of literature on the bright side of inter-firm relationships, limited attention has been paid to the dark side of inter-firm relationships. **Using insights of serial entrepreneurs in a developing economy**, we articulate the mechanisms through which adverse rumours and misinformation perpetrated by rivals' firms undermine small businesses and lead to decline and eventual collapse. We uncovered that the rumours were made more potent when combined with other factors such as prior history of poor and faulty products, sensitivity of industry and intense competition from rival firms in reducing the life chance of firms. Our study also uncovered that inter-firm backstabbing leads former business owners to form a negative perception of former competitors and their organisations even after their business collapsed. We conclude by articulating the theoretical and practical implications.

Keywords: Business failure; developing economy; Ghana; Africa.

Introduction

Over the past few decades, a growing body of literature has suggested that inter-firm relationships can provide conditions for innovation to thrive and access to scarce financial and human capital (Wassmer, Paquin and Sharma, 2014; Noordhoff, Kyriakopoulos, Moorman, Pauwels and Dellaert, 2011). One stream of research rooted in the concept of “co-opetition” has suggested that deep collaboration and co-operation even among rivals as route to sustainable competitive advantage (Brandenburger and Nalebuff, 1996; Bouncken and Fredrich, 2016; Yu, Subramaniam and Cannella, 2013). In spite of a growing body of research on this bright side of inter-firm relationships, limited attention has been paid to the effects of dark side of inter-firm relationships and how they unfold (Anderson and Jap, 2005; Villena, Revilla and Choi, 2011; Reuber and Fischer, 2010).

Although a handful of studies have examined dark-side of inter-firm relationships issues such as conflicts (Deutsch, 1958), opportunistic behaviour (Das, 2006) and deviant behaviour (Buchanan, 2008; Clegg, Courpasson and Phillips, 2006), to date, much of the existing literature has overlooked the issue. Although some scholars have hinted that external factors such as business rivalry and inter-firm backstabbing can lead to bankruptcy of firms (see van Iterson and Clegg, 2008; Mellahi and Wilkinson, 2004), it remains unclear how the effects unfold to precipitate business failure. This omission is surprising given that inter-firm backstabbing remains a unique and common feature of business practices in informal and under-developed economies. To date, business failure and business ethics scholars (e.g., Walsh and Bartunek, 2011; Stokes and Blackburn, 2002) have largely failed to articulate the underlying dynamics of backstabbing and its effects.

Our primary purpose in this paper is to examine the mechanisms through which inter-firm backstabbing unfolds to precipitate business failure. We focus on Ghana as an exemplar setting to illustrate our analysis. First, Ghana’s democracy and its progress over the past few decades have

been regarded as charting course for African democracy (Robson and Freel, 2008). Unlike other African countries, in Ghana in the past two decades “the presidency has twice changed hands without violence” but rather through free and fair democratic elections (The Economist, 2013: 50). Indeed, Ghana is regarded as one of Africa’s more progressive economies (Rice, 2013). Increasingly, the country has now come to be regarded as a model for Africa and thereby reinforcing its past history since the late 1950s as torchbearer of African aspirations (Amankwah-Amoah and Debrah, 2010). Furthermore, Ghana is one of West Africa’s biggest economies and therefore the experiences of former business owners provide a fertile ground for shedding light on business failure.

The study makes several contributions to the literature. First, our study contributes to the business failure research (Mellahi and Wilkinson, 2004, 2010) by deepening our understanding of how factors outside the focal firm’s environment can interact with firm-level factors to precipitate business failure. Second, we integrate business failure (Watson and Everett, 1993) and inter-firm relationship (Anderson and Jap, 2005) literatures to articulate mechanisms through which inter-firm backstabbing unfolds to contribute to small business failures. The study elucidates the processes of decline and factors leading to business failure (Mellahi and Wilkinson, 2004). Furthermore, in spite of the clear potential for cross fertilisation, the literatures on business failure and inter-firm backstabbing have developed in isolation. We deviate from much of the existing literature by developing a framework of factors of how inter-firm backstabbing lead to business failure. In so doing, our study contributes to the burgeoning stream of research on inter-firm relationship (Anderson and Jap, 2005; Buchanan, 2008).

The remainder of this paper unfolds as follows. First, we review the literature on business failure and inter-firm backstabbing. We then set out the approaches adopted to collect our data. Then, we present the findings of the study. We conclude by outlining implications of our findings.

Business failure and inter-firm backstabbing: a unified perspective

The literatures on business failure and inter-firm backstabbing represent two relevant streams of research. By business failure, we are referring to “the actual demise of the organization when an entire company goes out of business ... the organization completely ceases to exist” (Marks and Vansteenkiste, 2008: 810).

Broadly speaking, there are two dominant theoretical perspectives on business failure: the deterministic and voluntaristic perspectives (Mellahi and Wilkinson, 2004, 2010). The deterministic perspective contends that the cause of business failures is attributed to external environmental factors (Amankwah-Amoah, 2016; Heracleous and Werres, 2016). Past studies have identified external factors such as changes in technological change, regulations, government interference, competition and economic decline as contributors to business failure (Mellahi and Wilkinson, 2004). The voluntaristic school argues that business failure is attributed to firm-level factors. Recent scholarly works have identified factors such as mismanagement, loss of key personnel and weak financial position as causes of business failure (Amankwah-Amoah and Zhang, 2015; Heracleous and Werres, 2016). In sharp contrast to the view which considers business failure as solely an outcome of external factors, it has also been asserted that business failure is a product of accumulated errors, decisions, and leadership style which ultimately contribute to business failure (Amankwah-Amoah and Debrah, 2010, 2014). Studies indicate that prior experience of business failure can offer serial entrepreneurs the opportunity to learn relevant lessons for new ventures (Lafontaine and Shaw 2016; Simmons, Carr, Hsu and Shu, 2016).

Research has shown that an inter-firm backstabbing is a key dimension of the dark side of inter-firm relationships (Cavanagh, Moberg and Velasquez, 1981). By inter-firm backstabbing, we are referring to host of economic, social and political measures designed by a firm or others to undermine the positions and operations of rival firms in an overt or covert manner to help prolong their existence (Cavanagh et al., 1981; Harvey, 1989; see also Clegg et al., 2006). For inter-firm

backstabbing to occur, there must be at least three parties: the perpetrator and/messenger (originating firms), witnesses and the victim (recipient firm) (Buchanan, 2008; Harvey, 1989). Backstabbing have been conceptualised to include actions such as spreading rumours, sabotage, undermining and taking undue credit for the works of others (Malone and Hayes, 2012; Vecchio, 1995). Some scholars have suggested that is often motivated with the intention to “damage, disrupt, or subvert the organisation’s operations for the personal purposes of the saboteur by creating unfavourable publicity, embarrassment, delays in production, damage to property, the destruction of working relationships, or the harming of employees or customers” (Crino, 1994: 312; see also Pozner, 2008). It may include dirty tricks and spreading misinformation aimed at destabilising other firms and even bringing about their demise. These acts are often strategically designed to undermine the operations of rivals to the benefit of the perpetrators or those aligned to them. Past studies have demonstrated that one of the most visible manifestations of inter-firm backstabbing is through rumours (Allport and Postman, 1947).

A rumour can be defined as “an unverified account or explanation of events circulating from person to person and pertaining to an object, event, or issue in public concern” (Peterson and Gist, 1951: 159). Rumours have traditionally circulated from person to person through word of mouth (Allport and Postman, 1947), but one recent and promising development in this line of research is that rumours are now increasingly disseminated through new media by individuals (Doerr, Fouz and Friedrich, 2012; Edy and Risley-Baird, 2016; Kwon, Bang, Egnoto and Rao, 2016). Indeed, the pace at which such misinformation travels has accelerated with the rise of the internet and blog sites (see Edy and Risley-Baird, 2016; Rojecki and Meraz, 2016). However, commercial rumours as a strategy can be referred to as any dissemination of misinformation about a business and its products aim at disrupting or harming its operations (Kimmel and Audrain-Pontevia, 2010). Researchers studying the issue have emphasised that some organisations or individuals who feel they are powerless in the face of changing market conditions are more likely to

engage in backstabbing in an attempt to change the course of events and improve their survival chances whilst undermining those of others (Buchanan, 2008; DiBattista, 1991).

Another line of research suggests that inter-firm backstabbing may stem from envy of others as some firms achieve relative success in their locality; they become targets for rivals who seek to use underhand tactics to lure their customers away or even destroy their businesses (see Harvey, 1989). Envy may also stem from lack of superior reputation, products or brands that enable the business to outcompete its rivals. By comparing their firms' weak market position relative to other firms, some small businesses may lurch towards employing underhand tactics such as engineering and spreading of false information in an attempt to undermine the rival firms (Harvey, 1989; Mui, 1995). Indeed, envy can provoke sabotage from rival individuals or businesses (Mui, 1995).

An emerging but promising body of literature has suggested that inter-firm backstabbing may stem from the desire for rival firms' customer base, which then urges some firms to engage in deliberate acts of sabotage (see Smith and Kim, 2007; Silver and Sabini, 1978). This often occurs as they try to gain competitive advantage through "dirty tactics" to lure customers (Buchanan, 2008; Harvey, 1989). Prior research has indicated that inter-firm backstabbing is relatively common and may unfold unknowingly to affect the business, deprive it of its customers, undermine any corporate credibility and facilitate brand switching among customers (Malone and Hayes, 2012; Harvey, 1989). The effects may include shortening the life chances of rival firms, bringing about its departure from an industry.

Another relevant literature is the "institutional voids" perspective (Khanna and Palepu, 1999; North, 1990). Past studies have demonstrated that developing economies are characterised by "institutional voids" (Khanna and Palepu, 1999; Luo and Tung, 2007; Miller, Lee, Chang and Le Breton-Miller, 2009; North, 1990). It has been demonstrated that the weak contract enforcement regimes, inadequate infrastructure, lack of adequate disclosure and weak governance can curtail the activities of small and large businesses (Khanna and Palepu, 1999, 2006). Furthermore, many

institutions such as government departments and courts are often characterized by high degree of bureaucracy and inefficiency (Ireland, Tihanyi and Webb, 2008). These weak formal institutional factors can create conditions for opportunistic behaviours to occur (Spicer, McDermott and Kogut, 2000). A line of research has suggested that poorly formulated government policies in these economies can undercut legitimate forms of entrepreneurship (Ireland et al., 2008; Kolvereid and Obloj, 1994). Given that advanced economies are characterised by well-functioning legal system and legal redress and enforcement mechanisms (Khanna and Palepu, 1999), the spread of rumour for commercial purpose might be curtailed by these factors. Although some scholars have hinted that the dark side inter-firm relationships can lead to bankruptcy of firms (see van Iterson and Clegg, 2008), it remains unclear how the effects unfold and precipitate small business failure. This study seeks to fill this void by focusing on under-developed economies and societies characterised by informal institutional structures.

Research design and data sources

In order to provide in-depth understanding required in this largely underexplored area of how inter-firm backstabbing unfolds and interacts with other factors to precipitate business failure, we adopted qualitative multiple case approach (Birkinshaw, Brannen and Tung, 2011; Siggelkow, 2007). This study is a part of a larger comprehensive study of business failures in developing markets. In this direction, the issue of successive entrepreneurial engagement after business failure have been examined elsewhere (e.g. Amankwah-Amoah et al., 2016). Therefore, we limit our analysis here to mainly the inter-firm backstabbing. Our adoption of inductive multiple cases was reinforced by the fact that insights from multiple cases are often considered more compelling and robust (Yin, 2009; Gartner and Birley, 2002). Indeed, past studies have shown that the multiple case study approach is particularly useful in exploring unexplored and sensitive issues of small business failure (Walsh and Bartunek, 2011).

We were able to gain access to the former business owners through direct approach, networking and the snowballing approach (direct referrals), which are particularly effective in conducting studies in Africa (Acquaah, 2007). Participants were chosen because of their previous experience of starting businesses which have now ceased operations. Some have moved on to start new businesses, are currently unemployed, have found employment in other organisations, or are still recovering from the shock of this experience. The participants were former owners of small to medium-sized enterprises in Ghana. The participants were selected across multiple industries from the two main cities in the country: Accra and Kumasi. In all, we conducted a total of 22 semi-structured interviews with former business owners who each represent a business which has ceased operation. It must be noted that in many instances, the potential informants were reluctant to discuss their experiences and turned down the opportunity to take part in the study.

The study used a semi-structured interview which allowed a degree of flexibility in exploring some issues. Before the interviews started, we provided an assurance of interview confidentiality. In the first part of the interview questions were aimed at eliciting background information on the participants including the business history, number of employees, qualifications and the sources of finance at founding. Here, they were asked questions such as: *What was the history of your business? How did it start? What was the source of finance? What qualifications did you possess at the start of your business?* The participants were asked about the underhand role played by other rival firms in spreading misinformation, gossip, rumours and sabotage and the part this played in the decision to close the business. Here, they were asked about the nature of misinformation imparted by rival firms. They were also asked about their responses to signs of decline and threats posed by other firms, responses to customers' complaints and general changes in the environment. The informants were then asked about the process of business failure and the steps taken to mitigate failure. Here the questions posed included: *"What were the warning signals about the state of the business?"* In addition, they were asked about the post-event experiences with

questions including: “*How has the business failure affected you?*” “*What aspect of your old business was preserved?*”

The interviews lasted for an average of 60 minutes. The data collection took place in early 2013. In order to ensure the accuracy and clarity of our findings, we conducted multiple follow-up interviews with some informants, and used emails and phone calls to seek clarification. In some cases, transcripts were delivered to informants to help check the accuracy of our story.

Data analysis

The data analysis was complemented with materials such as newsletters, posters and business reports obtained from the former owners. We also utilised secondary data acquired from the Ghana Statistical Service and GhanaWeb. The secondary data provided insights of small business registrations and closures. We also obtained press stories on small businesses, and challenges and problems faced by local entrepreneurs such as access to finance, competition, cost of materials, effects of corporate political activities on small business, and illegitimate behaviours by some firms. The data were analysed using a within-case and cross-case approach articulated by Yin (2009) and Eisenhardt (1989) to help chart the cause of the businesses failure but more importantly the role played by inter-firm backstabbing factors.

The analysis began by establishing participants’ histories and those of their former businesses, which provided the basis for both within-case and cross-case analysis. The within-case analysis started by establishing the founding conditions of each firm, their life stories, the processes of decline, early-warning signals and factors that led to the exit. Then we explored the sequence of events in each firm from the insights of the founders. The in-depth understanding of these issues provided the basis for the cross-case analysis to commence. Table 1 provides details of the 22 cases/participants including the nature of their business, prior experience at founding, qualifications

and age of the firms at the time of exit. The names of participants have been omitted to protect the anonymity.

Insert Table 1 about here

Findings

Our findings indicate that rumours proved to be a powerful force in sealing the fate of the firms. Participants experienced the detrimental effects of rumours on their business, image and reputation. Below, we present our findings from the cases and elucidate the process through which rumours were spread by rival businesses as a deliberate competitive weapon or market strategy to undermine consumer loyalty and tarnish the image of small businesses such as stain firm brand images leading to consumers switching to the rival.

Embryonic stage

For six of the cases (C, E, G, M, R and V), the process of uncovering rumours began by uncovering the factors that something was amiss when demand started shrinking during special occasions such as the Easter and Christmas seasons, when all goods are often sold out. They started investigating the matter which was traced partly to rumours spread by hawkers who were allegedly paid by a rival firm. As Participant M remarked:

“I can tell you that it was XXX who hired two men to spread the rumours about my business ... For two weeks the men spread this rumour around the area ... I found out after the business closed from a close friend that it was him.”

Our findings indicate that there appears to be an inherent value for some firms to spreading misinformation as a means of building an atmosphere of distrust and undermining the basis of rival firms’ relative success. Such was the intense and debilitating nature of the rumours, the businesses

began to suffer. The main objective of the rumours was mainly to enhance the firm's standing relative to those seen as rivals whilst at the same time undermining the rivals' attractiveness to customers and even some co-investors. In the case of Participant R, the rumours about "potential looming problems" with regulators and government agencies seizing assets of the business and damaging rumours about dangerous materials used at the beauty salon forced one co-investor to withdraw his investment further pushing the business towards bankruptcy. As the former owner puts it:

"My life was turned upside down. Everything was going well until suddenly things changed, people stopped coming to the salon. I contacted a few people but they all said they were doing their hair at home ... I later discovered these false stories only after the business closed."

This is further illustrated by the case of Participant E. The owner-manager borrowed money from a friend to start the business, buying clothing bales to sell to retailers. The business was slow to start, however, through determination the owner was managing to pay back the investor friend on a monthly basis with the returns from the business. He realised one day that the quality of the bales was not up to standard so he contacted the suppliers to rectify the problem. The supplier was able to rectify the problem within a short space of time and the quality of the bales had returned to normal standard. Nonetheless, some of the bales sold to the retailers had leaked colours in the process of turning them into clothing. Although this had happened on a minor scale and only to one retailer, a rumour was started that all his goods were a fire and health hazard. The damage to his reputation was so severe that he could no longer keep his business open. He commented:

"If by some means somebody says something bad about your business and everybody comes to believe them, it can kill your business in no time; people don't care whether it is true or not, your business will be destroyed because of a very minor thing, and all the effort you have put it in counts for less than nothing, because now you are in debt as well."

Firm-specific characteristics

One surprising aspect of our findings was that prior history of faulty, defective products or contaminated materials made rumours and misinformation more potent in reducing the life chances of the firms. For instance, Participant C started his laundry business through the help of an investor. He possessed previous marketing experience, thus he was hoping to deliver a good return on the investment. However, the cleaning equipment he was able to purchase was second hand. But after a while customers started to complain about torn clothes. This started to damage the reputation of the company. Because of these problems, one rival firm started a rumour that all the clothes cleaned by the business got damaged, which significantly affected the business. In this particular case, the firm appears to have overlooked hazardous practices and conditions which provided the basis for the rumours to grow. The experiences of the few customers provided the foundation for the rumours to spread with devastating consequences for the business. Although the owner repaired the machines, the repeated breakdowns, in tandem with the rumours, made it difficult to repair the reputation of the business and attract customers, and finally the business failed. He stated:

“How can I keep repairing these machines, the machines are old, so they’ll keep breaking down; every time I repair it, they break down again. Others were doing the devil’s work to destroy the business with their rumours. I had enough and decided to close the business.”

Furthermore, an unlikely source of rumours in two cases (B and H) was some former employees intent on revenge for being fired by their former employer. They acted for an outside firm. Another Participant H recalled:

“After I let her go, there gossips and then false information about how we make our products. She claimed we use fake materials and was party to this. It was believable to those outside because she worked for me. I tried to explain but no one was listening to our story.”

Participant B designed a process of finding a house to buy or rent and provided information for a prospective buyer or renter about the property. This participant was very well educated with a degree in mathematics and two years' training. One factor that set this case apart was that the role played by disgruntled former employees in spreading misinformation to potential customers. The business was operational for about 18 months before, by mutual agreement, the partners decided to close the business. Participant B recalled:

“It made it difficult for our company to get enough customers to keep going. So, in the end we had to close but it was mutual. We didn't have any debts to settle”.

Characteristics of the relationship: motives and triggers

The fieldwork indicates that rival firms appear to have resorted to underhand tactics by undercutting the operations whilst luring their customers away at the same time. As Participant A recalled:

“It was so intense that ... Some were shouting in the street about the potential damage and even death if they buy my products.”

Participant G serves as another illustrative case in this direction. He had initially set up his barber's shop near one of Ghana's biggest universities in high anticipation of the large number of students as a reliable customer base. However, within a short period of time several barbers opened next to his business ushering in an intense competitive environment. Gradually his customer base started to dwindle because someone was spreading misinformation that the premise was contaminated with the AIDS virus and eventually these factors combined to lead to a loss of customers to the competitors. He explained:

“I had one customer complain and then it started that the shop was infected with the virus ... I was losing customers to another barbering shop next to mine ... I started selling off

some of the equipment ... did not think it was worth me continuing in my business and carry on losing money.”

Our fieldwork indicates that false rumours instigated by rival firms about the contaminated nature of its food (Participant J) and clothing (Participants E and V) and the potential harm to the business was enough to deter customers from patronage of the products and services. As for Participant J, it was the misinformation that the firm was serving unhygienic food and contaminated meat products that proved so devastating in driving its customers into the hands of the alleged perpetrator (see Table 2). Table 2 identifies further internal factors in failure, along with illustrative quotes and other businesses with similar experiences. Based on the above analysis, we propose the following:

Proposition 1: Prior track record of any wrongdoing in the marketplace is more likely to amplify the effects of inter-firm backstabbing.

Insert Table 2 about here

Industry/sector-specific characteristics

Our data suggest that in nine of the case firms/participants (A, C, E, G, H, M, P, R and V), the sensitive nature of their line of businesses such as laundry, clothing store, beauty parlour, food outlet and beauty salon appears to have made consumers more wary of their products, leading to the decline. As demonstrated earlier, only 10 of participants had no previous experience; four of the participants possessed senior high-school qualifications and had no previous experience in the industry. In the case of the stationery firm (Participant D) and printing firms (Participants F, K and L), the rumours had minimal or no known effects on their operations relative to the nine firms. Our findings indicate that there appear to be three kinds of rumours in their experiences: known, unknown and post-exit known rumours perpetrated by rivals, which affected the firms and their

operations. Our findings indicate that misinformation and spreading false rumours undermined firms brand and product quality in the eyes of customers. Such actions are transmitted through word of mouth and trade hawkers to divert customers away from their business through these rumours. As participant G explained:

“The street hawkers were paid to tell potential customers that the clothes we’re selling were removed from the dead and direct them to the rival store.”

Interestingly enough, this rumour was particularly effective because using materials such as jewels or clothing materials from the dead has historically been regarded as an abomination or taboo. In another case, rumours were spread that a restaurant was serving dog and cat meat, which were not staple meats within the local areas. These observations are in line with the observations by Harvey (1989: 274) that “backstabbing is not a crime committed by a solitary individual acting in isolation. Rather, it is an intricate kaleidoscope of collusive deception that involves the complicity of a wide variety of perpetrators, messengers, witnesses and victims”. As Participant T asserted:

“I used to think they were friends who wanted fair competition in the area ... all that he was doing was spreading rumours and stabbing me in the dark.”

One other possible explanation why they saw the deviance as a betrayal of trust was that in some cases (Participants E, J, I, M and R), the participant claimed that the perpetrators were people they regarded as friends. As Participant J remarked:

“Our children go to the same school so I meet her (alleged perpetrator) most days of the week at the school gate ... it is sad to know that some people have such a dark side to them.”

Uncovering underhand tactics

In most of these cases, the firms only discovered the full extent of the rumours and their widespread nature after the business collapsed. Most of the former business owners attributed the demise partly

to rumour spreading by rival firms' intent on undermining trust among customers and engineering a switch to the rival. Also, an attempt to engage in such action enabled the rival business to charge artificially higher prices. As Participant M asserted:

“The customers did not know that was false information, they just simply stopped buying our products and some passed it on to their friends and family ... in the end, we suffered the consequences. Even to this day, she continues to claim she did not spread any rumours.”

Our data revealed that the rumours appear to have undermined the basis of competition and delivered the perpetrators a competitive advantage in luring the customers of the tainted firms. The firms who had such suspicions attempted to respond by confronting the alleged perpetrator who denied any involvement. However, eventually the firm failed to generate a turnaround. In this particular case, the activities occurred around Christmas which meant that the firm lost out to rivals in the busiest season of the year. This is particularly important because consumers in general tend to believe rumours which are to the detriment of the former owners. In most cases the businesses were too small to be able to afford radio announcements to counter the rumours and therefore, they were powerless in quelling any spreading of rumours about their operations. Following the confrontation, the spread of false information ceased temporarily but continued until the doors of the business were closed for good. What made this rumour most damaging to the business was the effect of the confrontation. New vicious rumours kept cropping up again and again to the detriment of the business. The spread of rumours became a major issue for the businesses and stifled their ability to borrow money locally due to perceived risk to the business and the uncertain nature of its finances.

Debilitating effects

Our data indicates that the spread of misinformation imposed burdens on the businesses about the complicated ethical and moral dilemmas involved in responding to such underhand tactics. In some cases Participants K, L and M engaged in impression management in an attempt to counter the

rumours that it did not work. To these firms, the false rumours were a real scourge which they were never able to overcome. The participants engaged in public promotion using a local radio station, however, there was not enough revenue to continue any major campaign and consequently the businesses closed down. In most cases, the firms were unable to trace the source of the false information at the time. However, with the passage of time after the business collapsed, it became clear to some that the rivals on the same street or locality were often behind them. As Participant K also states:

“I denied one rumour and then the next rumour appears within days from nowhere. The way they (rival family business) looked at me I knew it was them ... now even they will admit it was their work.”

Of all the former business owners consulted for the study, only two admitted to employing the same tactics in responding to the misinformation. Two of the Participants (T and H) actually responded by spreading rumours themselves about their alleged perpetrator. One explanation for this response came from Participant H, who noted:

“The ‘nkonkonsa’ (i.e. misinformation) was becoming too much to handle. My business was losing out and I had to fight fire with fire.”

Even with these two cases, the firms were eventually overpowered by the ferocity and powerful nature of the actions of the rivals. The spread of malicious rumours appears to have become a strategy for the firms to outcompete their rivals. Even in a case where the source was traced to a rival at the time, the authorities were unwilling to devote resources to what was seen as a trivial issue. Participant J explained that an attempt to get the police to investigate that matter came to an end when she was turned away by the police who indicated to her that rumours were too trivial an issue to be handled by the police. The participant noted:

“He was making profit because the wife was spreading all the false rumours in the locality that we sourced our materials from criminals”.

Another Participant (J) took different action to respond. In this case, one of the workers was doing regular patrols up and down the main street of the store to ensure that no one in the neighbourhood was spreading falsehoods about the business. However, a lack of effective actions to challenge and seek out those responsible for the misinformation allowed a false impression to ferment and thereby contributed to their demise. The rumours interacted with other factors such as increasing competition, limited technical and managerial expertise, and withdrawal of co-owners’ support that sealed the fate of the businesses. The spread of rumours ushered in a new competitive game rooted in ‘dirty tactics’ whereby the rival firms were good in undercutting their customer base and putting them on the path to decline.

In all the cases affected by the rumours, the alleged perpetrators of the negative false rumours were rival firms. The relative success enjoyed by the firms appears to be the main driver in the spread false and damaging information about the business and its products. The firms were doing relatively well before the rumours arose about the defective products and poor service which forced some clients and customers to switch to the rivals. With regard to the rivals, it appears that disseminating such false information not only enabled them to win customers from their rivals but also sealed their fate. As Participant C remarked:

“He knew what he was doing and did everything to succeed. As the time, a saw two for a two-week period selling towels outside my store, but I did not know they were being paid to approach my potential customers to warn them. I thought we were friendly neighbours and they stabbed me in the back.”

Our data also indicate that backstabbing and spreading of misinformation appears to have surged in response to increased competition in small localities. Interestingly enough, the primary

aim of the perpetrators appears to be to gain an edge in competing for customers, but in their actions appear to have pushed the firms towards bankruptcy. Another recurring theme from the fieldwork was the increasing admission by all the firms that rumours and misinformation were not solely responsible for their demise, but interacted with other factors. Participant U illustrates this by noting that:

“I really needed an accountant or someone who knew about business to help me out; it was not easy at all, I don’t feel very good about it but we shall see what the future holds.”

These findings are also presented below:

Proposition 2: *An entrepreneur’s swift response to misinformation by rivals is more likely to curtail the negative effects.*

Suppressing the dark-side effects

In this section, we turn our attention to the post-failure experiences and lessons learned. Our study uncovered three main camps in their post-exit experiences of business failure largely stemming from inter-firm backstabbing: positive, negative and mixed experiences. One perspective indicates that rather than failure serving as a barrier to future success, some Participants (A, B, C, F, H, J, N and P) saw failure as an important learning experience. Participant A puts it this way:

“A first step on the long road to business success, nobody said that running my own business was going to be easy...I learnt that you need to prepare adequately for all eventualities before starting a business.”

Participant P had started a modelling agency from a humble beginning and managed to create a successful agency for some time before the collapse. He has now been able to restart another business after obtaining financial backing from friends. He elaborated:

“It is my vision that keeps me going; without that I would have given up completely. There were times when I couldn’t believe how badly things were going ... I learned so much when the business went bust. I will not make the same mistakes again. I believe I am in a stronger position than I was before, am ready for anything and I can handle whatever comes now.”

The other perspective suggests that inter-firm backstabbing also leads to formation of negative perception of former competitors and their organisations. A number of Participants (B, C, D, G, H, I, J, P and K) have experienced negative effects stemming from the failure of the businesses. For instance, Participant J found the experience of losing her business particularly traumatising. After an arduous process to secure a loan to start her food services business and betrayal of trust by colleagues and rival businesses she thought were interested in fair competition, led to the business failure. Prior to the collapse she had been very trusting of people. However, after the failure she felt:

“I was so stupid for trusting others ... I still cannot believe what happened; I find it very difficult to trust anyone, and remembering what happened is very difficult for me, I am really hurt.”

Participant B echoed this experience noting:

“I am now scared to start another business in case it fails; the last time was very difficult for me. I have really struggled to find my feet again; I think it will be a long time before I attempt to start another business. But by the grace of God all things are possible.”

Inter-firm backstabbing appears to have also undermined the relationships between the former owners and their rival firms even after the business failure. Participant I noted that:

“The people you think you know and trust can be very different once you start doing business with them. I lost a lot of money because I thought I could trust these people, but I turned out to be very wrong; I will not do the same thing again.”

Participant C expressed parallel sentiments:

“It’s all come to nothing, people who don’t know what happened keep asking me how business is going, and sometimes I say fine because I don’t want them to know; people look at you funny sometimes if you say your business went bust, like you’re a failure.”

In a similar manner Participant K, expressed the loss in terms of customer loyalty. He gave the following words of caution in relation to inability to deal with adverse rumours:

“Customer loyalty is very important. I know that you have to do everything you can in order to gain that loyalty, but you can lose it very quickly if any bad rumours start going round about your business.”

The third and final theme to emerge here is that some Participants (e.g., B, C, H, J and P) have experienced both negative and positive effects of business failure. Although other factors played a key role in the demise of the business, most of the business owners attribute their predicament to largely the rumours in tandem with other factors. Figure 1 summarises the above findings.

Insert Figure 1 about here

Discussion and conclusion

Our study set out to examine how inter-firm backstabbing interacts with other factors to precipitate business failures. Using insights from former business owners in Ghana, our study uncovered that most firms had their fates sealed by misinformation and rumours perpetrated by their rivals as a

strategy to lure their customers and undermine their businesses. The rumours and misinformation peddled by rival firms were particularly potent in not only losing their customers, but it also undercutting the business by derailing their limited successes. We found that rumours were made more potent when combined with other factors such as prior history of poor quality and faulty products, industry sensitivity of firms' products and services, and intense competition from rival firms.

Despite the prevailing assertion that rumours and misinformation may be less harmful to businesses,

we uncovered that when interacting with other factors it can quicken the pace of small businesses' decline and eventual exit. Our study also uncovered that inter-firm backstabbing leads former business owners to form a negative perception of former competitors and their organisations after their business collapsed. In addition, the lack and weak enforcement of the "rules of the game" have derailed the firm's attempt to respond to backstabbing by rival firms. Even in cases where the firms decided to counter the rumours with rumours, they were largely ineffective in altering their misfortunes.

Contributions to theory

Our study further makes three main contributions to entrepreneurship and business failure literature. First, although some studies have emerged on backstabbing in organisations (Einwiller and Kamins, 2008) and business failure (Watson and Everett, 1993), a lack of integration of these two promising streams of research has obscured the progress made. Our study fills this void in our understanding by shedding light on how informal practices such as spread of rumours and misinformation interact with other factors to precipitate business failure. The study adds to the growing body of scholarly works which have suggested a need to broaden our understanding of the causes of business failure (see Mellahi and Wilkinson, 2010). In addition, the study adds to the growing body of research rooted in institutional theory, which have suggested a need for effective legal enforcement regime

to foster the development of new and resource-poor new businesses (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998).

Furthermore, despite the assertion that inter-firm backstabbing is a feature in the competitive marketplace in underdeveloped economies, our understanding of how it unfolds and precipitates business failure has remained largely overlooked. As demonstrated here, in some developing countries such underhand factors remain a feature in competitive interactions. Thus, our study shed light on the underhand tactics which provide further insight into the “walk on the dark side” of inter-firm rivalry (Ferris and King, 1991; Vaughan, 1999; Pozner, 2008), a largely overlooked area by scholars. Moreover, some scholars have suggested brand switching by core customers as a reason for underperformance and failure (Burt, Mellahi, Jackson and Sparks, 2002); we contribute to this stream of research by examining the mechanism through which adverse rumours manifest. In so doing, we contribute to entrepreneurship research (Wright, Robbie and Ennew, 1997).

Contributions to practice

Notwithstanding the theoretical contributions, our findings also hold practical implications. From a public policy standpoint, unlike large businesses that have the financial resources and expertise to respond to rumours and misinformation, small entrepreneurs in the developing world often lack access to financial capital and expertise to enable them to achieve such goals. Therefore, there is a need for governments in such developing economies to develop, strengthen and enforce the “rules of the game” in relation to sabotage by rival firms. There is also a need to create fast and reliable legal avenues that enable small businesses to end malicious dissemination of false misinformation quickly and to seek damages to repair their reputation. In addition, governments’ policies geared towards increasing the punishment for such behaviour is more likely to reduce sabotage and foster innovation and fairer competition in the marketplace.

From a practical standpoint, our findings indicate that there is a need for small businesses to engage in more publicity and public relations to help develop a brand image as a strategic response to counter rumours spread by rivals. Such actions would help to minimise the effects of negative rumours. This is important given that “people fill information vacuums with rumours and such rumours are often more dire than the truth” (Sutton, Eisenhardt and Jucker, 1986: 24). In addition, it might be useful for new start-ups to seek to avoid direct head-to-head competition in a small locality in their infancy due to their limited market knowledge and expertise in combating and responding to inter-firm backstabbing in such a largely informal economy. By avoiding such direct competition, they might be able to reduce instances of inter-firm backstabbing.

Regarding the limitations, one pertains to our exclusive focus on examining the issue solely from the perspective of the victims of negative rumours and misinformation. There is a tendency for research participants to “under-report behaviors deemed inappropriate by researchers ... over-report behaviors viewed as appropriate” (Donaldson and Grant-Vallone, 2002, p.247; Podsakoff and Organ, 1986). Given that individuals are more likely to attribute business failure to external factors rather than mismanagement or poor decisions (Amankwah-Amoah, 2015); there is a potential self-reporting bias in our sample. A promising area for future research is to examine the issue from the perspective of the alleged rumour spreader to ascertain a more complete picture. This is important given that backstabbing events “stem solely from the biased viewpoint of the victims”, it might be possible that the alleged rumour spreader may “have nothing to hide and, in fact, may be altogether innocent of the crime of which he or she is accused” (Harvey, 1989: 272). Such an analysis would provide unique insights into whether the failure was attributed solely to factors such as lack of effort on the part of the former business owner rather than misinformation.

Future research should seek to obtain more samples from organisations that have experienced inter-firm backstabbing over a period of time and survived and also seek more than one informant per firm. Such approaches would provide much in-depth analysis and complete analysis

than has been achieved here. As we have seen, entrepreneurship theory and business failure literature offers little insight into the effects and role of inter-firm backstabbing. In a nutshell, we hope that this study serves as a catalyst for more scholarly works on the subject.

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Figure 1: A process model of inter-organisational backstabbing

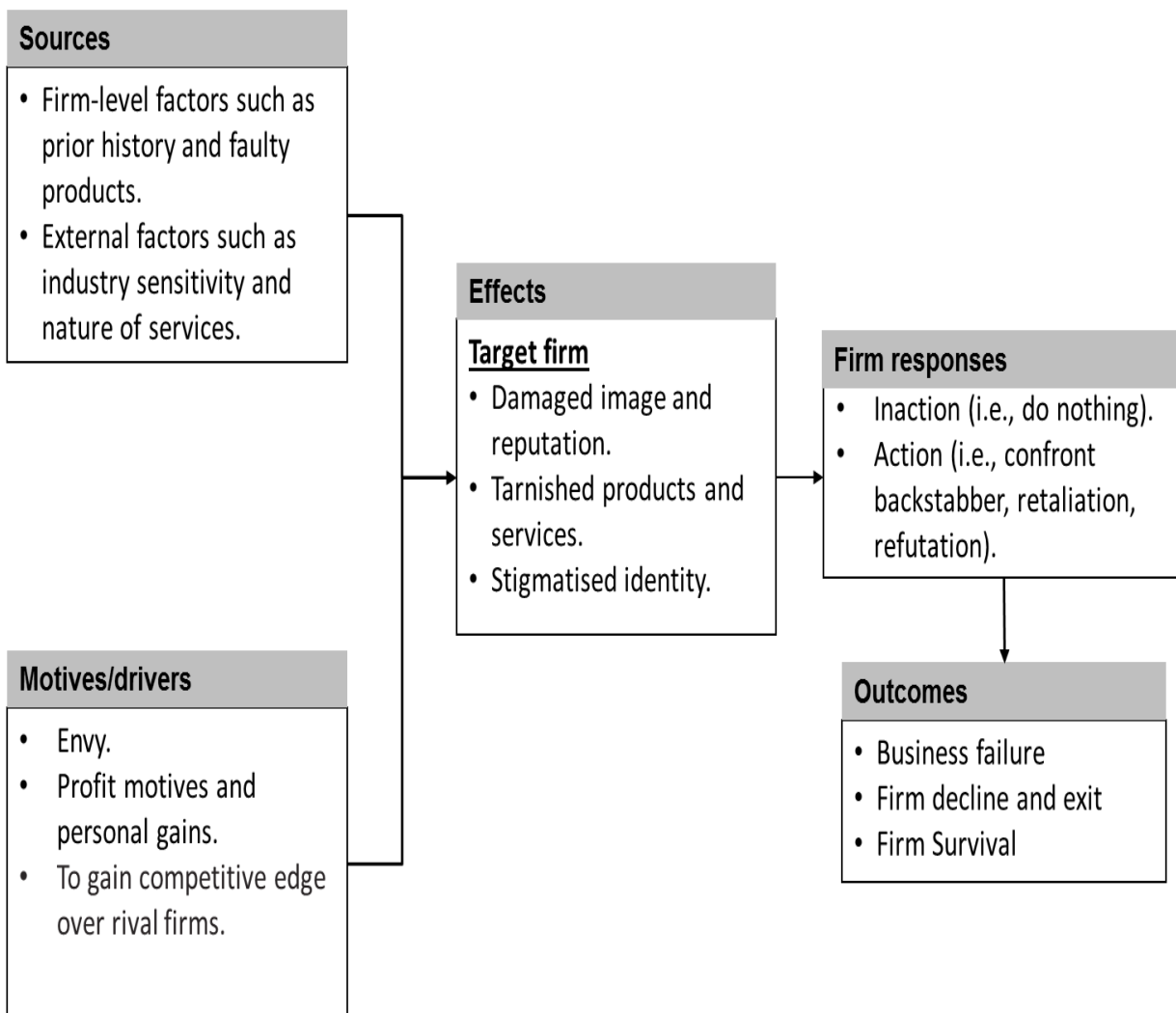


Table 2: Dimensions of rumours induced by inter-firm backstabbing

Category	Illustrative quotes from interviews	Similarities among case firms
Rumours induced by envy	“People just destroyed my business just making things up. I think in the food business your competitors can destroy you.” (Participant J)	E, H, J, I, M and R
Rumours induced by intense rivalry	“When they started next door, rumours came from nowhere that my shop was infected with AIDS virus and we were spreading it to customers ... I was losing customers to another barbering shop, they stole all my customers. I was just sitting in the shop with my friends, it was costing money, and I had to close.” (Participant G)	G, R, M and T
Multiple factors induced by play-gossip and falling demand	“The shop started losing customers slowly because some people started the gossips that were not from different ethnic group and people should not buy our products ... we closed the shop because we had no customers.” (Participant L)	All but Participants D and F
No rumour effects	“I have no knowledge whether rumours played a part.” (Participant F)	F

Table 1: Summary and details of informants and their businesses

Cases	Founders/ Participants	Experience prior to starting the business	Qualifications at founding	Industry	Number of employees	Age of firm at time of exit
1.	A	None	SHS	Provision store	3	11 months
2.	B	2 years training from college	BSC Mathematics	Communications	5	2 years
3.	C	Management/marketing	None	Laundry	8	2 and half years
4.	D	Previous sales experience	None	Stationery	3	8 months
5.	E	Worked in retail	None	Clothing store	11	1 year and a half
6.	F	None	JHS graduate ICT	Printing press	10	3 years
7.	G	None	SHS	Barber store	5	6 months
8.	H	None	SHS	Beauty parlour	7	9 months
9.	I	Customer service/sales	SHS	Car rental	14	2 and a half years
10.	J	Previous restaurant experience	SHS	Bar/restaurant	13	6 months
11.	K	None	SHS	Printing press	17	9 months
12.	L	Employed in printing press	SHS	Printing press	8	2 years
13.	M	None	JHS	Bar/restaurant	12	6 months
14.	N	Recruitment agency/ marketing and project management	None	Communication services	5	3 and half years
15.	O	None	SHS / Business School graduate	Communication services	7	1 and half years
16.	P	None	SHS	Modelling agency	13	2 and half years
17.	Q	Teacher	Master's Degree	Satellite support services	6	3 and a half years
18.	R	Bartender	SHS Diploma	Beauty salon	9	2 years
19.	S	Workshop employee	SHS	Susu (Financial services- micro-financing)	15	1 year
20.	T	None	None	Mechanics	11	8 months
21.	U	None	JHS	Electrical services	5	14 months
22.	V	None	JHS	Clothing store	7	4 months

Note: In the Qualifications column: SHS; Senior High School; JHS: Junior High School