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WHEN PROFIT IS NOT ENOUGH: STRUCTURAL AND STRATEGIC CAUSES OF BUSINESS FAILURE

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INTRODUCTION

The question of why businesses fail has attracted sustained scholarly attention since at least the early twentieth century, yet it remains one of the most contested and practically consequential issues in management research. The conventional explanation, that firms fail because they run out of money, is not incorrect, but it is profoundly incomplete. Financial insolvency is typically the terminal stage of a deterioration process that has been developing, often for years, within the organisation's structure, strategy, and leadership (Argenti, 1976; Ooghe & De Prijcker, 2008). To treat financial collapse as the cause of failure, rather than as its consequence, is to misdiagnose the problem and, by extension, to miss the conditions under which it could have been prevented.

This thesis aims to understand how structural and strategic factors contribute to the failure of established companies. The focus on 'established companies' is deliberate. The failure of newly founded ventures is often attributable to insufficient resources, market inexperience, or premature scaling, factors that are well-documented in the entrepreneurship literature (Ooghe & De Prijcker, 2008). The failure of companies that have already achieved market dominance is a more theoretically revealing and practically important phenomenon, because it exposes the limits of success as a safeguard against decline. Success, in other words, does not immunise a company against collapse; in certain conditions it can actively generate the organisational conditions that make collapse more likely.

The cases of Eastman Kodak and Blockbuster Inc., both of which were industry leaders before entering bankruptcy, illustrate this phenomenon with unusual clarity and are examined in depth in Chapter 3. The thesis makes two principal contributions. First, it offers a theoretically grounded framework for understanding business failure that integrates structural and strategic perspectives, drawing on organisational ecology, strategic management, and lifecycle theory. Second, it applies this framework to two well-documented empirical cases, generating cross-case findings that illuminate the mechanisms through which successful companies become vulnerable to collapse.

The thesis is organised as follows. Chapter 1 establishes the theoretical foundations of business failure, reviewing its conceptual definitions, key theoretical frameworks, and the distinction between financial and non-financial dimensions of decline. Chapter 2 examines the specific structural and strategic determinants identified in the literature as the primary drivers of failure. Chapter 3 presents a comparative case study of Kodak and Blockbuster. Chapter 4 closes the thesis by explaining what can be learned from this literature review and by outlining its limitations.

CHAPTER 1

THEORETICAL FOUNDATIONS OF BUSINESS FAILURE

1.1 Defining Business Failure: Concepts, Typologies, and Boundaries

Before examining the causes of business failure, it is necessary to establish what the term means and how it is conceptualised in the academic literature. Despite its apparent simplicity, business failure is a contested concept that has been defined differently across legal, financial, and organisational traditions. The definition adopted in any given study shapes both the research questions that can be asked and the variables that can be measured; definitional clarity is therefore a prerequisite for rigorous analysis.

The most operationally straightforward definitions treat failure as a legal or financial event. In this tradition, a firm has failed when it can no longer meet its financial obligations and is forced to enter formal insolvency proceedings, including bankruptcy, liquidation, or administration (Altman, 1968). This definition has the advantage of precision and measurability: the date of a bankruptcy filing is unambiguous, and the financial ratios that predict it can be systematically studied. Altman's (1968) Z-score model, which uses a weighted combination of five financial ratios to predict corporate bankruptcy, is perhaps the most widely known product of this tradition and remains influential in both academic research and financial practice. However, as subsequent scholars have argued, legal insolvency captures only the endpoint of a process that has typically been unfolding for many years prior to the formal filing (Argenti, 1976; Hambrick & D'Aveni, 1992).

A more expansive conceptualisation treats failure as a sustained inability to generate sufficient value to remain viable and competitive, irrespective of whether formal insolvency has been declared (Ooghe & De Prijcker, 2008). This definition is particularly relevant when studying companies whose decline is protracted rather than sudden. It encompasses situations in which firms continue to operate while steadily losing competitive position, shedding market share, and depleting organisational capabilities, a trajectory that may culminate in formal bankruptcy but which constitutes failure in any meaningful strategic sense well before that point is reached. This broader definition is adopted throughout the present thesis, as it permits analysis of the organisational and strategic conditions that precede and produce financial distress, rather than treating insolvency itself as the object of study.

Several taxonomies have been proposed to organise the various forms that business failure can take. Watson and Everett (1996) identified five distinct types, each of which captures a different way in which a firm may cease to be viable. Each type is described below:

- Discontinuance of operations: the business stops trading entirely, with no transfer of ownership or formal insolvency process. The firm simply ceases to exist as an operating entity.
- Change in ownership: the original business ceases in its current form because controlling ownership is transferred to new parties, often under conditions of financial distress.
- Filing for bankruptcy: the firm enters formal legal insolvency proceedings, which may result in restructuring, asset liquidation, or administration depending on the jurisdiction.
- Closure to limit losses: the business is deliberately and voluntarily shut down by its owners in order to prevent further financial deterioration, before losses become unmanageable.
- Failure to meet financial targets: the firm remains legally operational but consistently fails to achieve the minimum performance levels required by investors, lenders, or internal benchmarks.

Similarly, Ooghe and De Prijcker (2008) identified four distinct failure processes based on a typological study of Belgian firms. Each type reflects a different combination of internal weaknesses and external pressures:

- The failure of unsuccessful startups: firms that never achieve viability because they lack the resources, skills, or market access needed to establish themselves.
- The failure of ambitious growth companies: firms that expand aggressively but outpace their managerial and financial capacity to sustain that growth, ultimately collapsing under the weight of their own ambitions.
- The failure of overconfident growth companies: firms whose excessive optimism leads to strategic overreach, poor risk management, and ultimately an inability to absorb adverse shocks.
- The gradual deterioration of established firms: companies that have previously achieved strong market positions but progressively lose touch with their competitive environment. This fourth type is most directly relevant to the present thesis, as it precisely characterises the trajectories of Eastman Kodak and Blockbuster Inc.

1.2 Theoretical Frameworks for Understanding Firm Decline

The academic literature offers several theoretical perspectives for understanding why firms decline and ultimately fail. These perspectives are not mutually exclusive; rather, they illuminate different dimensions of a process that is inherently complex and multi-causal. Three particularly relevant frameworks can be identified: the theory of structural inertia within organisational ecology; the threat-rigidity framework and the behavioural deterioration of top management teams; and lifecycle models of organisational decline.

- Structural inertia theory (Hannan & Freeman, 1984): explains how organisational success produces commitments that later impede adaptation.
- Threat-rigidity and top management deterioration (Hambrick & D'Aveni, 1992): explains how leadership quality and decision-making degrade progressively during decline.
- Lifecycle models of decline (Argenti, 1976; Weitzel & Jonsson, 1989): explain how failure unfolds across recognisable stages that narrow the window for effective intervention.

The theory of structural inertia, developed within the organisational ecology tradition, proposes that firms develop routines, hierarchies, and capabilities that are well-suited to the competitive environment in which they were formed (Hannan & Freeman, 1984). These structural arrangements increase reliability and accountability, qualities that are rewarded in stable markets, but they also reduce the firm's capacity for rapid adaptation. As Hannan and Freeman (1984, p. 151) argued, 'selection in favour of reliability and accountability is likely to produce structural inertia.' The critical implication is that structural inertia is not the product of managerial incompetence; it is a predictable consequence of organisational success and longevity. Firms that have been highly effective under one set of environmental conditions develop structural commitments that become liabilities when those conditions change (Tripsas & Gavetti, 2000). This paradox, that past success can generate the conditions for future failure, is a central theme of this thesis.

A second influential perspective originates in strategic management and focuses on the behavioural responses of top management teams under conditions of organisational decline. Hambrick and D'Aveni (1992) conducted a landmark study of 57 large corporate bankruptcies and 57 matched survivors, examining the characteristics of top management teams in the years preceding failure. Their findings showed that declining firms exhibited a progressive deterioration of their top management teams, characterised by increasing homogeneity, declining quality of new appointments, and a growing tendency toward threat-rigidity responses, centralising decision-making, reducing experimentation, and focusing on short-term cost reduction rather than long-term strategic adaptation. As the authors noted, 'the results suggest that deterioration of the top management team is a central element of the downward spiral of large corporate failures' (Hambrick & D'Aveni, 1992, p. 1445).

A third relevant framework is provided by lifecycle models of organisational development and decline. Argenti (1976), whose work is widely regarded as foundational to the organisational approach to business failure, proposed that companies follow recognisable trajectories toward collapse, characterised by the accumulation of structural defects, including weak management, inadequate financial controls, and excessive leverage, that are typically present years before any financial crisis becomes visible. Critically, Argenti argued that a simple list of causes and symptoms is insufficient to explain failure; what is needed is an understanding of the dynamics and sequencing of events that bind these factors together into a coherent failure process. More recently, Weitzel and Jonsson (1989) formalised the lifecycle perspective by proposing a five-stage model of decline in which organisations move sequentially from blinded inaction, through recognition without response, to inappropriate action, crisis, and finally dissolution. Each stage represents a narrowing window of opportunity for corrective intervention.

1.3 Financial Versus Non-Financial Dimensions of Failure: A Conceptual Reframing

For much of the twentieth century, the academic study of business failure was dominated by financial prediction models, of which Altman's (1968) Z-score is the most prominent example. This approach has generated substantial empirical knowledge about the financial characteristics that differentiate failed firms from survivors, and it retains considerable practical value in credit analysis and financial risk management. However, it also embeds an important conceptual limitation: by treating financial ratios as the primary objects of analysis, it implicitly positions financial deterioration as the cause of failure rather than as one of its consequences.

This distinction carries significant implications. If financial distress is the cause of failure, then the appropriate response is financial intervention: recapitalisation, debt restructuring, cost reduction. If, however, financial distress is the consequence of prior structural and strategic failures, then financial intervention alone cannot address the underlying problem. As Ooghe and De Prijcker (2008) demonstrated in their typological study, the financial symptoms of failure, declining profitability, increasing leverage, deteriorating liquidity, are typically preceded by years of managerial errors, strategic misalignment, and organisational deterioration. The financial data, in other words, reflects a process that is already well advanced by the time it becomes visible in the accounts.

The non-financial literature on business failure has accordingly directed attention toward the upstream conditions that produce financial distress. Key factors identified in this literature include the quality and composition of top management teams (Hambrick & D'Aveni, 1992), the organisational culture and its capacity for adaptation (Tripsas & Gavetti, 2000), the firm's ability to manage competitive transitions and technological change, a dimension examined in depth by Amankwah-Amoah (2016), whose study of competing technologies demonstrates how incumbent firms in industries undergoing technological substitution systematically underestimate the pace of displacement until it is too late to mount an effective response, and the coherence and responsiveness of strategic decision-making processes (Ooghe & De

Prijcker, 2008). Collectively, this body of research supports the conceptual reframing that underpins this thesis: business failure is more productively understood as a structural and strategic process than as a financial event.

This reframing defines the analytical approach of the chapter that follows. Chapter 2 examines the specific structural and strategic determinants that the literature identifies as most consequential.

CHAPTER 2

STRUCTURAL AND STRATEGIC DETERMINANTS OF BUSINESS FAILURE

2.1 Structural Factors: Organisational Rigidity, Resource Misallocation, and Market Positioning

The primary drivers of corporate decline can be grouped into two broad categories, structural and strategic, which are analytically distinct but empirically interrelated. The structural factors concern the internal architecture of the organisation: how it is designed, how resources are allocated, and how it is positioned in its competitive environment. The three main structural factors identified in the literature are:

- Organisational rigidity: the tendency of established firms to develop structures and processes that resist change, even when environmental conditions demand adaptation.
- Resource misallocation: the systematic over-commitment of resources to existing business models at the expense of investment in emerging opportunities.
- Poor market positioning: the failure to maintain a value proposition that remains relevant as competitive conditions evolve.

Organisational rigidity refers to the tendency of established firms to develop structures, processes, and decision-making hierarchies that are resistant to change (Hannan & Freeman, 1984). As organisations grow and mature, they naturally formalise their operations: reporting lines are clarified, procedures are codified, and resource allocation follows established patterns. These processes increase operational efficiency and reduce the costs of coordination, and they are therefore associated with high performance in stable competitive environments (Argenti, 1976). However, they also create inertia, a resistance to reconfiguration that becomes deeply problematic when the competitive environment changes rapidly. The mechanisms through which organisational rigidity contributes to failure have been examined extensively in the organisational ecology literature. Hannan and Freeman (1984) argued that structural inertia arises because selection processes in competitive markets reward reliability and accountability, both of which are associated with stable, predictable organisational forms. Over time, firms that have been selected for these characteristics become structurally committed to their current configurations in ways that are difficult to reverse. Tripsas and Gavetti (2000) extended this argument to show that cognitive factors compound structural ones: senior managers who have built their careers within a particular organisational model develop mental frameworks that make it difficult to perceive the need for structural change, even when the external evidence for that need is substantial.

The practical consequence of organisational rigidity in the context of industry disruption is well-documented. When market conditions shift, whether due to technological change, new competitive entrants, or evolving consumer preferences, firms characterised by high structural inertia are slower to respond than their more flexible competitors (Ooghe & De Prijcker, 2008). As Weitzel and Jonsson (1989) demonstrated in their five-stage model of organisational decline, the earliest stages of failure are characterised precisely by this kind of inaction: organisations that are blinded to warning signs and fail to mobilise an adaptive response while the window for intervention is still open.

A second structural determinant of business failure is resource misallocation, specifically, the tendency of successful firms to over-commit resources to their existing business model at the expense of investment in emerging opportunities. Christensen (1997) described this dynamic in his theory of disruptive innovation, arguing that incumbent firms systematically underinvest in disruptive technologies because those technologies initially serve small, low-margin markets that are unattractive relative to the firm's existing customer base. The decision to prioritise current profitability over future capability-building is individually rational at each point in time, but collectively it produces a trajectory in which the firm's capabilities become progressively misaligned with the direction in which the market is moving (Christensen, 1997). This pattern of misallocation is reinforced by the internal incentive structures of large organisations. Managers whose performance is evaluated on the basis of short-term financial metrics have strong incentives to defend existing revenue streams and weak incentives to invest in uncertain new ventures (Jensen & Meckling, 1976). The gap between strategic intention and resource commitment is one of the most reliable early indicators of impending decline (Hambrick & D'Aveni, 1992).

Poor market positioning constitutes a third structural determinant of failure. Market positioning refers to the way a firm defines and communicates its value proposition relative to competitors and in relation to the needs of its target customers (Porter, 1980). A firm's competitive position is not static; it requires continuous adjustment in response to changes in consumer preferences, competitive dynamics, and technological possibilities. Firms that fail to maintain the relevance of their market positioning progressively lose the loyalty of their customer base and cede competitive ground to more adaptive rivals (Porter, 1980; Ooghe & De Prijcker, 2008). The relationship between market positioning and failure is particularly pronounced in industries experiencing technological transition. In such contexts, the basis of competition shifts, and firms whose positioning was built on the assumptions of the previous competitive paradigm find themselves structurally disadvantaged in the new one (Tripsas & Gavetti, 2000). This structural disadvantage is frequently compounded by the cognitive rigidity discussed above: managers who have internalised the logic of the old competitive model may be unable or unwilling to reposition the firm even when the inadequacy of its current position is apparent.

2.2 Strategic Factors: Leadership Dysfunction, Competitive Myopia, and Innovation Aversion

The strategic factors concern the decisions and behaviours of leadership: how managers define their competitive space, respond to emerging threats, and invest in future capabilities. Three strategic factors are particularly prominent in the academic literature:

- Leadership dysfunction: the progressive deterioration of top management teams and their capacity for adaptive decision-making.

- Competitive myopia: the tendency to define the firm's competitive domain too narrowly, which blinds management to threats from adjacent industries or new technological paradigms.
- Innovation aversion: the systematic underinvestment in disruptive technologies and new business models, driven by short-term financial incentives.

Leadership dysfunction is one of the most consistently identified strategic determinants of business failure. Hambrick and D'Aveni (1992), in their landmark study of 57 large corporate bankruptcies matched against 57 surviving firms, found that the top management teams of failing firms exhibited a progressive deterioration in the years preceding bankruptcy: teams became smaller, more homogeneous, and less experienced, and showed increasing tendencies toward threat-rigidity responses, centralising authority, restricting information flows, and prioritising short-term financial stabilisation over strategic adaptation. As the authors concluded, 'the results suggest that deterioration of the top management team is a central element of the downward spiral of large corporate failures' (Hambrick & D'Aveni, 1992, p. 1445). Argenti (1976) identified defective management as the single most important proximate cause of corporate collapse, arguing that almost all failures can be traced back, at some stage in the causal chain, to decisions made, or not made, by senior management. This does not imply individual moral failure; rather, it reflects the structural reality that organisational decisions are made by people operating under bounded rationality, within contexts that may systematically bias decision-making in particular directions.

A second significant strategic determinant of failure is what Levitt (1960) identified as 'marketing myopia', the tendency of firms to define their competitive domain in terms of their current products rather than in terms of the underlying customer needs those products satisfy. Levitt's (1960) seminal argument was that industries such as the American railroad sector declined not because demand for transportation fell, but because railroad companies defined themselves as being in the railroad business rather than the transportation business, and therefore failed to respond to the competitive threat posed by the automobile and the aeroplane. The concept of marketing myopia has been developed and refined by subsequent scholars. Day and Nedungadi (1994) demonstrated that myopic competitive framing is not merely a perceptual error but is reinforced by the firm's information systems, performance metrics, and organisational routines, all of which tend to focus managerial attention on existing competitors and established market categories rather than on emerging threats from adjacent industries or new technological paradigms. The strategic implication is significant: a firm that defines its business too narrowly will not only fail to pursue certain opportunities, but will also fail to perceive certain threats until they have already inflicted substantial competitive damage.

The third strategic determinant of failure examined in this chapter is innovation aversion, the systematic underinvestment in new products, technologies, and business models by established firms. As Christensen (1997) demonstrated, this aversion is not typically the product of ignorance or incompetence; it is a rational response to the incentive structures facing managers in successful, profitable organisations. Disruptive innovations typically require significant upfront investment, generate uncertain returns, and initially serve markets that are smaller and less profitable than the firm's existing customer base. In the short term, declining to invest in such innovations is financially prudent. In the long term, however, it allows competitors, often new entrants with fewer legacy commitments, to develop capabilities that eventually render the incumbent's position untenable (Christensen, 1997). This dynamic is reinforced by what Leonard-Barton (1992) termed 'core rigidities', the tendency of the capabilities that originally produced competitive advantage to become obstacles to learning and adaptation as the environment changes. The result is a form of path dependency in which the firm's past success constrains its future strategic options (Leonard-Barton, 1992).

2.3 The Interplay Between Internal Weaknesses and External Environmental Pressures

The structural and strategic factors reviewed in Sections 2.1 and 2.2 do not operate in isolation. They interact with, and are frequently activated by, external environmental pressures including technological disruption, shifts in consumer behaviour, macroeconomic downturns, and intensifying competition. Understanding this interaction is essential for a complete account of business failure, because it clarifies the respective roles of internal vulnerabilities and external triggers in the failure process.

The academic literature consistently supports the view that external shocks are necessary but not sufficient causes of corporate failure. As Ooghe and De Prijcker (2008) argued, external environmental pressures expose and amplify pre-existing internal weaknesses rather than independently causing failure. Firms that are structurally flexible, strategically adaptive, and well-led tend to navigate environmental disruptions successfully; it is firms that already exhibit the internal vulnerabilities described above that are unable to mount an effective response. The external disruption, in this view, functions as a stress test that reveals underlying organisational fragility rather than as the primary cause of collapse (Weitzel & Jonsson, 1989).

This distinction carries important analytical implications for the case study analysis presented in Chapter 3. Both Eastman Kodak and Blockbuster Inc. operated in industries that experienced profound and well-documented technological disruptions: the transition from analogue to digital photography in Kodak's case, and the emergence of online streaming and digital distribution in Blockbuster's. In both cases, the external disruption was identifiable and widely discussed well before either company entered bankruptcy. The analytical question is therefore not whether the external environment changed, it manifestly did, but why the internal structures and strategies of these organisations proved so poorly suited to responding to that change.

CHAPTER 3: COMPARATIVE CASE STUDY ANALYSIS: EASTMAN KODAK AND BLOCKBUSTER INC.

3.1 Case Selection Criteria and Methodological Approach

This chapter applies the theoretical framework developed in Chapters 1 and 2 to two case histories: Eastman Kodak and Blockbuster Inc. The selection of these two companies is justified on both theoretical and empirical grounds. Theoretically, both cases represent instances of established market leaders whose failure cannot be attributed primarily to financial mismanagement or adverse macroeconomic conditions, but rather to the structural and strategic determinants identified in the preceding chapters. Empirically, both companies are extensively documented in the academic literature, in company reports, and in authoritative business histories, which provides a sufficient evidentiary basis for rigorous comparative analysis.

The choice of established market leaders as the units of analysis is particularly appropriate for the research question guiding this thesis. As Ooghe and De Prijcker (2008) demonstrated in their typological study, the failure of mature, dominant firms follows a distinct trajectory from the failure of startups or growth companies, and it is the former trajectory, characterised by gradual internal deterioration in the face of external disruption, that is most theoretically interesting. Kodak and Blockbuster exemplify this trajectory with unusual clarity. Each company is examined individually, drawing on published academic research, business histories, and documented corporate records, before a cross-case comparison is conducted to identify common structural and strategic patterns. A key methodological precaution acknowledged throughout this chapter is the risk of hindsight bias, the tendency to construct a narrative of inevitability around decisions that, at the time, may have appeared rational and defensible. The analysis has been conducted with this limitation in mind, focusing not only on what decisions were made, but on the organisational and strategic conditions that made those decisions appear reasonable to the managers who made them.

3.2 Eastman Kodak: Structural Inertia and the Failure of Digital Transition

Eastman Kodak was founded in 1892 and grew to become one of the most dominant companies in American industrial history. By the mid-twentieth century, Kodak controlled approximately 90% of the film market in the United States and employed over 140,000 people worldwide (Lucas & Goh, 2009). The brand achieved a degree of cultural embeddedness that few commercial enterprises have ever reached: the phrase 'Kodak moment' entered common usage as a descriptor for a memory worth preserving, reflecting the extent to which the company's products had become integrated into everyday life.

The structural origins of Kodak's decline are most clearly visible in its response to the development of digital imaging technology. In 1975, a Kodak engineer named Steve Sasson developed the world's first functional digital camera, an invention that represented a fundamental departure from the film-based photographic paradigm on which Kodak's entire business model was premised (Mui, 2012). The significance of this development was not lost on Kodak's management, but the response it generated illustrates the mechanisms of structural inertia described by Hannan and Freeman (1984) with particular clarity. Digital photography, if successfully commercialised, would directly cannibalise Kodak's film business, which at its peak generated profit margins of approximately 70% (Lucas & Goh, 2009). The rational short-term response, from the perspective of managers evaluated on the basis of current profitability, was to develop digital technology cautiously and ensure that it did not undermine the existing revenue base. This is precisely what Christensen (1997) described as the innovator's dilemma: the organisational logic that sustains current profitability is the same logic that prevents investment in disruptive innovation.

The consequences of this strategic orientation were compounded by the organisational culture that had developed within Kodak over decades of market dominance. Tripsas and Gavetti (2000), in a detailed study of the digital imaging industry, showed that Kodak's managerial cognition was deeply shaped by the assumptions of the analogue paradigm, assumptions about the nature of the product, the structure of the value chain, and the identity of the customer, that made it structurally difficult for the organisation to conceive of digital photography as a genuine strategic opportunity rather than as a threat to be managed. Internal processes systematically filtered out proposals that threatened the film business, and individuals who advocated more aggressive digital investment were frequently marginalised (Lucas & Goh, 2009). This trajectory is consistent with Amankwah-Amoah's (2016) analysis of technological substitution, which demonstrates that incumbent firms in industries undergoing disruption routinely underestimate the speed at which the new technology will achieve mainstream adoption, thereby forfeiting the window during which adaptation remains feasible.

Kodak also pursued a series of costly strategic diversifications in the 1980s and 1990s, acquiring businesses in pharmaceuticals, chemicals, and healthcare that bore little relationship to its core competencies (Lucas & Goh, 2009). This pattern of resource misallocation, consistent with the theoretical framework described in Section 2.1, diverted both financial and managerial resources away from the digital transformation that was most urgently needed. By the time Kodak made a serious commitment to digital photography in the late 1990s, competitors including Canon, Sony, and Nikon had established strong market positions that Kodak was unable to displace. Eastman Kodak filed for bankruptcy protection in January 2012 (Swasy, 2012), ending 120 years as one of the world's most recognised industrial enterprises.

3.3 Blockbuster Inc.: Competitive Myopia and the Failure to Respond to Disruption

Blockbuster Inc. was founded in 1985 and grew rapidly to become the dominant force in the home video rental market. At its peak in the early 2000s, the company operated more than 9,000 stores worldwide, employed approximately 60,000 people, and was valued at approximately $5 billion (Gandel, 2010; Sheth, 2007). The business model was straightforward and highly profitable: customers visited stores to rent physical video cassettes and, later, DVDs, paying rental fees and late return penalties. Late fees alone accounted for approximately 16% of Blockbuster's total revenues at certain points in the company's history (Satell, 2014), making them a significant and deeply embedded component of the financial model, despite their well-documented unpopularity with customers.

The strategic dynamics that led to Blockbuster's failure closely reflect the pattern of competitive myopia described by Levitt (1960) and elaborated by Day and Nedungadi (1994). Blockbuster's leadership defined the company's competitive domain in terms of the physical video rental store, rather than in terms of the broader consumer need for convenient, affordable access to filmed entertainment. This definitional narrowness systematically constrained the strategic options that management considered and limited the competitive threats that it perceived as credible. As Sheth (2007) observed in his study of self-destructive habits in established firms, companies that achieve dominance through a particular business model frequently become blind to alternative configurations of the same value proposition, a dynamic that proved decisive in Blockbuster's case.

The most significant illustration of this dynamic is Blockbuster's response to Netflix. Netflix was founded in 1997 as a DVD-by-mail subscription service, offering customers a convenient, late-fee-free alternative to the physical store (Hastings & Meyer, 2020). In 2000, Netflix co-founder Reed Hastings approached Blockbuster's management with a proposal to sell the company for $50 million, suggesting a partnership in which Netflix would manage Blockbuster's online operations (Satell, 2014). Blockbuster declined. The decision reflected a failure of competitive perception consistent with the myopia described by Levitt (1960): Netflix was assessed relative to Blockbuster's existing competitive frame of reference, the physical rental market, rather than as a potential disruptor of the entire category.

Blockbuster did eventually recognise the need to respond. Under Chief Executive Officer John Antioco, the company launched Blockbuster Online in 2004 and abolished late fees in 2005, measures that represented a genuine and strategically coherent attempt at adaptation (Gandel, 2010). However, consistent with the pattern identified by Hambrick and D'Aveni (1992), this adaptive effort was undermined by internal organisational conflict. Franchisees, whose revenues depended partly on late fees, resisted the abolition. Major shareholder Carl Icahn opposed Antioco's strategic direction and ultimately contributed to his removal (Satell, 2014). The leadership that replaced Antioco reversed several of his strategic initiatives and reduced investment in Blockbuster Online at precisely the moment when that investment was most critical. This pattern of leadership dysfunction, in which internal power conflicts disrupted strategic adaptation during a period of acute competitive pressure, is closely consistent with the deterioration of top management teams described by Hambrick and D'Aveni (1992). Blockbuster filed for bankruptcy in September 2010 (Gandel, 2010).

3.4 Cross-Case Analysis: Common Patterns in Structural and Strategic Failure

A comparative examination of the Kodak and Blockbuster cases reveals several recurring patterns that are consistent with the theoretical framework developed in Chapters 1 and 2. The table below summarises these patterns and connects each one explicitly to the relevant literature.

Pattern	**Evidence from the cases**	**Connection to the**
Competitive advantage becomes strategic rigidity	Kodak remained committed to its film business model despite inventing digital photography itself. Blockbuster remained committed to the physical rental store model despite years of observable changes in how consumers accessed filmed entertainment.	Consistent with structural inertia (Hannan & Freeman, 1984) and core rigidities (Leonard-Barton, 1992), which explain how deep organisational commitment to existing capabilities impedes adaptation.

Threats were visible but not adequately acted upon	Kodak's engineers developed the first digital camera internally in 1975. Blockbuster observed Netflix's growth for years and was even offered the opportunity to acquire the company in 2000.	Consistent with the blinded-inaction stage of Weitzel and Jonsson's (1989) decline model, and with the threat-rigidity framework of Hambrick and D'Aveni (1992), which describes how declining firms respond to threats by centralising and restricting rather than adapting.
Late-stage adaptation proved insufficient	Both firms attempted strategic transformation only after their competitive positions had been significantly eroded: Kodak through digital product development in the late 1990s, Blockbuster through online services and the abolition of late fees in 2004–05.	Supports the argument advanced by Argenti (1976) and Ooghe and De Prijcker (2008) that business failure is a cumulative process and that isolated tactical interventions cannot reverse structural deterioration once it has reached an advanced stage.

Taken together, the two cases provide strong empirical support for the theoretical framework developed in Chapters 1 and 2. Both Kodak and Blockbuster possessed the internal resources and, in most cases, the information needed to recognise the disruptions they faced. What they lacked was the structural flexibility, strategic clarity, and leadership quality to convert that recognition into effective adaptation. The external disruptions they encountered, digital photography and online streaming respectively, were not unpredictable shocks. They were foreseeable transitions that the organisations' internal conditions rendered them unable to address in time.

CONCLUSION

This thesis set out to understand how structural and strategic factors contribute to the failure of established companies, and the analysis conducted across the preceding chapters supports a clear and theoretically grounded answer: the failure of an established firm is best understood not as a sudden financial collapse but as the terminal stage of a long, cumulative process in which structural rigidities and strategic misalignments, typically present years or even decades before financial distress becomes visible, progressively erode the organisation's capacity to generate competitive value and to adapt to a changing environment. The most important thing a reader should take from such a review is that financial distress should not be confused with the cause of business failure but understood as its visible endpoint, the symptom of a deeper organisational and strategic deterioration, so that treating it as the cause, as the conventional account of firms that simply run out of money tends to do, is to misdiagnose the problem and to overlook the conditions under which collapse might have been prevented; the more revealing question is therefore not how a firm's finances can be repaired once they have deteriorated, but what structural and strategic conditions produced that deterioration in the first place, since the upstream factors the literature consistently identifies, organisational rigidity, resource misallocation, weak market positioning, competitive myopia and the gradual deterioration of leadership, are usually identifiable well before any financial crisis becomes apparent. A second and closely connected insight, and perhaps the most practically important one offered by the literature on business failure, is that competitive success and organisational vulnerability are not opposites but can coexist within the same firm for extended periods, because the very capabilities, routines and commitments that generate dominance in a stable environment are precisely those that become liabilities when that environment shifts; this is the paradox that Hannan and Freeman's (1984) concept of structural inertia and Leonard-Barton's (1992) concept of core rigidities together explain, and it is the paradox that the cases of Kodak and Blockbuster illustrate so vividly, since both were industry leaders that had effectively built their decline into the height of their own success, accumulating the structural and cognitive entrenchment that would later prevent them from responding to digital photography and to streaming even when the threat was clearly visible and, in Kodak's case, even when the disruptive technology had been invented inside the firm itself. A further lesson concerns the role of leadership, for the literature reviewed in

this thesis does not suggest that individual managers are simply incompetent when their companies fail; it shows, rather, that managerial decisions are made within organisational and cognitive contexts that systematically bias decision-making in particular directions, as incentive systems that reward short-term profitability, information systems that filter out disconfirming signals, and cultural norms that punish internal challenges to the existing business model all combine to create the conditions in which choices that appear entirely rational in isolation accumulate into a catastrophic organisational trajectory. Taken together, these observations make clear that the structural and the strategic dimensions of failure are not separate or competing explanations but two faces of a single process, in which rigid structures constrain the strategic options a firm is able to perceive and pursue while flawed strategic responses in turn reinforce and entrench those structures, producing the self-sustaining decline that the lifecycle accounts of business failure describe and confirming that decline is a process which is comprehensible, and frequently observable, long before it becomes irreversible.
What the study of business failure ultimately teaches, then, is that guarding against it requires attention not merely to a firm's strategy or to its short-term financial health, but to the deeper structural and cultural conditions that determine how strategy is formed, how threats are perceived, and whether an organisation retains the capacity to act on what it sees while there is still time to do so.

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