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GLOBAL CASE STUDY: THE MECHANICS, EVOLUTION, AND POLICY DILEMMAS OF ZOMBIFICATION VIA WEWORK AND FLYBE

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GLOBAL CASE STUDY: THE MECHANICS, EVOLUTION, AND POLICY DILEMMAS OF ZOMBIFICATION VIA WEWORK AND FLYBE[1]

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Abstract

This short paper examines the mechanics, systemic drivers, and policy dilemmas of corporate zombification through a comparative case study of WeWork in the United States and Flybe in the United Kingdom. It analyses mature enterprises with an interest coverage ratio under 1 that are artificially sustained by cheap credit and financial aid rather than exiting through creative destruction. The study highlights how WeWork operated as a high-risk liability aggregator before its 2023 bankruptcy and how Flybe survived a decade of structural unprofitability via private equity and government tax relief. Zombification is traced to ultra-loose monetary policy, political bailouts prioritizing short-term stability, and financialization-driven valuations. To resolve this, the paper advocates for normalizing monetary policy, reforming insolvency frameworks, and tying state support strictly to operational restructuring. Ultimately, clearing deadweight firms reallocates resources toward high-productivity enterprises while requiring safeguards against monopolistic market concentration.

Introduction

Zombie firms are broadly characterized in economic literature as mature enterprises – typically aged 10 years or older – that suffer from persistent financial distress and fail to generate sufficient operational revenue to cover their debt-servicing costs over a prolonged period (Andrews & Petroulakis, 2017; McGowan et al., 2017). Quantitatively, they are defined by an interest coverage ratio (ICR) of less than 1, meaning their earnings before interest and taxes (EBIT) cannot fulfill their financial obligations (Banerjee & Hofmann, 2018). Expanding upon these foundational definitions, recent empirical literature demonstrates that corporate zombification is not merely a symptom of isolated corporate mismanagement, but a structural macroeconomic pathology deeply entwined with modern financialization and monetary regimes.

The proliferation of zombie firms exerts a profound drag on aggregate economic productivity by locking up critical inputs – such as skilled labour, physical capital, and credit – preventing their reallocation toward dynamic, high-productivity frontier firms (McGowan et al., 2017). This phenomenon, often described as congestion externalities, suppresses market prices, depresses investment in innovation, and distorts competitive dynamics across entire industries (Caballero et al., 2008).

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Furthermore, the persistence of these living-dead entities is exacerbated by zombie lending practices, wherein weak commercial banks – fearful of recognizing monumental non-performing loans on their balance sheets – extend additional emergency credit to insolvent borrowers to avoid capital write-downs (Acharya et al., 2024; Caballero et al., 2008). Rather than exiting the market through natural creative destruction, these entities are artificially sustained by a combination of subsidized credit, regulatory forbearance, lax banking standards, and state-backed financial aid (Caballero et al., 2008; Acharya et al., 2024).

This introductory framing sets the stage for evaluating how structural distortions manifest across distinct institutional environments, as demonstrated through the subsequent case analyses of WeWork in the United States and Flybe in the United Kingdom.

Emergence

This case study evaluates two prominent developed-market enterprises from the United States and the United Kingdom that transitioned into classic structural zombies before ultimately collapsing:

- **WeWork (United States):** Founded in 2010 by Adam Neumann and Miguel McKelvey, WeWork scaled aggressively on the back of monumental private equity infusions – most notably raising upwards of $12 billion from SoftBank – pushing its private valuation to an astronomical $47 billion by 2019. Despite chronic structural losses, unviable unit economics, and an inability to achieve a sustainable business model, the firm continued operations for years by leveraging cheap capital, massive venture-backed liquidity, and continuous rounds of funding. Rather than acting as a productive technology innovator, WeWork behaved like a high-risk liability aggregator, signing long-term commercial real estate leases and subleasing them on short-term contracts. Its attempt at an initial public offering (IPO) in 2019 unravelled these contradictions, exposing deep corporate governance failures and massive cash-burn rates. Even after the failed IPO, the firm was kept alive through repeated debt restructurings, emergency credit lines, and asset sales orchestrated by its primary backers before finally filing for Chapter 11 bankruptcy in late 2023.
- **Flybe (United Kingdom):** Tracing its origins back to 1979 as Jersey European Airways, Flybe eventually grew to become Europe's largest independent regional airline, playing a critical role in connecting domestic UK towns and cities that larger

carriers ignored. However, its long-term viability was severely compromised following its initial public offering (IPO) on the London Stock Exchange in 2010. Plagued by an extraordinarily expensive, multi-billion-dollar order for up to 140 Embraer aircraft, costly IT infrastructure overhauls, and intense margin compression from low-cost competitors and domestic rail alternatives, the airline entered a prolonged period of deep structural unprofitability. Flybe was further battered by macroeconomic shocks, including the 2016 Brexit referendum which weakened the British pound while its operating costs remained heavily dollar-denominated, alongside crippling structural tax burdens like the UK's Air Passenger Duty (APD). Rather than undergoing orderly liquidation, Flybe survived for over a decade as a textbook zombie firm – repeatedly shuffling through top-level executives, securing emergency private equity rescues (such as its 2019 acquisition by the Connect Airways consortium), and extracting short-term tax deferrals and bailouts from the government. Even after collapsing into administration in March 2020 and experiencing a brief, failed operational relaunch in 2022 under new private ownership, the entity remained trapped in cycles of unviable resuscitation until its definitive shutdown.

Causes of Zombification

The zombification trajectory of both WeWork and Flybe was catalysed by systemic macroeconomic drivers and corporate governance failures:

- **Abundance of Cheap Credit and Low Interest Rates:** Extended periods of ultra-loose monetary policy and quantitative easing across advanced economies created an environment of excessive market liquidity. This allowed unprofitable or high-leverage enterprises to continuously roll over debt at minimal costs rather than forcing restructuring or liquidation (Acharya et al., 2022; Favara et al., 2024).
- **Subsidies, Bailouts, and Regulatory Forbearance:** Governments and financial institutions frequently prioritize short-term employment preservation and social stability over market efficiency. In Flybe's case, political pressures repeatedly prompted state-backed rescue discussions and tax reliefs to prevent regional transit disruption, effectively subverting market discipline (Giannetti & Simonov, 2013).
- **Financialization and Distorted Valuations:** Driven by an expanding financial universe detached from real-economy fundamentals, investors rewarded aggressive top-

line growth metrics and narrative-driven valuations over actual cash-flow generation, insulating poorly managed firms from immediate market corrections.

Policies for exit?

Addressing the systemic spread of zombie firms requires a comprehensive redesign of macroeconomic, regulatory, and insolvency frameworks:

- **Normalization of Monetary Policy and Credible Signalling:** Raising interest rate floors eliminates the cushion of artificially cheap credit, forcing commercial banks to properly recognize non-performing loans rather than engaging in loss-evasion lending (Acharya et al., 2024).
- **Reforming Insolvency and Bankruptcy Frameworks:** Streamlining legal procedures for corporate restructuring and liquidation reduces the social and financial friction of corporate exit, facilitating the swift reallocation of locked capital, real estate, and labour toward high-productivity frontier firms.
- **Targeted and Conditional State Support:** Transitioning away from blanket fiscal bailouts or generalized sectoral subsidies toward conditional support tied strictly to operational restructuring, transparent governance, and verified long-term viability.
- **Evolutionary and Inclusive Policy Balance:** As highlighted in modern economic research, policy frameworks must navigate the paradox of market concentration. While eliminating deadweight zombies clears resource misallocations, policymakers must simultaneously restrain the predatory market power of monopolistic superstar firms to prevent adverse competitive release phenomena and safeguard socioeconomic inclusivity (Kovács, 2025ab).

Conclusion

Zombie firms are mature enterprises burdened by persistent financial distress that fail to generate enough revenue to cover their debt-servicing obligations over a prolonged period. In both the United States and the United Kingdom, high-profile corporations such as WeWork and Flybe exhibited these classic traits, utilizing massive capital infusions, debt rollovers, and financial backing to sustain operations despite chronic unprofitability and structural losses. The proliferation of these living-dead entities is fundamentally driven by prolonged periods of cheap credit, low interest rates, and regulatory or state-backed forbearance that protect unviable businesses from natural market exit. Resolving the economic drag of zombie firms requires normalizing monetary policy, reforming corporate bankruptcy and insolvency laws, and ensuring that any state support is strictly conditional on operational restructuring. However, policymakers must carefully balance these measures to clear misallocated resources while simultaneously preventing monopolistic market concentration which is the result of the complex interplay between the expanded financial universe and the real economy.

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