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Making Sense of Organizational Failure: The Marconi Debacle

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ABSTRACT *Organizational failure is usually explained with linear causality, attributed to either environmental change or managerial behavior. This paper attempts to capture the dynamic interplays of human actions in changing environments, taking into account both the environmental and behavioral factors. The breath-taking debacle of Marconi, a British telecommunications equipment supplier, is examined, revealing the complexities and interrelatedness of the environmental change and human actions, and the consequences for organizational performance. This research is intended to develop thinking about organizational failure, to broaden perspectives currently framed by conventional boundaries, and to encourage a new approach in making sense of failure. Failure may seem obvious and its understanding simple; in fact, failure is an elusive concept and the simplicity commonly attached to its understanding is dangerously deceptive.*

Keywords: organizational failure; dynamics; environmental and behavioral factors; Marconi; telecommunications.

Introduction

Lamenting the loss and condemning the managers involved are the usual reactions when there is organizational failure. An organizational failure has a huge impact on stakeholders and society at large, and makes a good story. Nonetheless, academic literature on failure is much less established than that on success.[1] Public commentaries and management literature tend to explain organizational failure with simplistic causality, attributing it to either environmental or behavioral factors. Such explanations are insufficient as the intrinsic interplays and complexities of human actions in changing environments are downplayed. The near collapse of Marconi in 2001, a British telecommunications equipment maker, caused similarly single-dimensional reactions. Public commentaries blamed the company's senior managers for sheer incompetence, managers pointed to environmental conditions to explain their actions. Few reflected on the interrelations between different actions and the evolving environment and the implications of such dynamics.

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Drawing lessons from organizational failure with such lop-sided understanding is unlikely to be productive and may even lead to wrongly prescribed solutions. Improving understanding of organizational failure has obvious implications for managers and those involved in setting managerial policy and strategy.

This paper attempts to shed some light on the issue by exploring the dynamics in the breathtaking debacle of Marconi. It first briefly reviews two major approaches to understanding organizational failure, and proposes a more encompassing perspective, and then it presents and discusses the case study. The research finds that both environmental and behavioral factors played a role in the company's struggle, and even some external stakeholders' seemingly rational reactions actually aggravated the company's difficulties. The paper points out the complexities of the juxtaposition of environment and actions, as well as the tendency of interest groups focusing on immediate (individual) interest, and argues that more open-minded thinking is needed in both management practice and research.

Failure with Simple Causation

Academic research on failure has increased in breadth and scope, especially studies seeking to trace causes of failure. Such literature is generally categorized into two groups, and with two contrasting perspectives: one focuses on environments, the other on managerial behavior. Within the literature with an environmental focus, the external environment, particularly industrial and market structures, is central to investigation of the reasons for failure.[2] Through studies of market demand and models built on the cost and size of the firm, and with attempts to spot traits that differentiate failing and surviving organizations, this perspective locates the causes of organizational failure in economic environments and tries to determine the ways in which organizations decline and die. It offers a range of causes of organizational crisis and decline, mainly rooted in the changes and challenges of market environment and economic condition; e.g. unexpected jolts in the environment,[3] brand switching, consumer taste changes, downswings in the economic cycle, competition, and new entrants,[4] organization density,[5] as well as technological uncertainty caused by product or process innovations.[6] In this stream of literature, organizations change their size to deter potential entry into the market or to execute their own exit through capacity downsizing.[7] The findings are consistent with the idea of organization ecology,[8] which links the 'exit' of the firm to the firm's age, size and degree of specialization in the setting of the firm's environment, and has a sense of 'natural selection'. This view implies that failure of the organization is an upshot of changing environments, underlining the significance of external market changes and the separation of management from environment. Impacts of managerial behavior, process and decisions are largely overlooked.

In contrast, the literature with a behavioral perspective locates the causes of failure in internal processual and behavioral factors of organizations. Writers in this field tend to criticize others with an environmental perspective for overemphasizing rational calculation of profitability, and for neglecting internal and human factors in organizations. In this stream of failure literature, major contributions include theories of strategic persistency and escalation of commitment,[9] the threat-rigidity effect,[10] management incompetence and paralysis,[11] and organizational inertia.[12] These traits of managerial behavior or of organizational phenomena are regarded as the main contributors to the process of an organization's decline and eventual failure. Management is also blamed for the misperception of its own competence level and of market changes in dealing with demand and competition,[13] having distracted attention in the face of the real crisis,[14] acting impulsively with little consideration of risk, being narcissistic and myopic,[15] and can make decisions fostered by pride and over-confidence bordering on arrogance,[16] breeding failure from previous success.[17] Such literature attributes an organization's failure to its managers' inefficiency in responding to environmental change and consequential inability to reverse the organization's decline in its market environment. The influence of the external environment is downplayed.

These two streams of literature place emphases on the intricacies behind failure, but their perspectives are lop-sided. Partly because of the difference in research methods, both streams acknowledge the views from the other perspective, but largely discount the significance of the other perspective in their account of organizational failure. The environmental perspective assumes that adverse economic and market environments cause failure, and that managers have little room for strategic choice; it is overly deterministic. The behavioral perspective literature considers that unfavorable behavior and the incompetence of managers lead to failure, and that failure is largely the consequence of managerial maneuver; this view is unduly voluntaristic. And the role played by other interest groups[18] in organizational failure is rarely discussed in these two realms of study. Both offer valuable insights, but they are still incomplete.

Such enquiries discount the complex interplay embedded in the activities that lead to organizational failure. The consequent understanding of the causes of failure does not sufficiently represent the dynamics in the emergence of failure and requires augmentation. The latest evidence against such simplistic causality can be found in a recent study of numerous corporate failures.[19] The organizations that Finkelstein studied failed despite the times being unthreatening, and managers bright, articulate and perceptive. The study suggests that business failure cannot be explained simply by market conditions, and that senior executives are not unintelligent and incompetent. The external influences and the actions of executives were interdependent. Their actions also changed their circumstances. Here, the bias of both the environmental and behavioral perspectives is obvious. Even in this study, though, the author is content with summarizing types of causes that can be used as a checklist to prevent and cure failure. The complex interplay of the various factors involved is not sufficiently explored.

To obtain a more realistic and multidimensional understanding of reasons for organizational failure, both the external environment and behavioral factors need to be taken into account. There are studies that pay attention to both the structural, environmental aspects and behavioral factors: Roberts', Weick's and Weick *et al.*'s work on high reliability organizations highlights the dynamics when people are facing advanced technology and potential danger;[20] March's research on exploration and exploitation stresses adaptive processes and the social context of organizational learning;[21] and Sitkin's and Sitkin *et al.*'s work on control and learning processes emphasizes both context and behavior in management processes.[22] In making sense of organizational failure, there have also been attempts to combine both the environmental and behavioral perspectives in studying organizational failure[23] and to study the dynamics embedded in the process,[24] but insufficient attention is directed towards this approach.

Research Approach and Method

The environmental and behavioral perspectives are, in fact, not mutually exclusive in the study of organizational failure: they can be complementary. An approach incorporating the insights of these two perspectives can overcome the imbalance caused by single-dimensional views, and can benefit from integrating the strengths of both perspectives. To avoid overemphasizing any perspective, it is crucial for the researcher to maintain openness to the influence of both environmental and behavioral factors, emphasizing both context and action. Organizational failure can be regarded as an unintended consequence emerging from the interactions between actors, and between actors and their environments. This is a process in which people pursue success with actions that are taken in their immediate interest.[25] The juxtaposition of such actions geared towards immediate individual success may produce unintended failure. Bearing in mind the importance of environmental impact can help one examine the financial and non-financial resources crucial to the organization's activities and survival. The behavioral perspective assists understanding of the role of the actors involved, their perspectives and actions. The actors in this study include both the actors of the failing organization—the focal organization—and those of other interest groups involved in the organization's activities. Interest groups are part of the focal organization's environment,[26] and the inherent interconnectedness of actors, actions and environment underscores their mutually influencing relationships and may prevent any overly deterministic or voluntaristic conclusion.

Many studies of the interactions of environments and actions tend to focus on the interrelations within a single organization,[27] rather than on the interaction of the focal organization/actors and the external entities. This paper examines a significant organizational failure with a perspective open to both environmental and behavioral factors within and external to the failed organization. Adopting this approach amounts to examining, through studying the actors' interpretations, the activities of the actors (including those external to the failed organization) involved in the failure. Both the contexts and consequences of the actors' actions are emphasized. Another benefit of adopting such an approach is that it bridges different levels of analysis.[28] Organizational activities are performed by individuals. Individuals' actions contribute to the interrelations of the focal organization and its external environment. Organizational actions and individual actions are entwined. Multilevel analysis can be fruitful.[29]

With this caveat, analysis needs to be built on the reciprocal aspect that the actors of the failed organization and its interest groups are acting within the constraints of their environments, but also respond to and manage the external constraints through taking actions. This reciprocity indicates the actors' capability to act, but not the result of actions. It acknowledges the importance of environment (including the role played by interest groups), but also the knowledgeability of the actors in monitoring situations and taking action. This approach tries to overcome the single-dimensional bias by seeking to understand the interconnectedness of environmental constraints and voluntaristic behavioral aspects. Analysis using this approach is open to the dynamic relationships of any involved factors, directing attention to the resources and constraints of the actors and organizations, the involved interest groups' stakes and involvement in the failed organization's activities.

The failed organization's environment comprises its economic conditions, structural and institutional properties, as well as its interest groups. The actors' actions have impacts on the organization, and also reshape and reconstitute the environment. Managers, as an internal interest group,[30] make strategic decisions and take actions to manage the environment in which the organization operates. Various interest groups have interdependent relationships with the organization and a range of other individuals and groups. Their actions also influence the circumstances of their own and of others that operate in the environment. Recognizing the dynamic interrelations of organizational activities points to the social reality that actors may be enabled and constrained by their environment, but their actions also produce their environment. The emphasis is on how contextual and behavioral elements interact in a network of dynamic relationships that contribute to the organization's failure.

This research takes into account the role of the failed organization's external interest groups. The focal organization's interactions with its interest groups can bring competitive advantage or threat, depending on circumstances.[31] In interacting with the focal organization, interest groups have their own resources and constraints, and have their own perspectives in effecting change to their circumstances. The actions of the focal organization may change the environment of its interest groups, and result in the modification of these interest groups' demands. The altered demands and actions of certain interest groups also have influence on others interrelated to them in their environment, including the failed organization. This imposes new constraints on the focal organization and may cause unpredicted reaction to its actions. Bearing this in mind may help put the actions of both the failed organization and its interest groups in context.

Giving attention to the interrelations between environment and actions provides a platform for understanding actions without reducing human beings to hapless puppets in a puppet show or overly discounting environmental influence.[32] The mutual influence of environment and action is embedded in each other. For research on organizational failure, this approach may offer insights to 'inform an argument'[33] that seeks to integrate different, and possibly conflicting, viewpoints of actors in a failure story and to explore implications. Proposing such a perspective, this paper examines the dramatic downfall of Marconi. The paper attempts to make sense of this failure through understanding the factors involved and the impact of their interactions on the failure's emergence, while maintaining open-mindedness to any intricacies and dynamics revealed in the research process. The dynamic nature of modern telecoms, the dramatic scale of loss, and the highly intensive criticism of Marconi's senior managers make the company's debacle both interesting and pertinent. The case exemplifies the intricate and interconnected workings of environments and human actions in the emergence of organizational failure. The case study method provides the opportunity to explore perceptions of failure in context, and offers some understanding of the intricacies of the phenomenon.[34]

In-depth interviews with Marconi managers and those closely involved in Marconi's downfall were conducted. There were 13 interviews. Nine were face-to-face interviews at the interviewees' chosen locations. Four were conducted over the telephone at the interviewees' request. Interviewees included current and ex-directors/employees and union representatives closely involved in the events that led to Marconi's near collapse, as well as financial analysts and journalists who had written about the company's struggles. Generally, each interview lasted for about 1–1.5 hours. Interviews were semi-structured.

The information collected from interviews was taken both literally and interpretively, which means that the interviewees' honesty, sincerity and insights were broadly assumed, and that further meaning was induced by the researcher.[35] Managers tend to give reasonable interpretations so that their accounts can be accepted by others.[36] Even so, it was necessary to take care in analyzing and interpreting the collected data, and to be alert for distorted or hidden information from respondents anxious to project positive images of themselves. 'Data in themselves cannot be valid or invalid; what is at issue are the inferences drawn from them.'[37] Interviewees' understanding of the failure is categorized into four sections, according to the theme that emerged from their accounts. These are 'demand for change', 'change in the market', 'communication blunders' and 'media attention'. Efforts were made to detect meanings hidden between the lines, and views deliberately projected by the interviewees to protect their egos, by cross-checking each account with others and with the information available in the public domain.

The Marconi Debacle

Context

'Marconi won't just hit the ground running; it'll take off as Europe's brightest technology company.'[38] That was the promise of the then chief executive, Lord Simpson, in November 1999, when the General Electric Company (GEC), an industry conglomerate in Britain, was transformed into the new Marconi, a telecoms equipment maker. Unfortunately, Marconi soon hit the ground again—with a nose-dive—in July 2001: its share price suffered the biggest one-day fall of a FTSE 100 stock and soon dropped to a 20-year low (see Figure 1). The company was nearly buried under its debt mountain, and was excluded from the FTSE 100 Index. It lost more than 90% of its capital value of December 2000, sliding to the brink of collapse. In May 2003, after two years' struggle for survival, Marconi was relisted under a new name with new shares, saved by handing over the ownership

Source: BBC News, 5 September 2001.

Figure 1. Marconi's share price.

of the company to its creditors, leaving the original shareholders with 0.5% of the value of their original investment.

GEC was one of Britain's leading industrial and defense businesses, offering a wide range of products, including power systems, medical and telecoms equipment, consumer and defense electronics. The group was built up and run by Lord Weinstock—often regarded as Britain's premier industrialist—for 33 years until 1996. Through the 1980s and the early 1990s, Weinstock was criticized for running the company in an old-fashioned, cautious way, eschewing any risky, adventurous investment, comfortably putting cash in the bank and satisfied with a moderate return. As a FTSE 100 company, the business was reliable and stable—'a solid building block of any institutional portfolio'.[39] But in the 1990s, with the technology boom on the horizon, GEC was still ignoring the market trend and the criticism of the City (e.g. analysts, institutional investors and other financial entities), relying on its sleepy businesses and refusing to follow the stock market trend. Weinstock and City analysts were said to have a mutual love–hate relationship: one loved to hate the other.[40]

In 1996, Lord Weinstock retired, and was succeeded by Lord Simpson, an industrialist, and a merchant banker was appointed finance director. A new team was formed and a strategy was devised to focus on the telecoms market. The major industrial businesses were sold off. In emulation of such telecom giants as Cisco, Lucent and Nortel, the company embarked on an acquisition strategy. In October 1999, the company was renamed Marconi, after the Italian-Irish physicist who first transmitted radio waves across the Atlantic. Its share price on the London Stock Exchange rose from about 300p in the days of the old GEC, to 801.5p when the new Marconi was launched in November 1999. In October 2000, the company was listed on NASDAQ. The share price reached 1,250p in late 2000. Much to its investors' delight, the company seemed to have turned itself into a thrusting business in the most fashionable sector of the time.

The high-tech bubble was about to burst. In April 2001, 3,000 jobs were axed in Marconi. The company's share value had plummeted more than 50% since the beginning of the year. Speculation was rife that the company would be forced to issue a profit warning. Marconi insisted that the market slowdown was only in the US, and announced that it still expected to meet the profit forecast for the year to 31 March 2001, with further profit growth for the following year. However, on 4 July 2001, Marconi's shares were suspended for the day, and then the company admitted that its profits would halve. Anxious investors frantically sold their shares and sent the company's share prices into free-fall; the price dropped 54% in one day. The share price continued to fall and 4,000 job cuts were announced. On 8 July 2001, the shares closed at a 20-year low, valuing Marconi at less than £3bn compared with its previous capital value of £35bn. At the ensuing annual general meeting (AGM), the finance director, who had been promoted to deputy chief executive and chief executive designate, was removed. Simpson and the chairman, who had both been about to retire after the AGM, announced they would remain. Furious investors called for a thorough boardroom change. On 4 September 2001, another profit warning was announced, along with the departure of Simpson and the chairman. It emerged that Marconi had lost £227m in the three months to the end of June that year. Yet more job cuts were announced. By then, the company had lost 95% of its capital value since the end of 2000, and had accumulated debt of £2.5bn. The debt went up to £4bn by the end of 2002, when a debt-for-equity swap was agreed with the company's creditors. Its old shares were traded at 0.8p on the London Stock Exchange before being relisted under a new name with new shares in May 2003. After two years of trauma, Marconi, though much smaller, was still alive, although facing an uncertain future.

Deconstructing the Failure

By any standard, Marconi's fall from grace is spectacular. Intensive criticism focused on the senior managers of Marconi, drowning out the voices of those inside the company and closely involved in events. Before jumping to the judgment that such 'insiders' tend to offer excuses rather than insights, it may be worth exploring their understanding of the failure. These explanations suggest a different perspective from which to see Marconi's downfall. Such understanding will help bridge the schism between the perceptions of organizational insiders and those of outsiders.

Demand for change. Environmental pressure for strategic change was acute. Faced with shrinking defense budgets and global consolidation of the defense industry, GEC was still relying on its sleepy defense business. It followed that GEC's share price was sluggish. Change of GEC's strategies had long been sought by investors, but shareholders failed to apply adequate pressure.[41] The appointment of Simpson, a preeminent 'deal-maker' with a track record of restructuring old-fashioned companies, was an action taken by the company's senior management (including the retiring Weinstock) in response to external pressure.

> It was taking off to convert the company from a lumbering conglomerate, a dinosaur into a new modern, high-tech, high value company that was dynamic, and had all the sexy things the City goes on about. The share price of GEC had languished pretty much for 20 years, floated along the bottom. It was the view from the City that Weinstock was too conservative, and too cautious.[42]

> It was that moment of the 1990s. GEC had low growth, not the type of growth and business that offer return to shareholders. At that time, return to shareholders was emphasized. Telecoms attracted them into it. GEC had been criticized for being un-dynamic, not using the resources they had to invest, too easy to sit on their billions of cash.[43]

The market expectation conditioned Simpson's actions. He soon built up a team that understood the financial market's demands, and the immediate interest was to heed the market criticism. Built on the Internet boom, and the impressive technological progress in telecoms, the telecoms industry had become a star industry in the market. Within the group, for several consecutive years, the major business growth had come from the telecoms unit, the performance of other units being generally flat. And, after two decades of favoring gigantic conglomerates, the *zeitgeist* in the market was for businesses to specialize. Such external influences and internal resources resulted in a decision to focus on the telecoms business and to renovate the industry and defense group into a telecoms equipment supplier.

> And because the world was saying this is the biggest growth sector of any in the years ahead, it was natural to say, 'OK, let's pursue that one, a great opportunity',

> because defense was in a downturn, substantial downturn, and the other businesses they had were pretty flat … Telecoms business was seen as a huge growth opportunity.[44]

Some non-core businesses were sold off. Most significantly, the defense electronics unit, one of the major parts of the group, was sold to British Aerospace in early 1999, giving shareholders direct shares in two FTSE 100 listed companies: the new GEC and BAe Systems. Employees were each granted 1,000 share options, and would all become shareholders when the share price reached £16.3, doubling the launch price.[45] Shareholders were delighted. Employees and the unions were also pleased.

The telecoms market guided Marconi managers' aspiration and actions. At that time, more than 50% of the telecoms market was in the US, where it was dominated by Cisco, Lucent and Nortel. Aspiring to the stature of these market leaders, the company management adopted Marconi as the group's new identity, expecting the name's historical association with wireless technology to underline its new image as a technology company, and to highlight its ambition to be a communications leader. Investors applauded this move and were excited by the success in share performance. Even Lord Weinstock, who was said to have had some disquiet about the sharp change, was reported as being satisfied with the increased share price.[46] Meanwhile, developments in telecoms had extended the market to encompass more complicated and advanced convergence. Large suppliers tend to supply full-portfolio solutions across regions. The original telecoms business of the old GEC was small and the product line outdated. The management felt the need to turn the company into a large telecoms supplier, to expand both the company's product range and its geographical exposure.

> At the time, the strategy reflected what was happening in our customer base. You accept that our customer bases are large telecoms companies. BT is a very good example. … When they needed network in any part of the world, they wanted to buy from a single company. They didn't want to go to different companies.[47]

With the available financial resources, management enlarged the company by acquisition.

Two US Internet equipment companies were purchased in FY2000 at £2.9bn and £1bn, respectively. Later, when massive write-off incurred, it would become apparent that far too much had been paid for these companies, but at the time, they were thought necessary to fill the company's gap in broadband access and switching markets. This was the height of the technology boom, when the telecoms sector was the darling of the market. Money was easily obtained from banks. In pursuing its global transformation strategy, the company sacrificed its 'cash mountain' and took on high levels of debts, tolerable when creditors, banks and investors were eager to profit from the phenomenal growth of the industry.

> … its debt level … was absolutely acceptable when the company, during the late 1990s, early 2000, was growing year on year. The debt level was comfortable, acceptable and appropriate.[48]

Marconi described itself as a supplier of picks and shovels to major telecoms operators looking to profit from the Internet gold rush.[49]

Change in the market. Managers' understanding of the market influenced their actions. Interviewees revealed that the company was in part misled by the market in its response to the worldwide telecoms market slowdown. From late 2000 to early 2001, other major telecoms equipment companies announced flattening and declining performances, and shed tens of thousands of jobs. 'But they were all in America', many respondents reflected. The belief in Marconi was that the European market was different. An independent market research company came to a similar conclusion. Its research surveyed 91 telecoms carriers and 112 enterprises worldwide. Some 82% of respondents believed the industry was stabilizing or growing, and 65% forecast an increase in network investment over the next 12 months. About 54% of surveyed enterprises said they would increase investment compared with the previous 12 months, and 40% said their investment would stay the same.

> [T]he company spent a lot of time talking to our customers around the world, and asking them questions … When we spoke to our customers, maybe they didn't see that … our customers certainly suggested to us that they had no radical plans to reduce spending, no radical plans to reduce investment.[50]

The real market difficulties were unpredicted and constrained people's actions. Few in the industry expected the downturn would be so savage and would last quite so long. Nortel, for instance, projected in mid-2001 a market pick-up in the second half of 2002.[51] And a chief executive of an American telecoms company remarked, 'What we didn't anticipate was the breadth and depth of the pull-back in the capital markets and its effect on a much wider base of customers than we expected three or four months ago'.[52] This does not mean that Marconi management completely ignored the signs of market difficulties: in April 2001, for example, 3,000 job cuts were announced. Marconi managers acknowledged the downturn, but underestimated the difficulties.

> I don't think anybody anticipated quite the economic downturn that we had, or the impact that it would have on the telecoms industry.[53]

> I think the majority of people thought that the telecoms market would continue this massive growth curve. And to be fair, it will come back. But I don't think anybody predicted the amount of economic downturn.[54]

In the period of phenomenal growth, telecoms suppliers were constantly short of components for their willing clients. Major suppliers, including Marconi, stocked up with much more than usual to ensure reliable supply. Some analysts call this 'vendor finance through the back door'. This situation continued even when Marconi's customers—the telecoms service providers—started running into difficulties.[55] Marconi's stock level had sharply increased in the two years after its transformation, and its working capital position deteriorated.

> The market was so fast, it is important to have those critical components in large stock. But in the end the market didn't buy those products.[56]

Financial backers were becoming more skeptical of the short-term prospects of telecoms companies and were more reluctant to put in money. Borrowing costs were also rising as the market was flooded with bonds and equity issues for next-generation mobile networks, market values of telecoms operators have been on a downward trend since March 2000.[57] Borrowing, once far too easy, became nearly impossible for telecoms companies. Customers of telecoms equipment makers had a hard time paying, and began to stop spending.

> We can't make money unless our customers are spending money. If they are constrained in any way, and if they cut their capital expenditure budget, then we don't get to sell anything. … Absolutely the market had huge impact. It very quickly made people at all levels, the equipment operators, the equipment providers like ourselves, and the consumers, the corporate companies, the enterprise base, just stopped spending.[58]

In Europe, and especially in the UK, many respondents argued, the government's success in extracting astronomical 3G license fees precipitated the collapse of the telecoms market. 3G technology promised to deliver plenty of fancy new services to subscribers. Major telecoms operators were all keen to acquire a 3G license, which was regarded as essential to compete in the telecoms market. In April 2000, five 3G licenses in the UK were auctioned for £22.47bn, greatly exceeding the expectations of both the government and observers.[59] The license fees were so heavily levied (before any infrastructure was built) that telecoms operators occurred massive debts to finance their license acquisitions. BT, one of Marconi's major customers, reported a net debt of £19.1bn for its third quarter ended 31 December 2000, and the debt was increased to £30bn by the end of its fiscal year ended 31 March 2001.[60] Many interviewees shared the view that the government, through 3G license auctioning, had made the telecoms market far too expensive to compete. As the technology boom faded, telecoms service providers could no longer sit comfortably with their debts and stopped their capital spending to ease their own financial stress. The result was no more orders for equipment suppliers like Marconi.

> How to cut the debt? The first answer is: stop all capital expenditure. Just stop it. So [for] Marconi, no more deliveries. [Customers] don't order deliveries. … The first wave of cutting down their debt, that had a devastating effect on Marconi. They were not alone, BT. DT [Deutsche Telecom] did a similar thing. All telecoms companies suddenly realized that they were in difficulty, because 3G was not going to roll out as quickly as they thought … Suddenly came to a big halt. The telephone companies themselves put their own houses on hold.[61]

A chain reaction went right through the telecoms industry. In these new market conditions, telecoms operators simply 'turned off their capital tap'. Marconi's sales income dried up almost completely. Newly transformed into a lean and focused business, Marconi had no other income sufficient to absorb the financial shock. Being lean and focused now appeared to be a disadvantage. The debts Marconi had incurred in pursing its global telecoms strategy suddenly became unsustainable.

Communication blunders. A company's interactions with its interest groups may affect its interactions with other interest groups, and then these interest groups may impose pressure or new constraints on the organization and change its circumstances. Marconi's corporate communications with the outside world, especially the City, was frequently criticized. The communication problem was, in fact, twofold: one internal and one external. The internal communication problem affected the company's external communications. Marconi managers made predictions and decisions based on the information they had at the time, but this information was often deficient. Many interviewees pointed to a communication breakdown between the top management and the shop floor. The senior managers believed the slowdown was mainly in the US, and Marconi was seen to have performed exceptionally well against the general UK market.[62] Meanwhile, the company's order book was almost empty and its equipment factories had little work to do. Top management seemed to be unaware of this situation. The company's internal information was not effectively communicated to a top management team said to be all too keen on their grand dreams for the company and not to like bad news. This generated an unhealthy atmosphere in the company that discouraged facing the real difficulties. So, few people were willing to tell the bad news of reality to the top management team.

> [He] didn't like to have bad news. So nobody gave him the reality. Others were not giving him the truth, and he doesn't like the truth. He got it wrong ….[63]

As another interviewee put it: 'They sort of talked up the company'.

> They engendered a corporate culture of talking everything up. The company was vilified, certainly in the City … And it left a legacy of talking away things.[64]

Another blunder was the company's communications with the outside world, particularly City analysts. The outside world was not convinced of the company's consistent optimistic projections. City analysts were skeptical and considered Marconi's optimistic announcements only a smokescreen to avoid issuing a profit warning. Analysts believed that the rot had set in.[65] The telecoms market had slowed down and further rationalization and contraction were expected. A profit warning from Marconi was seen in the City as inevitable.

Actions may change the environment and bring unintended consequences. The board opted for a whole day suspension of trading in Marconi's shares before the first profit warning in a bid to prevent trading on the mixed news of the profit warning and the company's disposal of its medical systems business. Contrary to the management's expectation, such actions prompted furious investors to sell off their shares, and the dramatic crash in share price. When the actual business results saw the daylight, there was a backlash in the City. The City issued hugely negative comments on the company, and the frantic sale of Marconi's shares drove down the share price further. Delay in facing up to the problem was seen as a major reason for the subsequent share price collapse. One shareholder said at the AGM on 18 July 2001:

> If you had prepared the City four months ago, as other telecoms companies were doing, the shares would not be at £1 today.[66]

An influential analyst of the telecoms industry put it this way:

> If you look at the share price, then you can judge whether the company was punished [by the City] or not.

Media attention. The British media constituted an adverse environmental factor in Marconi's debacle, and played an active part in the company's spectacular collapse. Unfavorable coverage of Marconi frequently appeared in the national media. Marconi was even cited in ministers' speeches as an example of everything bad.[67] Many interviewees commented that the media was ruthless and always singled out Marconi for criticism.

> If you look across the other players in the business of telecoms … they've all got massive debts, they all shed, in fact, a number of them, have shed far more jobs than Marconi has actually done. You don't see them being humiliated in the press … Maybe [Marconi] is a weakness token.[68]

> Marconi has been a bit of a whipping boy for the media. It's an easy touch, a nice sound bite. Anyone [who] says 'Marconi' will think of failure and all the rest of the bad news. I think it's been unfair to single out Marconi for that. In Patricia Hewitt's statement on Tuesday, Marconi's name was wheeled out again. That's a cliché.[69]

Negative media coverage further damaged a listed company's share price performance, eroded market value of the company, and made its struggle for survival even harder. Respondents felt there was little appreciation of the industry chain effect on Marconi.

> Marconi was criticized without context. Other telecoms companies had a worse debt situation, more job losses … There are differences: NTL, BT had debt, but could also secure customers' monthly or quarterly periodic payment for services. Marconi as a supplier to other companies doesn't have such secure payment and customer payment base. If the customers stop spending money, Marconi will have no income.[70]

The struggle for survival of such a major company attracted vast media attention. However, many respondents noted that the media was interested in only the bad news. Debts, job loss, and bleak sales prospects grabbed the headlines, while good news was ignored. For example, Marconi offered generous redundancy packages, and job cuts were made with the co-operation and support of the trade unions. It is widely noted that support from the unions and employees was crucial in helping the company in its struggle for survival, but largely ignored by the media.

> I think the company has been quite fair. The payments haven't been so bad, to be fair to Marconi. Most people volunteered to go. Otherwise it would have been very nasty.[71]

> We are doing it [redundancy] to save the business. The other thing I can say is Marconi's severance terms are far, far better than what you will find in any other telecoms businesses. You look at the severance terms in Alcatel, Lucent or Nortel; they are offering far, far worse severance terms. … We have very good relationships with the unions from that point of view.[72]

Some union representatives reflected that they were regularly pressed by the media for comments on the company, but only negative and critical comments were welcomed. Some rank-and-file staff members were confused.

> When I said actually we, as a trade union, were trying to support Marconi in this difficult period, because we had jobs dependent on it, they were not interested in it. They wanted me to slice [the company] up the whole time and to criticize it.[73]

> I think the press in the country has an awful lot to answer for … because people believe what they read. We had instances where we were putting out statements to employees, [and] the press was putting out something else. People were picking up their morning papers and reading it first, then coming to work, not believing what the internal article said. 'You know, this isn't happening, this [in the paper] is how it is.' I think the press has a great role to play in that.[74]

The history and standing of the company played a part in attracting intense media attention. GEC had been a national institution in Britain, part of British industrial history. The reinvention of the old industrial conglomerate soon turned Marconi from market darling to market lemon, castigated as foolish because it had 'sacrificed its defense interests to chase "fool's gold" in the global telecoms market'.[75] An industry icon had ended up with drastically shrinking asset values, huge job losses and an uncertain future.

> It was a focus because [it was] such an historical company … They consistently ignored warnings. … It was part of the scene that British manufacturing history being shredded not because of the dot.com bubble burst, but because of the incompetence of management.[76]

> It had a legacy of very proud history, a particular place in British industry history. The media attention was probably because it was such a stark contrast with the time under Weinstock. From a rich, stable company, it came to be in deep trouble.[77]

Discussion

Actions interacted with contextual factors in the emergence of Marconi's failure. The sources are consistent in pointing to the interrelatedness of managerial actions and their environments.[78] In the Marconi story, every interest group's actions were shaped by its circumstances, but each also reshaped the circumstances that influenced other interest groups' and its own further actions. Marconi's managers and other interest groups all acted within the constraints they perceived in their contexts and exploited the resources of their environments. Actions always produce at least some unintended effects.[79] Individual groups may have had some immediate successes, but the complicated 'moment-by-moment interactions between actors, and between actors and the environments of their action' resulted in a very different outcome.[80] Both the environment and the actors contributed to the eventual failure.

Even obvious wisdom is easier to see with hindsight. Other research has long revealed the impact of changed 'environmental carrying capacity' and 'false encouragements'.[81] This is not to absolve Marconi's senior managers of responsibility: they made mistakes; there were flaws in strategic decisions and corporate communications. However, communication problems usually figure prominently in retrospective accounts of failure, not beforehand,[82] and poor use of information and inadequate communications are not peculiar to failing companies. They are problems common to all large organizations.[83] It may also be that the ego of some top managers clouded their judgment at critical points,[84] and they may have deliberately issued misleading forecasts. But to calculate how much blame should be allocated to whom is to miss the point. Respondents in Marconi had no qualms about admitting faults in some managerial actions, but they, as 'insiders', also offered insights into the interplay and dynamics embedded in the emergence of this corporate disaster.

This *post hoc* rationalization may smack of 'enacted environment',[85] but it underlines both the environment and the actors' understanding of the environment in taking actions, and hence highlights the incompleteness of looking solely into environmental or behavioral factors for causes of failure. The external environment played a crucial role in Marconi's performance. It is the underpinnings of Marconi managers' actions, and defines boundaries and conditions for the actions of managers and Marconi's interest groups. There were unexpected environmental jolts for Marconi. Change in market and industry structure,[86] new products or services[87] changed the dynamics of competition for Marconi. Such changes shifted the previous boundaries and conditions of organizational activities.

In the face of environmental change, an organization has to respond.[88] The altered market conditions placed demands on the old GEC for strategic change. After Marconi's initial transformation, the evolving market made different demands on the company. In a volatile telecoms market, the consequences of complex market dynamics for Marconi and its interest groups appeared even more uncertain to managers and other actors. Marconi's historical and institutional status also affected public sentiments and caused reactions that aggravated difficult market conditions and put additional pressure on the company. Marconi was, to some extent, a victim of its own iconic status. Such environmental setting conditioned the actors' (including the managers and other interest groups) perspectives and actions, and the actions taken reconstituted the circumstances of the company.

Marconi, like other organizations, is not completely self-sufficient; but is related to various interest groups that control resources that Marconi depends upon.[89] The potential threat of being taken over and losing corporate control through trading shares in the financial market imposes pressure on senior managers to maintain share price.[90] In an era in which return on investment and return to shareholders were the mantras of the market, the market pressure for strategic change was both a resource for, and a constraint on, Marconi. Such pressure eventually became salient enough to initiate change. The senior managers succumbed to market pressure. The subsequent transformation of the company was in part a response to the criticism of the old GEC under Weinstock, and was also 'inducement'[91] to obtain more positive views from investors in a bid to achieve better share performance.

Some critics observed that the company blindly followed the market trend. In response to environmental pressure, compliance is one way of addressing interest groups' demands.[92] The company's senior managers reformed the company to be more adventurous and focused, so that it would generate higher return. On the one hand, conforming to the prevailing practice in the market earned the company and its managers legitimacy for the strategic change.[93] Its decision was widely welcomed by the City, the press and the employees. On the other hand, resource availability is linked to an organization's opportunity identification.[94] In setting the new direction, the managers considered the company's existing telecoms business and its hitherto impressive business growth, and other major telecoms equipment suppliers were regarded as the model for the company to imitate. All these facilitated the managers' identification of change strategy and the method of growth through acquisition, but such environmental resources also restricted the managers' view to the prevalent model.

Both primary and secondary stakeholders are crucial to an organization's survival and success.[95] Marconi managers demonstrated their concerns for their customers' demand, such as the need to supply their major big customer, BT; but they overlooked another group of primary stakeholders: employees. Such managerial incompetence may paralyze the organization: the communication problem with the employees prevented crucial business information from being used, which in part led to senior managers' misperception of Marconi's position and of market change, and hence influenced the company's communications with the outside world; and this also in part led to the secondary stakeholders that can mobilize public opinions[96] not being properly managed. In this sense, the organization's relationships with certain interest groups may affect its relationships with other interest groups. When interest groups are well managed, they may support and benefit the organization. The unions and employees felt Marconi (with its new management team) was fair to them in its struggle for survival, so they cooperated in job cuts and supported the company in its difficulties.

Actions are dependent on how the actor understands the situation.[97] The complexities in organizational activities increase the difficulties of managing the organization's interaction with its interest groups,[98] and the law of unintended consequences implies that the outcome may not be what was predicted. Such dynamics underscore the need to be sensitive to both environmental and behavioral factors in making sense of organizational performance. Environmental factors exist, but managers' subjective understanding of these factors affects managerial actions:[99] they may manage or mismanage their organization,[100] and their actions will reshape the organization's environment. Marconi managers' understanding of the changing market, the company's own resource availability, capability and market position led to the company's strategic transformation. The changed telecoms market and economic conditions altered the views and demands of interest groups, and led to their response that aggravated the difficult situation. Both actors and organizations are in the process of constant 'self-formation'.[101]

Acknowledging the significance of environmental impacts does not equal endorsing deterministic views. Managers are not like parts of a machine that are conditioned mechanistically to act. Their perceptions, decisions and actions may affect the environment. Managers' capability and approach in managing external factors are crucial in shaping their actions. When an organization is facing a crisis, where and how managers direct their attention,[102] their motives,[103] the procedures they follow,[104] or simply their levels of competence[105] and flexibility[106] will affect how the organization can respond and how it will fare. Marconi managers misinterpreted the emerging worldwide telecoms market downturn. They were being motivated by the grand dream for the company and paid insufficient attention to internal information, resulting in insufficient flexibility of the company to react to declining market conditions. Senior managers also mishandled their communications with the outside world and caused a backlash. The vulnerability of Marconi in shifting situations was not determined completely by the changing environment: the position of the organization was also shaped by managerial actions that influenced the environment.

The juxtaposition of environments and actions increases the uncertainty of the organization's performance. The impact of interest groups should not be overlooked. The case of Marconi reveals a failure that emerged from the interplays of managers, economic conditions and interest groups. Interest groups have their own motives and choice of actions, and their environments overlap with that of the focal organization. Pushing for higher return, the City and the media played a crucial role in influencing the company's strategic change; appalled by the changing conditions, they reacted in ways that aggravated Marconi's deteriorating market position. Their relationships and interactions with the company also changed along with their actions. The organization and its interest groups are mutually influencing and influenced, and are in constant change.[107]

Managers, the City and the media acted and reacted to pursue or protect immediate success. Merton suggests that it is a human tendency to focus on immediate interest.[108] Various interest groups may be aware that the success of the focal organization is also in their own interest, but their actions are often informed by their own perspective and directed by their own immediate interest. This does not imply mindless stupidity of human actors, but underlines their reflexivity:[109] their capability to monitor the situation and to act. Schön offers a similar concept of 'reflection-in-action', by which he means the process of 'noticing how you have been [performing an activity] and how well it has been working, and, on the basis of those thoughts and observations, changing the way you have been doing it'.[110] Marconi managers and involved interest groups monitored the circumstances and took actions they considered suitable, but the consequences for the company beyond the immediate situation were disastrous.

Human actions have unintended consequences.[111] Each actor's actions may impose new constraints, probably unintentionally, on other actors' choice of actions; and limited human knowledge means there may be unacknowledged conditions. When interest groups (both internal and external) focus on their immediate interest, their actions are directed by such interest, and may not benefit the focal organization. This is not to say that interest groups deliberately sacrifice the focal organization's success in pursuing their individual interests. It is to highlight the possibility of unintended and adverse consequences resulting from people's purposeful actions, and the interconnectedness of actions, environment and the aggregate outcome.[112] In the saga of Marconi, the interest groups' motives were legitimate, and choice of actions rational, given their perceived circumstances, but actions geared towards immediate interest may have consequences that are detrimental to the eventual outcome. Marconi managers were blind to fast-changing reality by their grand dream of transforming the company, and left the company ill-prepared for deteriorating market conditions. Analysts and investors were all to benefit from Marconi's success, and the media would have been happy to see the success of an industry icon. However, their rational responses to Marconi's struggle only exacerbated the situation.

Conclusion

An uncertain and dynamic environment increases the possibility of failure.[113] The interrelations between actions and environments make human efforts indeterminate and outcomes unpredictable. The Marconi debacle reveals a failure in which those environmental factors that appear to have caused the organizational failure were in part shaped by managers' and interest groups' actions, and the actions involved were actually influenced by environmental factors. Meanwhile, other interest groups (other than managers), acting with their own understandings and within their own contexts, also made their contributions to the organization's disastrous performance. The interest groups were not completely independent either; they were affected by the changes resulting from Marconi managers' actions, and the actions of the interest groups also influenced Marconi. Blaming managers for organizational failure is far from truly understanding the emergence of this disastrous episode, and some of those pointing figures should also have their fair share of the blame. The latter is rarely appreciated and the lack of such appreciation often leads to more blame, denial and corporate upheavals that largely discount the opportunity to reflect and learn. Without being over-generalized, it can be argued that the Marconi debacle provides implications that underscore the dynamic interrelations of factors and the unintended consequence of purposeful actions. Actions and consequences are context-dependent and their rationales can hardly be generalized. This also underlines the illusion and misconception in management studies in finding 'formulae' to avoid failure and achieve success. Appreciation of such dynamics is crucial for managers and researchers to better understand organizational failure and draw possible lessons for future undertakings, and avoid subscribing to any 'bible' of management advice. Pointing to any single person or reason as the culprit risks sacrificing the precious learning opportunity embedded in the experience.

It is not the intention of this research to substitute an eclectic and indeterminate explanation for all other explanations of failure. Rather, this research is intended to open up thinking about organizational failure, to broaden perspectives that remain framed in the boundaries of specific disciplines or seek explanations in the dichotomy of either environmental or behavioral factors. This paper attempts to draw attention to some effects that are underlying conditions of all human activities. People tend to lose sight of these underlying conditions, largely because of human predilections to search for linear explanations and simple solutions. When things go wrong, people want to find someone to blame, and those being blamed, fearing the consequences, look to external factors for explanation. The suggestion of this paper is that such a proclivity should be abandoned, and a new way of approaching failure should be adopted. This is not the same as saying competence and responsibility are spare concepts; neither does it imply that people may now either be reckless or feel helpless in organizational efforts, and find excuses or solace in inevitable interactions and the uncertainty of outcomes. Simple-minded realism or evasive relativism is not the answer. It would not be right to conclude from this study that efforts in analyzing and addressing environmental or behavioral factors in organizational failures are in vain, or that any individual or organizational effort is doomed to be lost in a web of complex interactions, as much as it would be a mistake to believe that following linear causations will find remedies for redress and recipes for success. For human and organizational activities, enthusiasm in identifying and solving individual problems is much needed, but much more endeavor is required to connect them in a constructive and productive way that can prevent people from wallowing in deceptive simplicity.

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