

Factors Underlying the Failure of Organizations: A Focus on Pakistan International Airlines

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Abstract

Pakistan International Airlines faces competition with not only international airlines but also with local airlines on the various routes to the Middle East and the Gulf. Due to fierce competition and rising oil prices, international aviation industry regulations and some internal factors such as human resource issues of over recruitment, de-motivated employees, mismanagement of resources both in case of manpower and other resources, aged fleet, corruption and lack of accountability PIA is facing a deep financial crisis. It is losing its market share both in international market and domestic circuit. The present research is done to know about the current situation of PIA and the factors underlying the poor performance of the organization. Nepotism, lack of management, poor service provisions are some of the factors identified through this piece of research which form the backbone of the declining performance of Pakistan International Airlines.

Keywords: poor performance, factors, management, competition

1. Introduction

Today's competitive environment demands that organizations achieve ever higher levels of performance. Critical to improving performance is to know what and how to measure. Measurement therefore is a key element in any performance improvement effort and particularly to the development of long and short term decision making. There are a number of organizations striving and doing excessive research to identify the various factors which contribute to the success or poor performance of not only their own organizations but also other organizations in the industry for the purpose of benchmarking in case of their success and avoiding similar mistakes by halting the influence of such failure factors in case of their poor performance.

The present study is therefore designed in this context to identify the factors which may contribute to the poor performance of organizations. A case study of Pakistan International Airlines has been chosen to study the reasons of poor performance of the organization during the past few years. It is now suffering losses but it has the capacity to earn profit and contribute towards the GDP of country. Pakistan International Airlines is the national flag carrier and was established in 1955. It not only provides transportation services, but its operations extend to providing cargo services and courier services also. Pakistan International Airlines serves two markets – Domestic and International. In the domestic sector, it has outperformed itself by stretching its networks to areas where other airlines do not fly to. In the international market it faces severe competition, especially due to the fact that these International organizations are providing fares much lower than Pakistan International Airlines. Internationally also, Pakistan International Airlines is encountered with a severe and strong challenge with many renowned international names. The following research questions have been developed in this context.

1.1. Research Questions

Q1: Are there any identifiable factors which are contributing to the poor performance of the organization specifically PIA?

Q2: what are the factors which form the reason of failure of any organization?

1.2. Research Objectives

The objectives of the research are to:-

- Identify the factors which result in poor performance of organizations.
- Give a logical reasoning behind the failure of any organization.

- Provide other organizations with useful information which can be deployed while making decisions to avoid performance failures.

1.3. Research hypothesis

In the context of the above mentioned study, the following research hypotheses have been developed to carry out this piece of investigation:-

H₀: There are no identifiable factors which contribute to the poor performance of organization.

H_A: There are some identifiable factors which contribute to the poor performance of organizations.

2. Literature Review

It has been widely recognized that business growth and survival, success or failure depend both on external and internal factors. While most of the challenges which a business will face may be foreseeable, some will be completely unpredictable. However, if a business is to succeed, management must be mindful to all matters which are likely to have a material impact on its viability, and must then demonstrate skills both in exploiting opportunities and mitigating threats (FEE, 2004). There is a vast literature review on business failure, mostly on the prediction of failure by using financial models, but in this paper, we focus on the causes of business failure.

Definition: The Oxford English Dictionary defines the term “failure” as “to become deficient, to be inadequate”. In general, many different terminologies are related to business failure, such as firm closures, entrepreneurial exit, dissolution, discontinuance, insolvency, organizational mortality and bankruptcy. Normally, entrepreneurial failure is referred to as the cease of an operation for financial reasons. Since we examined nascent entrepreneurs during the firm’s gestation process, one type of entrepreneurial failure is the discontinuance of venturing efforts by entrepreneurs (Liao et al., 2009), but business failure can be defined as wanting or needing to sell or liquidate, to avoid losses or to pay off creditors, or the general inability to make a profitable go of the business (Gaskill et al., 1993). Pretorius, at the end of his review of business failure definition, proposed a universal definition for the failure phenomenon - a venture fails when it involuntarily becomes unable to attract new debt or equity funding to reverse decline; consequently, it cannot continue to operate under the current ownership and management. Failure is the endpoint at discontinuance (bankruptcy) and when it is reached, operations cease and judicial proceedings take effect (Pretorius, 2009).

There are problems relating to the use of various terms involved in research in business failure. In particular, definitions of business “disappearance”, “closure”, “exit”, and “failure” are confused and often overlapping. “Disappearance” of a business may occur because the business failed, or because the business was acquired by or merged into another company, or because the owners voluntarily closed it (Cardozo and Borchert, 2004). “Closure” can be categorized as the inability of a business to survive and thus represents a discontinuation of a business. “Exit” refers to several different meanings; it can refer to the exit of a business from trading in a specific market or from producing a particular product. It also refers to the end of the owner’s participation in the business, as in the search for “exit routes” by entrepreneurs wishing to sell or exit from a business (Stokes and Blackburn, 2002). “Failure” is generally regarded as the discontinuance of the business due to the lack of adequate financial resources (Everet and Watson, 1998), cessation of operations with loss to creditors (Cardozo and Borchert, 2004), cessation of operations, and exit from business population because it is no longer a viable concern (Bickerdyke et al., 2000).

Causes of business failure: The causes of business failure are many and varied, and may stem both from the external environment as well as from factors internal to the business. Internal causes of business failure may in many cases be capable of being foreseen in advance, while on the other hand some external causes are not so predictable. In most cases, a complex mixture of causes contribute to business failure; it is very rare for one single factor to be involved (FEE, 2004).

Earliest empirical studies on business failure examined the role of various owners and firm characteristics to explain business failures. The numerous characteristics shared by failed firms, are directly related to personal decision-based characteristics of the owner (lack of insight, inflexibility, emphasis on technical skills, etc.), managerial deficiencies (lack of management skills and appropriate managerial training, etc. and financial shortcomings (no accounting background, cash flow analysis, financial records, etc.). Many aspects of poor management are reported to be connected to several related issues, such as poor financial circumstances, inadequate accounting records, limited access to necessary information, and lack of good managerial advice (Gaskill et al., 1993). Some studies focused more on the managerial causes of failure and listed some 25 causes and categorized them simply as poor management, and concluded that poor management combined with the personality traits of the owner-manager, and external factors cause business failure (Berryman, 1983). A business failure may happen as a result of poor management skills, insufficient marketing, and lack of ability to compete with other similar businesses. It can also be the result of a domino effect caused by business failures of suppliers or customers (Wu, 2010). In the annual report of GEM,

financial problems were cited as the reason for quitting the business by no more than 55% of all respondents; it was cited more often by respondents in the factor- and efficiency-driven economies (just over 50%) than innovation-driven countries (just over 40%) (Bosman et al., 2009).

The effect of the environment depends upon the time period, geographic area, and market sector in which the firm operates (Burns, 2001). Government and government-related policies is also an important factor affecting business failures, and is discussed in some studies. The scholars found that failure rates increased due to the heavy burden of taxation and regulation, while the growth in money supply (higher growth decreased the failure rate) and the volume of bank lending (higher volume of bank lending reduced the rate of business failures) are significant factors (Gaskill et al., 1993; Burns, 2001; Oparanma et al., 2010). They discussed the negative internal and external environmental factors including pressure from competitors or new entrants, poor improvement in modern technology and poor sales, the outbreak of pests, and farm diseases etc (Oparanma et al. 2010).

A conceptual failure model was presented by Ooghe and Waeyaert in 2004 expounding the causes of failure and mutual relations between the general and immediate environment of the company as external causes, and the company's management and policy as internal causes of failure (Ooghe and De Prijcker, 2008). In this model, the causes of failure can be grouped into five interactive aspects. These include general environment (economics, technology, foreign countries, politics, and social factors), immediate environment (customers, suppliers, competitors, banks and credit institutions, stockholders, and misadventure), management/entrepreneur characteristics (motivation, qualities, skills, and personal characteristics), corporate policy (strategy and investments, commercial, operational, personnel, finance and administration, corporate governance), and company characteristics (size, maturity, industry, and flexibility) (Ooghe and Waeyaert, 2004). Liao (2004) also mentioned the effects of four groups of factors-individual characteristics of the founder, resources, structural characteristics and strategies of the firm, and environmental conditions in which a firm operates on business failure. The European Federation of Accountants has identified the following internal and external causes of business failure. Accordingly, internal causes include poor management, deficit in accounting, poor cash flow management, inappropriate sources of finance, dependency on customers or suppliers, impending bad debt, fraud/collusion and external causes of business failure are economy, catastrophic unpredictable events, governmental measures and international developments, environmental protection and other regulatory requirements, and the bankruptcy of main customer or supplier (FEE, 2004).

3. Research Methodology

The researcher gets the data from primary as well as secondary sources. In secondary sources we get most of the data from internet and newspapers also providing sufficient information about current situation of the organization. Information is taken from internet by using several search engines such as Google, yahoo, msn, answers etc. We construct a questionnaire which is filled from PIA's employees at Multan airport. Structured interviews were conducted using the questionnaire. Also the complaint data was seen to view the complaints of the customers using the services of Pakistan International Airlines.

4. Discussion

The following causes of poor performance of Pakistan International Airlines have been identified through the data collected from the organization. These are the factors which are leading to the failure of PIA in terms of poor financial performance and decline in the goodwill of the organization.

- Lack of experience relating to aviation industry for the top management: This factor is one of the reasons of the poor performance of the organization as indicated by 61% of the informants who were accessed for the purpose of the primary data collection.
- Lapses in the management: The PIA's management is ineffective to resolve and plan at the right time. This is another cause of PIA losses as indicated by 51% of the informants who were approached for data collection.
- Low scale advertisements and awareness: A common Pakistani may even not know about Pakistan International Airlines. No advertisements and awareness to the organization's brands in such a modern era of marketing. Cricket stars and sportsmen are hired on heavy salaries but with no profit to the organization. Pakistan International already being an ethnic airline just confining itself to its own country. No such efforts to enhance the brighter and soft image of the nation as well as airline are made. 45% of the respondents revealed that lower marketing and selling efforts are causing poor performance of Pakistan International Airlines.
- Government's and Civil Aviation authority' policies: Pakistan International Airlines has to pay a big amount as an expense on its borrowings from banks. Already being in such a big crisis, the company is getting no support in this regard like WAPDA is getting. Also civil aviation authority of Pakistan' policies are hampering PIA a great deal. Pakistan

International Airlines being a national carrier has to go to those routes which are going in loss. Routes such as, Swat, Bahawalpur etc. are called socioeconomic routes and PIA has to get to those routes despite of great loss. On these airports, airport staff is greater numbers as compared to passengers. The money which is received as for providing services to passengers is taxed by the government at a very high rate. This was also one of the factors on which the response of the informants was taken. Almost 43% of the respondents found this factor as a reason for PIA losses.

- Rising fuel prices in the World: There is been consistent rise in fuel prices in the international market. Fuel prices have impacted on almost every airline in the world. This has affected Pakistan international Airlines more than any other airline due to its aged fleet. New planes are fuel efficient as compared to old ones. In an airline normally 30-35% of expenses account for fuel expenses but in Pakistan International Airlines this number goes to 45-50%. Due to these factors PIA has to charge more fare to customer that's dissatisfies the customers. This is one of the factors of loss to PIA as indicated by 51% of the respondents.
- Global impact of 9/11 on aviation industry: After the 9/11 attacks air traffic has been decreased all over the world. It has affected Pakistan international Airlines also. Passengers are more inclined towards traveling to other countries such as European countries. Air traffic in Asia, especially in south Asia has decreased and therefore this was also considered as one of the reasons of bad performance of PIA by 32% of respondents.
- Aged fleet: Pakistan International Airlines fleet has total 43 planes. Out of those 43, only 33 are operating at the moment. The average age of the fleet is 13 years which has become 13 years with the induction of 4 new planes. Previously it was 14. Due to aged fleet the fuel is consumed more and maintenance expenses are increase. Thus these factors result in increment in expenses. Due to the aged fleet and maintenance problem PIA has to pay higher amount in terms of insurance cost. This was also found to be one of the factors contributing to losses of PIA as indicated by 47% of the respondents.
- Maintenance problems: Besides having a large number of engineers, there is always been a question mark on PIA's fleet maintenance. This is one of the factors leading to poor performance of PIA as mentioned by 41% of the informants.
- Corruption at its peak: Corruption is a sin that has hollowed Pakistani society bases. Like all other departments of our country corruption is at its peak in Pakistan International Airlines. 67% of respondents agreed that this is the case of losses faced by Pakistan International Airlines.
- Less technology advanced as compared to its competitors: PIA is competing with the airlines from all over the country especially with the Middle East airlines which are coming in with heavy investment. Its competitor such as Emirates and Qatar airways have great capital. These Middle Eastern organizations are putting in newer and newer technology and acquiring greater manpower. PIA being already in a financial crunch faces a tough task and therefore it forms one of the factors of poor performance according to 53% of the respondents.
- Poor image: With already going in financial loss, 9/11 impact on the industry and above all incapability of Pakistan International Airlines' management has badly damaged the image of the Airline. Due to all such problems the fares of PIA are higher but service is not up to that class. This also gives a bad image to the passengers. This bad image is adding to decreased customer base and hence causing loss to PIA as indicated by 31% of informants.
- Lack of training facilities: Although PIA is running a training and development department in Karachi but it is insufficient to feed such a big organization with almost 18000 employees. Special skills such as engineering, technicians are lacking. If they are there, they are not delivering. This was found to be another important factor for poor performance of PIA as agreed by 43% of the respondents.

5. Conclusion and Recommendations

The Pakistan International Airlines is suffering from severe financial crisis. It is, in fact, passing through a critical phase because of poor management, lack of maintenance, aged fleet, nepotism, corruption and financial issues. There are complaints of terrible service, long delayed flights, emergency crash landings, cancellation of flights, shortage of planes, unclean toilets that smell from a distance and non-serious attitude of the administration. These issues create frustration among the passengers. They feel fear and life risk while travelling through PIA. The Airlines is at the brink of disaster. It needs exemplary leadership, qualified and merit based staff and technically strong administration to improve its performance. PIA is facing serious problems. The major problems faced by PIA are increase in oil prices, overstaffing, devaluation of local currency, political interference and its weak financial position since the last decade. The bad governance, poor performance and corruption are the major causes of its failure. PIA has problem of maintenance and repairs. Unfortunately PIA is functioning with costs higher than returns. PIA claims that increase in oil prices and devaluation of Pakistani currency are the major reasons behind its deficit. It needs remarkable effort and money to improve its ranking in the world airlines.

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Questionnaire

This questionnaire is designed for the purpose of research and the information will not be used for any other purpose than that of academic research. Please indicate your agreement or disagreement with each of the following statements according to your level of perceptions.

1. Lack of experience relating to aviation industry for the top management is one of the factors related to poor performance of PIA.
 - Yes
 - NO
2. Lapses in the management activity is the cause of PIA losses.
 - Yes
 - NO
3. Low scale advertisements and awareness is causing poor performance of PIA.
 - Yes
 - NO
4. Government's and Civil Aviation authority' policies are the cause of poor performance of PIA.
 - Yes
 - NO
5. Rising fuel prices in the World are the cause of failure of PIA.
 - Yes
 - NO
6. Global impact of 9/11 on aviation industry is the cause of poor performance of PIA.
 - Yes
 - NO
7. Aged fleet is the cause of PIA losses.
 - Yes
 - NO
8. Maintenance problems are the reason of poor performance of PIA.
 - Yes
 - NO
9. Corruption at its peak is reason of poor performance of PIA.
 - Yes
 - NO
10. Less technology advanced as compared to its competitors is the cause of poor performance of PIA.
 - Yes
 - NO
11. Poor image is reason of poor performance of PIA.
 - Yes
 - NO
12. Lack of training facilities are the cause of failure of PIA.
 - Yes
 - NO

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