

THE ROLE OF MANAGEMENT IN THE TURNAROUND PROCESS

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Abstract

This thesis is entitled *The Role of Management in the Turnaround Process* and is presented for the degree of Doctor of Business Administration at the University of Manchester by Ian Roberts in April 2015.

Inquiry into turnaround has largely been carried forward in two broad areas of study: strategy and management. Strategy research has attempted to identify a single or limited number of strategies which apply in all turnaround situations, while management studies have concentrated on managers themselves or some of the techniques they employ. Neither school has systematically analysed how turnarounds are actually implemented in dysfunctional organisations and both schools are weak in extant theory. As a consequence, a holistic explanation of the process leading from crisis to viability is lacking. This thesis addresses these lacunae in three ways. Firstly, it provides a systematic study of how professional turnaround managers implement the turnaround process over time. Secondly, it applies a unique and complementary mix of extant theory which addresses both cognitive and organisational aspects of strategy formulation and implementation. Thirdly, it presents a holistic turnaround model based on six core constructs which are argued to be necessary and sufficient to explain the dynamics of the turnaround process.

The thesis adopts a mixed-methods approach. A survey is used in order to gather data from turnaround professionals on implementation methods. This data is then subjected to statistical analysis in order to identify the most important factors for implementation. These concepts are then blended into a conceptual framework which is tested for its explanatory and predictive power on a matched pair of turnaround case studies of two mid-sized UK manufacturing companies in the household goods sector, one of which executed a successful turnaround and one of which failed in the attempt. The model is able to explain and predict the outcome in both cases. The thesis is one of only a handful of turnaround studies which employs a rigorous case study research protocol. Its principal contribution is that of a middle range turnaround theory of the causal factors leading from organisational crisis to dissolution or viability.

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To my wife Chiara

Introduction

Many researchers now accept that they are not disinterested but are deeply invested in their studies, personally and profoundly... Who a researcher is, is central to what the researcher does (Bullough Jr and Pinnegar, 2001, p. 13).

When I was a young man in my early 20s, I wrote an economic study of a large project which had been undertaken in Indonesia by my then employer Hawker Siddeley. At the time, this study was quite a revolutionary thing for the company. It was quoted by the British Prime Minister in the Financial Times and became a subject of questions in the House of Commons, then articles and letters in the national press. It became the basis of a concerted lobbying campaign and led to a series of meetings in Whitehall, the House of Commons, the House of Lords and even one at No. 10 Downing Street when, to my own amazement, I found myself stepping out of a London taxi cab, nodding to the bobby on guard and walking through the famous black door: three British icons in one unforgettable flash. Those were heady days, indeed, for a young man in his early career, at the cutting edge of business and economic policy for one of the country's largest and most prestigious enterprises, one of the founding companies of the original FT 30 with a glorious heritage and a lineage which could be traced back through the history of aerial warfare from the Harrier Jump Jet to the Hawker Hurricane to the Sopwith Camel. Imagine my surprise and chagrin when, years afterwards in a different company and a different country, I read that Hawker Siddeley had been sold off to and broken up by the much more prosaic British Tyre and Rubber Company. I was struck at the time by the thought that such a piece of history with tens of thousands of employees and businesses all over the world could just disappear. I remember reflecting on what events or circumstances could have caused the demise of such a behemoth of the business world and wondering if anything could have been done to salvage it.

My first real exposure to a turnaround situation was when, as the MD of the Italian subsidiary of a British pocket-multinational, I had the chance to observe first-hand how top management tackled the situation. The company in question, founded almost a century before, had previously belonged to the Rank Corporation and had languished for years in a state of overly bureaucratic organisation and net losses. Nonetheless, in a mature and stable industry, the company had managed to maintain a leading position and considered itself to be the number one in Europe and the number two in North America in terms of sales. Now, it had been bought by a British venture capital (VC)

company. The managers in charge were a seasoned VC team on their third deal and they were brash and confident. What I later came to know as the retrenchment phase was characterised by personnel layoffs and meticulous attention to working capital in general and cash management in particular. I clearly recall a dinner one evening in which the group MD spoke proudly of his team's achievement in turning the company around with all indicators, foremost cash and profits, positive and ahead of plan. Strange then, that this same company was to go through a chronic and (to those involved) agonising series of downsizings and reorganisations over the following years in a quest for sustained recovery. In the end, this proved beyond the capability of the organisation and those parts of the company which had not lost all value were sold off piecemeal by creditors in an attempt to recuperate some of their losses. What struck me at the time was that there was no inevitability to this; nor was there any hint of such a dramatic fate in the exciting early days. I was tormented by the same question: how could a company with a 100 year old history, the acknowledged leader in its field with a distribution system and a brand name to match, just disintegrate?

My second turnaround experience came on the heels of this catastrophic outcome. This time the company was a German manufacturer, deeply ensconced in the traditional, family-owned, deutscher Mittelstand. After several years of unsatisfactory performance and some taxing episodes of brinkmanship with their creditors, the shareholders had taken on a raft of new managers and, with them, a new strategy. My task was to effect the turnaround of the US subsidiary in the first year and achieve ambitious growth goals in years two and three. Once again, the retrenchment stage was tough but, through cost reductions, attentive cash management and reorganisation of assets and processes, the task of eliminating losses was achieved in the time frame. Sustained recovery, however, proved elusive both for the company as a whole and for my subsidiary in particular. By the end of the following year, all of the new managers, spanning levels from the group chairman to middle management, had left the company and their strategy was publicly strangled by their successors.

These companies were not the glorious Hawker Siddeley, but they were important realities both in their market niche and to the localities where they provided jobs and income to employees and their families. As an economist, I was familiar with the argument that the resources of failed companies are simply redeployed to a more

efficient use, yet this austere, dehumanised rationalisation clashed with the vibrant struggle that people carried forward day after day, month after month, year after year, to salvage a context which provided not only economic reward, but also meaning, identity, satisfaction and companionship. My experience drew me irresistibly to the conclusion that this was no invisible hand inexorably shaping the factors of production to the immutable laws of economics; this was the result of human agency: the roots of turnaround failure are to be found in fundamental management errors or omissions in analysis, strategy formulation, planning and execution. There are, naturally, a thousand sub-plots in any corporate story, particularly in the high pressure context of life-threatening performance and for the unpractised manager much of what goes on in a company beset by crisis can seem confusing and even contradictory. This vague sensation of bewilderment was, for me at least, a constant companion during the most of the turnaround experience for it was not obvious how and why the firm was dysfunctional nor how to put it right. Common sense decisions or actions often had little, no, or even negative effects; insights took many months to achieve and even then were partial or not clear enough to act upon.

I did not turn to the literature on turnaround during that time; indeed, I was unaware of it, but it may not have helped as Harker (1996, p. 246) points out, “Writers on company turnarounds... have been unable to develop a framework which the practising manager can use to rescue the ailing organisation”, and Lohrke and Bedeian (1998, p. 4) confirm, “the strategic management literature offers practising managers limited guidance for reversal or turning around a decline in firm performance. Moreover, this guidance has not only been inconsistent, but at times contradictory”. What I did learn was that *complexity* was an important concept in the turnaround that we were attempting. The idea of complexity was not contemplated by me or any other manager during almost the entire process, despite the overall confusion we faced and our collective inability to formulate initiatives which made any decisive impact. Once the notion took hold of my thinking, I could see how we had made a number of decisions which were nominally aimed at improving performance but which, in reality, simply added to the level of complexity we were attempting, unsuccessfully, to manage. This simply made the management task more difficult by overwhelming an already overburdened management capacity. The company’s inability to improve its performance and the implementation problems we faced suddenly made more sense: we could not just

continue to attribute this to incompetent staff; we also had to look at what we were undertaking in terms of complexity management. I came to realise that, in essence, when an enterprise is dysfunctional and in crisis, it is because its executives are not managing its complexity. This concept, rather than cutting costs or reducing assets or increasing sales is the lesson I learnt from my experience. Yet, much of the almost forty year-old conversation in academic circles on turnaround has centred around the question of strategy with a particular focus on the choice of the best strategy in a given set of circumstances with intense debate on the relative merits of retrenchment or market oriented growth strategies. Recommendations for strategic choices, and the reasons for those choices, have been controversial and implementation of strategy has barely been considered. If turnaround is a recovery from a condition of crisis, then dramatic reconstruction of the company is called for. Yet how then is the turnaround manager to implement strategy in a dysfunctional organisation?

This thesis is a journey into what Bruner (1991, p. 4) calls “the rich and messy domain of human interaction”. It does not frame specific research questions and therefore it does not expect precise answers; rather it is the reflective contemplation of a particular phenomenon, carried out in a spirit of inquiry, with a sense of wonder. Important to this is the acknowledgement of a pre-existing history and *weltanschauung* which are not fixed, but are changed by the process of inquiry. New understanding is generated as phenomena are conceived in new ways (Clandinin and Huber, 2010). My motivation for undertaking this journey is threefold and is as follows, in increasing order of ambition. Firstly, I hope to be able to look back on my own experience of a failed turnaround and make sense of it, hence running throughout the thesis is a thread of sensemaking. Weick’s description of an “experience of being thrown into an ongoing, unknowable, unpredictable streaming of experience in search of answers to the question, “what’s the story?” (2005, p. 410) resonates. I want to be able to think that, should I ever be able to hitch a ride in a time machine, I would be able to go back and apply this new understanding, and that it would be enough to bring about a different and successful conclusion to the turnaround attempt. Secondly, and more realistically, I hope to provide a helpful framework of thought and some practical advice for managers who are interested in turnaround or who are immersed in the process of one. Thirdly, I’d like to be able to claim, in at least one subject matter, that I know what I’m talking about.

However, I've come to realise that this is a very high, and perhaps unreachable, standard.

The thesis is organised into eight chapters. Chapter one reviews the turnaround literature from its very origins in the mid-1970s to the latest contributions from 2014 and divides the opera omnia of turnaround examination into two broad schools which focus, respectively, on strategy and management. The section on management is broken down further into sub-sections on top management replacement, management cognition and management techniques. Chapter two presents a survey of professional managers from European chapters of the Turnaround Management Association, data from which provide the basis for a systematic analysis of implementation factors. In chapter three the main results of this survey are included in the development of a conceptual framework based on six core constructs which, it is argued, when combined are necessary and sufficient to explain and predict the dynamics and the outcome of the turnaround process. Chapter four outlines the case study method which is the basis for the empirical testing of the framework: reasons are presented for the choice of method, operational definitions are provided and the choice of cases is defended. Chapter five applies the model developed in chapter three to four strategic decisions taken in the case of a successful turnaround of a mid-sized UK manufacturing company in the household goods market. Chapter six applies the model to three strategic decisions in the case of an unsuccessful turnaround of a matched mid-sized UK manufacturing company in the household goods market. Chapter seven summarises the findings, and proposes a framework for thought and some practical advice for managers. Chapter eight examines the findings within the context of the extant literature, outlines the contribution of the research and its limitations, and suggests directions for future study.

Chapter 1. Literature Review

When we read, we are not looking for new ideas, but to see our own thoughts given the seal of confirmation on the printed page. The words that strike us are those that awake an echo in a zone we have already made our own—the place where we live—and the vibration enables us to find fresh starting points within ourselves – Cesare Pavese (1908-1950)

1.1 Introduction

The literature search was carried out online using databases such as ProQuest's ABI/INFORM[®], Thompson Reuters' Web of ScienceSM, JSTOR[®], Cengage Learning's Questia[®] and Google Scholar. The search criterion was 'turnaround' and articles were selected whose title or abstract contained the word 'turnaround' or, alternatively, made a clear reference to the turnaround theme such as 'responding to crisis', 'survival tactics' or 'return to financial health'. This first round of articles was successively supplemented by others as a result of careful follow up of relevant works contained in the reference sections of articles read in an iterative process. The process yielded a total of 200 articles published in 94 publications. More than a quarter of these articles (27%) came from five leading academic publications. These were, in order: Journal of Business Strategy (13 articles), Long Range Planning (12), Journal of Management Studies (11), Strategic Management Journal (10), and Harvard Business Review (8).

The first articles in an academic journal on the subject of turnaround were printed in 1976 (Schendel and Patton, 1976; Schendel et al., 1976), whereas the most recent identified in this search was in 2014 (McKinley et al., 2014). The review therefore spans the complete temporal arc of the turnaround literature. In geographic terms, most of the literature is based on evidence from the United States, however Europe is represented with a total of 10 articles, mostly from the European Management Journal and the British Journal of Management, while the Asian experience is included in 11 articles, almost all from the Asia Pacific Journal of Management and Vikalpa. In sectoral terms, much of the North American work concentrates in US manufacturing companies, indeed, manufacturing firms seem to dominate the literature; however, the public and service sectors are considered in a total of nine articles from publications such as Public Money and Management, and the Cornell HRA quarterly. Most of the articles are concerned with strategy or general management, however other

organisational functions, such as finance, HR and operations are considered in a handful of articles in publications such as *Managerial Auditing Journal*, *Journal of Private Equity*, *Human Relations* and *Journal of High Technology Management Research*. The majority of articles deals with large enterprises, however, 10 articles chronicle the small business experience, including three from the *Journal of Small Business Management*. Finally, 74% of the articles are written by academic scholars, while 26% are the work of turnaround management practitioners. Thus, the literature review is synoptic and evaluates evidence across time, in disparate markets and cultures, in different sectors, from diverse functional points of view, in antithetic market share and power situations, and through the contrasting analytical and experiential lenses of academics and managers. Such a panoramic approach is in need of an organising framework. One such framework is proposed in the following section.

1.2 Organising framework

Despite the breadth of the literature review in terms of publications and the multiplicity of content and focus, at a deeper level most of the works fall readily into one of two categories and much of the diversity can be reduced by a many-to-two mapping. This possibility is due to a feature of the turnaround construct which is that, in a limited and identifiable lapse of time, situations of corporate decline are incontrovertibly resolved in either successful reversal of decline or firm dissolution. This strong and demonstrable dichotomy of an observable phenomenon holds much promise in the search for underlying causes. Two such causes are at the base of most of the analysis and comment in the literature. These are *strategy* and *management*. The focus on strategy content as the sole, or at least the prime explanation of performance belongs to the preeminent academic school of thought (Barker and Duhaime, 1997), hereinafter labelled the *strategy school*. The strategy school is academically rigorous and is unswerving in its quasi-grail-like quest to discover a strategic solution to turnaround performance. A contrasting approach is taken by most of the rest of the literature, which considers that *top management* is, for one reason or another, the primal explanation for performance. Henceforward, this will be called the *management school*. The management school is represented to some degree by academic scholars and with the same degree of academic rigour. These works are supplemented by the writings of a number of practitioners who

share first hand experiences or who distil those experiences into advice for managers. The management school is not as monolithic as the strategy school, with its exclusive focus on strategy content, and can be usefully divided into three sub-groups. The first of these groups focuses heavily on top management replacement; the second examines top management characteristics; while the third proposes a number of techniques for top management.

The literature resulting from the iterative search will now be reviewed according to the framework described above. The first section looks critically at the strategy school. The second section examines the management school and is divided into three sub-sections which consider, respectively, top management replacement, top management characteristics and top management techniques.

1.3 Strategy school

As a branch of academic study, turnaround is a child of the 1970s, born on the wave of a dramatic increase in bankruptcy cases in the USA and a number of high profile turnarounds (Hoffman, 1989). Schendel and colleagues' pioneering articles (Schendel and Patton, 1976; Schendel et al., 1976) were followed by important studies from Hofer (1980) and Hambrick and Schecter (1983). These founding works set in motion a thriving tradition of empirical research based on large sample studies which has endeavoured to answer Schendel and Patton's alluring question: "Are there one or two, at least a limited number, of basic strategy patterns that can be used to turn firms around?" (1976, p. 240). In contrast to the management school, a distinguishing feature of the strategy school is its conviction that there exists a generic strategic solution to firm performance in turnaround situations, independent of firm context:

It is also notable that much of the advice from the turnaround literature has tended to be generic, with an implicit assumption that the strategies put forward would be effective for all firms, regardless of their particular context or circumstances. The majority of the literature we reviewed portrayed the identified turnaround strategies as universally applicable, with little regard to the particular context the firm faces (Schoenberg et al., 2013, p. 252).

The strategy school comes equipped with its own 'dominant study design' (Barker and Duhaime, 1997, p. 17) in the form of large sample studies. These are at the firm level

and have examined groups of American manufacturing companies chosen from large US databases such as COMPUSTAT (e.g. Barker and Duhaime, 1997; Morrow et al., 2007; O'Neill, 1986a; Schendel et al., 1976). Samples are often subjected to statistical analysis to determine if a certain strategy or set of strategies is more successful than competing alternatives in limiting contexts. The approach, based on hypothesis testing, is deductive and attempts to generate laws which apply under given conditions in the positivist tradition. Simple or multiple regression is the most popular statistical method and t-tests to determine statistical significance are common. This is a result of the essentially binary (success/failure) nature of turnaround situations: many studies have sought to determine the statistical significance of differences between strategies adopted in order to determine an explanation for the outcome. In accordance with these research protocols, study has been predominantly concerned with strategic content (O'Kane, 2006).

Schendel et al. (1976), made the first attempt to answer their own question about a limited number of strategy patterns with a study of the turnaround of 54 firms, characterised by significant changes in management and organisation, which employed a number of 'strategic' and 'efficiency' moves, including changes in marketing, diversification, divestment, vertical integration and capital expenditure programmes. Hofer's (1980) article, entitled appropriately *Turnaround Strategies*, agreed with the premise that strategy was the key, "Clearly, what is most needed in a turnaround situation is some clear-cut strategy for guiding all organizational actions" (1980, p. 20) and answered the question directly: strategy was contingent on product life cycle, and the firm's strategic and operating strength. Hofer's model proposed a dichotomy between 'strategic' and 'operating' turnarounds that became a lasting feature of turnaround study (Mintzberg and Westley, 1992, p. 47): strategic turnarounds focus on domain changes and market share; operating strategies are brought about by cost and asset reduction, and revenue increases. Implicit in the model is that this is a strong dichotomy: firms will adopt *either* a strategic reaction *or* an operating response. Hambrick and Schecter (1983) offered their own dichotomy: entrepreneurial vs. efficiency. This is similar to Hofer, but revenue generation is re-classified: revenue generation and product/market refocus are entrepreneurial strategies; efficiency strategies involve cost cuts or reductions in assets. Combinations of all four are contemplated, so the dichotomy is not as black and white as Hofer's. Hambrick and

Schechter found that both entrepreneurial and efficiency strategies could be effective and, in particular, identified a number of gestalts which included cost *and* asset cuts, product/market pruning and productivity improvements. The three studies had limitations, however: Schendel et al.'s (1976) exploratory work only considered successful turnarounds, so that there is no control for other companies which may have adopted the same strategies and failed. Neither Hofer nor Hambrick and Schechter considered the causes of decline. Moreover, Hofer found that none of his twelve turnaround cases actually chose a strategic turnaround as a first choice (four did as a secondary response with mixed results) and this may be because the definition of 'strategic' specified a 100-200% increase in market share, something which is "not highly likely under conditions of shrinking or negative profit margins" (O'Neill, 1986b, p. 171). Hambrick and Schechter's study of 260 companies unearthed some "inexplicable" (1983, p. 239) findings and the dominant strategy to emerge was "piecemeal moves that vary from business to business and hence are difficult to generalise about" (1983, p. 243); this applied to 28 out of 53 (53%) of successful turnarounds and 122 out of 153 (80%) of unsuccessful turnarounds.

The next major study to be published addressed these shortcomings and presented a bold, original and contentious claim: whatever it is, turnaround is based on *retrenchment*. Robbins and Pearce's (1992) article *Turnaround: Retrenchment and Recovery* is one of the most cited works in the turnaround literature. Based on a sample of 32 US textile manufacturing firms, it considered cause and severity of decline, and compared the strategies of successful and unsuccessful turnaround attempts. The authors found that, "Cost retrenchment was so pervasive as to be considered indispensable in achieving turnaround" (1992, p. 303). They proposed for the first time that, regardless of cause or severity of decline, *all* turnarounds should be based on an initial retrenchment phase, before a subsequent operating or strategic response and, potentially, even before a decision has been made on what that response should be, stating that turnaround success was much more strongly related to sustained retrenchment than to any ensuing strategy. Turnaround was therefore necessarily a two-stage process: retrenchment and recovery. The article signalled an important departure from the prevailing wisdom that retrenchment was only one potential strategy to be adopted according to contingent factors.

These four foundation articles, Schendel et al. (1976), Hofer (1980), Hambrick and Schechter (1983) and Robbins and Pearce (1992) underpin the highly influential strategy school. Subsequent debate in this area has attempted to determine which of efficiency or entrepreneurial strategies is more successful or prevalent (Francis and Desai, 2005; Furrer et al., 2007; Morrow et al., 2004; Morrow et al., 2007; O'Neill, 1986b; Pearce and Robbins, 1994a; Rasheed, 2005; Schreuder et al., 1991; Thiétart, 1988; Wild, 2010); if, in fact, retrenchment is a necessary step (Barker and Duhaimé, 1997; Barker et al., 1998; Barker and Mone, 1994; Castrogiovanni and Bruton, 2000; Francis and Pett, 2004; Nixon et al., 2004; Pearce and Robbins, 1994b; Robbins and Pearce, 1993); or specifies the efficiency/entrepreneurial or two-stage concepts as the framework for analysis (Bruton and Wan, 1994; Cater and Schwab, 2008; Chathoth et al., 2006; Chowdhury and Lang, 1994; Chowdhury and Lang, 1996; Gowen III and Tallon, 2002; O'Neill, 1986a; Pearce and Robbins, 2008; Smith and Graves, 2005). Table 1 provides a sample list of articles by type and context; the black dot in the last five columns to the right indicates that the article in question includes at least some consideration of the factor at the head of the column in its analysis.

Despite the number of articles, this research stream has not provided definitive answers to its own quandary: the efficiency/entrepreneurial dichotomy remains unsolved; nor is there consensus on a sequential two-stage approach. Indeed, a number of other authors have produced alternative models with three to seven stages, although four-stage models seem the most popular (Balgobin and Pandit, 2001; Bibeault, 1982; Boyne, 2006; Chan, 1993; Chowdhury, 2002; DiNapoli and Fuhr, 1999; Finkin, 1985; Fredenberger et al., 1997; Grinyer et al., 1990; Scherrer, 2003). More recent work has gone back to the basics of the two-stage model, but proposes that the answer lies in a 'shifting balance' between relatively more retrenchment in the earlier stages of turnaround to relatively more recovery measure in the later stages (Schmitt and Raisch, 2010).

Authors	Type	N	Context	Implement-ation	Manage-ment	Extant theory	Stakeholder power	Strategy
Arogyaswami et al. 1995	Disc	N/A	Generic	•	•		•	•
Barker and Duhaime, 1997	LSS	38	Manufacturing industry		•			•
Barker and Mone, 1994	Disc.	N/A	US textiles					•
Barker et al. 1998	LSS	68	Public US companies					•
Boyle and Desai, 1991	Rev.	N/A	Small firms	•				•
Bruton and Wan, 1994	LSS	70	High tech firms					•
Castrogiovanni and Bruton, 2000	LSS	46	Post-acquisition firms					•
Cater and Schwab, 2009	Case	2	Small family firms	•	•			•
Chatoth et al. 2006	Case	2	Restaurant firms					•
Chowdhury and Lang, 1994	LSS	172	Small firms					•
Chowdhury and Lang, 1996	LSS	153	Small firms					•
Francis and Desai, 2005	LSS	97	Manufacturing firms			•		•
Francis and Pett 2004	LSS	97	Manufacturing firms					•
Furrer et al., 2007	LSS	45	Manufacturing industry					•
Gowen and Tallon	LSS	250	US/Japanese firms	•				•
Hambrick and Schechter, 1983	LSS	260	Mature industry					•
Hofer, 1980	Disc	12	Selected cases		•			•
Hoffman, 1989	Disc	N/A	Generic		•			•
Lim et al. 2013	LSS	367	Japanese firms			•		•
Lohrke and Bedeian 1998	Disc.	N/A	Generic		•			•
Morrow <i>et al.</i> , 2004	LSS	412	Industry change					•
Morrow <i>et al.</i> , 2007	LSS	178	Manufacturing industry			•		•
Ndofor et al. 2013	LSS	110	Growing industry		•			•
Nixon et al. 2004	LSS	364	Downsizing US firms	•		•	•	•
O'Neill, 1986a	LSS	51	Banking sector			•		•
O'Neill, 1986b	Case	12	Mixed sectors		•			•
Panicker and Manimala 2011	LSS	102	Generic turnaround					•
Pearce and Robbins 2008	Disc	N/A	Generic					•
Pearce and Robbins, 1994a	LSS	32	Small firms					•
Pearce and Robbins, 1994b	Disc	N/A	Manufacturing firms					•
Rasheed, 2005	LSS	68	Small firms					•
Robbins and Pearce, 1992	LSS	32	Manufacturing firms					•
Robbins and Pearce, 1993	LSS	33	Small firms					•
Schendel <i>et al.</i> , 1976	LSS	54	Manufacturing industry	•	•			•
Schmitt and Raisch 2010	LSS	72	European consultants					•
Schmitt and Raisch 2013	LSS	107	European firms		•	•		•
Schreuder et al., 1991	LSS	42	Declining industry					•
Smith and Graves 2005	LSS	123	UK manufacturing		•			•
Sudarsanam and Lai, 2001	LSS	166	Distressed UK firms	•	•			•
Thiéart, 1988	LSS	217	Manufacturing industry					•
Wild 2010	Case	10	UK companies (mixed)			•	•	•
Yeh and Fang 2011	LSS	72	Taiwanese firms			•		•
Zimmerman, 1989	Case	15	Manufacturing industry		•			•

Key: LSS: large sample study; Case: case study; Disc: discussion, analysis or model

Table 1. Key articles of turnaround strategy by type, context and inclusion of five factors

The turnaround strategy school therefore continues to generate output which revisits its unresolved central themes (e.g. Lim et al., 2013; Manimala and Panicker, 2011; Schmitt and Raisch, 2013). This has led to charges that its findings are open ended, fragmented and ambiguous (Cater and Schwab, 2008; Lohrke et al., 2004; O'Kane, 2006), inconsistent and contradictory; (Lohrke and Bedeian, 1998); poorly grounded (Murphy, 2008); it has “ploughed a narrow furrow” (Boyne and Meier, 2009, p. 858); and the debate is stalemated (Schmitt and Raisch, 2010). More specifically, it has been unable to provide a useful framework for practising managers (Harker, 1996); it is phenomenon driven (Trahms et al., 2013), has neglected extant theory and is explanatorily weak (Pandit, 2000; Schmitt and Raisch, 2010); and it has produced no systematic explanation of the events which take the firm from decline to recovery, with the result that there is no recognised theory of turnaround (Chowdhury, 2002). Moreover, despite the focus on strategy and the extensive literature of strategy formulation, very little has been said about the formulation process, other than it should probably be quick (Boyne, 2006). More seriously, the narrow concentration on strategy content has been to the detriment of almost any consideration at all of how strategy is implemented:

Strategy implementation... is a black box in the research on turnaround in private companies... Empirical studies link turn-around strategies directly to organizational performance without considering whether different styles of implementation might mediate the relationship between these variables. It is as if all private firms have a command and control structure that permits no deviation between intended and realized strategies. The result is that no useful signals on implementing a turnaround strategy are provided by existing empirical studies of private organizations. Nevertheless, the way in which new strategies are implemented is clearly an important determinant of organizational success (Boyne, 2006, pp. 376-377).

For example, Schmitt and Raisch (2010) propose, “A promising area for future research may be to investigate how, over time, firms *actually implement* a shifting balance in their turnaround activities” (p. 6, emphasis added). A number of authors point out the meaninglessness of separating strategy from implementation: it is “artificial” (Liedtka, 2000, p. 25), “fiction” (Grant, 2008, p. 170) and “absurd” (Pettigrew et al., 2006, p. 12). Indeed, Hoffman (1989) argues that the difference between successful and unsuccessful turnarounds may be due *more* to how strategies are implemented rather than their content. Empirical support for this position comes from Nixon et al. (2004) who show that the negative effects of downsizing on market valuation become positive when implemented with targeted reductions and efforts to assuage survivor guilt. Love and Nohria (2005) found that, in contrast to narrowly scoped downsizing, broadly

scoped downsizing initiatives which include revisions in processes, systems and structures, and eliminate or streamline tasks, were associated with improved performance. However, the strategy school has generally not taken into account a large body of scholarly work in organisation research which has described the organisational and psychological effects of decline on firms and their managers. According to these studies, it is by no means certain that any given firm in decline can implement a specific turnaround strategy due to overwhelming complexity (Levinson, 1994), organisational dysfunctionality (Cameron et al., 1987b; Whetten, 1987), or cognitive pathologies (Krantz, 1985; Sutton et al., 1986), such that its managers can no longer make sense of what is going on and take appropriate actions (Weick, 1993; Weick et al., 2005).

The firm level analysis has meant that not only has this stream of research not considered managerial decision making, it has rarely addressed the issue of powerful stakeholders who can influence or determine strategy content based on factors other than corporate performance (Filatotchev and Toms, 2006; Pajunen, 2006). Moreover, it is based on an implicit post hoc assumption that strategy is the result of rational managerial choice, based on a deterministic process (Ford, 1985). This assumption allows no insight into the processes that link decline to strategy and strategy to outcome:

research designed to establish statistically the presence of associations between organizational characteristics usually leaves the underlying processes to be inferred... The difficulty here is that adequate explanation derives from an understanding of process, and in this regard the 'fact' of a statistically established relationship does not 'speak for itself'... In addition, little understanding is afforded as to how the relationship was established and whether it is a necessary condition for the presence of the other, perhaps desirable, phenomena. For these reasons, not only is research into organization of a processual and change-oriented type still required but so equally is an attempt to offer more adequate theoretical schemes in step with the advance in empirical research (Child, 1972, pp. 1-2).

Often the research protocol of strategy studies takes advantage of turnaround's fundamental dichotomy that, at the end of the process, firms either survive or die. Thus, for example, if there is a statistically significant relationship between firms that retrenched and survived, and firms that did not retrench and died, then retrenchment is a superior strategy. This begs the question why, if retrenchment is superior, and managers are rational and equally capable, did the failing companies not retrench. This has led to a search for missing explanatory variables, such as firm size (Robbins and Pearce, 1993), slack (Chowdhury and Lang, 1994), market share (Hambrick and Schecter,

1983), corporate life cycle (Yeh and Fang, 2011), industry life cycle (Morrow et al., 2004), rent creation mechanisms (Lim et al., 2013), patterns of innovation (McKinley et al., 2014) and so forth which has not, so far, solved this conundrum in terms of the strategy paradigm. Other researchers have solved it quite easily by stepping into the turnaround-is-management paradigm which will be examined next.

1.4 Management school

A distinguishing feature of the management school, in contrast to the strategy school, is its precept that turnarounds require unique solutions, based on the individual circumstances of each company.

The situations of different firms are all unique and require specific solutions. As one CEO said, “In my experience in doing turnarounds, the only factor that I can really identify with certainty is that every company was different.” A turnaround program must be tailor made, specifically designed to solve the unique combination of problems and opportunities in each situation (Thain and Goldthorpe, 1990, p. 43).

Among the most unique features of a company are the very managers themselves, hence an important area of research of the management school focuses on who top managers are in terms of their organisational origins. This is discussed next.

1.4.1 *Top managers: incumbents vs. replacements*

For those persuaded by the management school, the reason why some firms succeed and some fail is not a question of strategy; it is ultimately explained by top management. If strategists consider causes of decline important for the ensuing strategy, they have to specify what those causes might be. Managerialists on the other hand have a built-in answer: top management is also the cause of decline (Miller, 1977). Whatever the specific cause of decline, the problem can always be traced back to deficiencies in management (Balgobin and Pandit, 2001; Boyle and Desai, 1991; Kierulff and Petersen, 2009; Maheshwari, 2000; Scherrer, 2003). How then, can top managers simultaneously be the cause of decline and cause of success? The answer is that they are not the same managers. Top managers who have piloted a firm into decline have done so due to a

number of reasons ranging from sheer incompetence (DiNapoli and Fuhr, 1999) to a failure to evaluate the company's environment (Maheshwari, 2000; Sheppard and Chowdhury, 2005). The response most frequently proposed in the literature is to replace incumbent top management, most often embodied in the figure of the CEO. This is usually accepted by strategists that include management in their deliberations and is sometimes included in stage models as one of the first stages. The following are typical claims: "A precondition for almost all successful turnarounds is the replacement of the current top management" (Hofer, 1980, p. 25); "Most of the exemplary turnaround leaders I've seen... were new to their organisations... Does this mean that only a new broom can sweep clean? Perhaps so" (Kanter, 2003, p. 8). "The turnaround process starts with personnel change at the leadership position. This has consistently been indicated as a prerequisite... to initiate turnaround actions due to escalated commitment of the existing leadership... and restore the confidence of different stakeholders" (Maheshwari, 2000, p. 47). In fact, the main theoretical arguments posited for CEO or top management replacement are a fatal loss of credibility of incumbent management (Gopinath, 1991; Thain and Goldthorpe, 1989); incumbent management is wedded to an inappropriate mental model (Castrogiovanni et al., 1992; Gopinath, 1991; Hofer, 1980; O'Shaughnessy, 1986); incumbent management can no longer manage complexity (Khandwalla, 1983); new management can restore stakeholder confidence (Castrogiovanni et al., 1992; Maheshwari, 2000); and new management can bring specific knowledge, capabilities or alternative viewpoints (Grinyer and McKiernan, 1990; Tourtellot, 2004).

Empirical studies support the claims that top managers are, in fact, more often than not replaced in turnaround attempts. Krishnan and Park's (1998) findings reinforce the idea that for organisations in periods of change a new top management team (TMT) brings a new mind set, momentum for change and additional expertise. Chan (1993) found that in ten out of ten cases the CEO was replaced and included CEO replacement as a necessary step in his four stage turnaround model. Gopinath's (1991) study found that a new CEO was appointed in 20 out of 22 turnaround firms; of the remaining two, one was in liquidation. Eight out of ten of Wild's (2010) strategic turnarounds involved new leadership and 19 out of 27 successful turnarounds called for a change of management in Thain and Goldthorpe's (1989) study. The most consistently significant contributor to performance in Ndofor et al.'s (2013) study of software firm turnarounds in a growing

industry was CEO change, while in his study of 60 US manufacturing firms Abebe (2009) found that long-tenured CEOs were incapable of conducting large-scale strategic turnarounds. Barker et al. (2001) found evidence of high levels of top management team (TMT) replacement at firms which suffered a large precipitating event. Precipitating events were considered to be excuses for the board or external stakeholders to intervene. There was also significant evidence of a sweep out effect: when the CEO was replaced by the board 86% of the remaining TMT was replaced, compared to less than 50% where the CEO was not replaced. This may be because new CEOs want to put their own top managers in place. The research also evidenced the strength of inertial forces: firms which had strategies in place the longest were less likely to have higher levels of TMT replacement. Large firms were also found to have lower levels of TMT replacement. Numerous case studies describe the turnaround experience from the point of view of a newly appointed CEO (Bibeault, 1982; Brenneman, 1998; Ghosn, 2002; Janzen, 1983; Marshall, 1989; McGavick et al., 2004; O'Kane, 2006; Pandit, 1998; Prahalad and Thomas, 1977; Thorbeck, 1991).

It seems, however, that significant CEO and top management replacement occurs empirically in companies in decline in general (Graham and Richards, 1979), even those that fail (Daily and Dalton, 1995). In fact, Mueller and Barker (1997) found no significant relationship between TMT change and turnaround performance. Thus, replacing top management change may be a ubiquitous attempt to reverse decline whose efficacy remains indeterminate. Harris (1994) warns that the practice of bringing in new managers relies on the identification of deficient capabilities and motivation to learn and adapt in incumbent managers, and sufficient capability in new ones. This view is supported by Grinyer and McKiernan (1990) who caution against assuming that a new CEO is either necessary or sufficient to effect radical change; much will depend on the individual CEO, the match between CEO and company needs, and the condition of the company. Recent empirical research by Chen and Hambrick (2012) confirms this argument: the authors found that CEO replacement, per se, had no effect on the subsequent performance of companies suffering from severe performance deficits. Any beneficial effects on performance will depend on the extent of the misfit of the incumbent CEO and the fit of the replacement CEO. Specifically, firms with incumbent CEOs with long tenure and/or lack of throughput experience will perform better if they replace them with a new CEO with throughput experience; in the case of severe industry

decline, replacement of a long-tenured CEO with an industry outsider is beneficial. Barker and Mone (1998) found that, in itself, the question of whether the incumbent top managers remain or are replaced was not the most useful distinction: the majority of companies they examined had changes in CEOs but they found that the political context was as important as the change itself. In line with this thinking, Clapham et al. (2005) suggested that changes in CEOs' assumptions and mental models were the keys for successful turnaround. This can either be achieved through the replacement of managers or can come about through a cognitive change in incumbent managers. A problem with this in turnaround situations is the urgency of the situation. Studies by Barr et al. (1992) and Tripsas and Gavetti (2000) show how top managers took many years to change their mental models.

Even if incumbent management is not to blame for decline, it can become a scapegoat. In fact some writers consider the scapegoating process a prominent feature of a crisis of legitimisation and a necessary element in a change in the dominant culture which, in turn, can reassure investors and other stakeholders (Smith and Sipika, 1993). Scapegoating, it is argued, aside from its distasteful overtones, can be therapeutic for organisations by helping them shed practices and procedures associated with stigmatised former managers and by creating confidence among remaining employees that the situation can improve now that the managers 'responsible' for the decline are gone. Overall, this can create an environment more conducive to change (Barker et al., 2001).

Aside from the replacement of incumbent CEOs and other top managers, the body of work on turnaround management has examined two aspects: the characteristics of top managers and specific management techniques or generic recipes. Studies of management characteristics mostly adopt the same rigorous statistical analysis applied to large sized samples used by the strategy school and attempt to demonstrate a causal link between the dependent variable, usually firm performance, and independent variables. Broadly speaking, writings on techniques and recipes are by academics who report on noted cases by identified practitioners, or directly by practitioners themselves. These articles tend to include normative examples or recommendations of how successful turnarounds have been, or should be, carried out. Almost invariably, however, these are without counter evidence that non-adoption of these tactics would

have led to failure. The next two sections will examine first the academic works on management characteristics and then the practitioner literature on turnaround management.

1.4.2 Top managers' characteristics

In comparison to the lengthy tradition of the strategy school and the insistent attention to top management change in one sphere of the management school, study on the characteristics of top managers in decline and turnaround is a budding area of research, with most of the work carried out in the new millennium. Essentially, this body of research examines leader cognition in order to understand how and why leaders react in crisis situations through their sense-giving capabilities (Musteen et al., 2011). The underlying rationale is that modelling the strategic responses of firms is problematical unless models explicitly account for managers' cognitive frameworks (Marcel et al., 2011). According to these studies, CEOs with shorter tenure and output-based backgrounds in sales, marketing and R&D are more likely to lead a successful strategic turnaround (Abebe, 2009); lengthy organisational tenure and the extent of executive education have an adverse effect of on turnaround performance in turbulent environments (Abebe, 2010); and turnaround performance benefits from selective executive focus on market related sectors such as customers, competitors and technology, whereas it is adversely affected by overdue attention to input-related factors, such as suppliers and creditors (Abebe, 2012). Thus, Abebe's work links top management characteristics directly to performance, skipping both strategy formulation and organisational concerns about implementation.

Barker and Barr (2002), on the other hand, look at how top managers' causal attributions affect strategic reorientation: top managers who attribute decline to internal causes are more likely to effect strategic change; if change is attributed to external causes, managers do not learn about the relationship of the firm with its environment, so are less likely to change when faced with decline. These causal attributions are affected by top management change, director turnover and financial slack. New directors bring new causal understandings, knowledge and skills that can enable change. This represents an explanation of the mechanism by which top management change benefits

performance. These findings coincide with the phenomenon of unlearning. Before unlearning, top managers believe their firm's decline is driven by external, uncontrollable and temporary forces, and respond by attempting to execute the existing strategy more efficiently, rather than engage in risky strategic reorientation. Unlearning occurs when TMTs discover that causes of decline are internal, permanent and controllable. Longer tenured TMTs tend to have difficulty responding to firm-based decline due to their attribution pattern, which is less effective for firm-based problems. In contrast, longer-tenured TMTs may be more successful where decline really is external, temporary and uncontrollable (Barker and Patterson, 1996).

Authors	Type	N	Context	Implementation	Management	Extant theory	Financial stakeholders	Strategy
Abebe 2009	LSS	60	US manufacturing		•	•		
Abebe 2010	LSS	98	US manufacturing		•	•		
Abebe 2012	LSS	70	US manufacturing		•	•		
Audia and Greve 2006	LSS	11	Japanese shipbuilding		•			•
Barker & Patterson 1996	LSS	29	US firms		•	•		
Barker and Barr 2002	LSS	29	US firms		•	•		•
Clapham et al. 2005	LSS	86	Public US companies		•	•		
Lohrke et al. 2004	Disc	N/A	Generic		•	•		•
Musteen et al 2011	LSS	110	MBA students		•	•		•
Trahms et al. 2013	Disc	N/A	Generic		•	•	•	•

Key: LSS: large sample study; Case: case study; Disc: discussion, analysis or model

Table 2. Key articles on top management characteristics by type, context and inclusion of five factors: implementation, management, extant theory, stakeholder power and strategy

Clapham et al. (2005) found that CEOs who failed to turn around were more likely to give themselves credit for the past successes of the organisation and to attribute failure to external factors; they also demonstrated more interest in the status quo and less concern for strategic change. CEOs that succeed are more likely to look for causes of decline inside the organisation and not blame external forces; they perceive more external threats and expect to have to deal with the situation through their own efforts; they contrast decline through strategic and organisational change already during the decline phase. One interpretation is that executives who fail view their environments differently because of the way they interpret data. CEOs who succeed recognise more

correctly and more quickly the need for change in the decline stage. Top managers' perception of severe decline has been found to be positively associated with the likelihood of choosing retrenchment strategy. The degree of perception of severity is positively associated with age, external locus of control and throughput functional background (Musteen et al., 2011). Managers in firms with fewer resources perceive low performance as a step closer to failure and therefore smaller firms tend to decrease risk when performance falls below aspiration levels (Audia and Greve, 2006). This is consistent with risk aversion theory (Tversky and Kahneman, 1986).

In summary, this school of research focuses on management characteristics in order to predict how these ultimately translate into performance, or attempts to link cognitive factors to strategic decisions which then have an implicit, indeterminate causal relationship with performance. It is rich in extant theory, often based either explicitly or implicitly on the behavioural theory of the firm (Cyert and March, 1963) or employing other theoretical approaches such as the resource based view (RBV) or human capital theory. It does not share the concern of the strategy school for choice of strategy (operational, entrepreneurial, two-stage and so on) because this is not the ultimate explanation for performance. In common with the strategy school, cognitive researchers systematically ignore the effects of decline and crisis on how, once strategy is formulated, managers actually implement it. Neither is there a concern for how financial stakeholders enter the cognitive reckonings of top managers and thence how they affect strategy formulation and implementation.

1.4.3 Top management techniques

Strategy scholars set themselves different challenges from practitioners and their academic students. If they were murder-mysteries, the strategy school would be an Agatha Christie novel: the only possible suspects belong the Strategy Family, and Efficiency, Entrepreneurial and Two- (and perhaps Three, Four and Five) Stage Strategy are assembled in the library. The question is, which one did it? Instead, the practitioner approach would be a Colombo film: it knows whodunit; it was the CEO. The question is, how did she do it? It turns out there is a discernible commonality of opinion in this branch of turnaround literature about how turnaround management is

done. Outside of theoretical explanations, in which only some few academics are interested, what is striking is the balance of attention paid to management, financial stakeholders, strategy and implementation. These elements are to be found in the earliest article in this tradition which, like the first works of the strategy school, dates from 1976 (Carrington and Aurelio, 1976). In contrast to the strategy school's single-minded dedication to a unique strategic solution, the management school speaks of the holistic nature of the discipline (Brege and Brandes, 1993; Maheshwari, 2000; Maheshwari and Ahlstrom, 2004). This holistic approach is most often captured in an encompassing turnaround plan which connects financial stakeholders, strategy and implementation, and covers the turnaround process from short term actions to long term vision (Balgobin and Pandit, 2001; Brenneman, 1998; Ghosn, 2002; Harker, 1996; Pandit, 1998; Remick, 1980; Ruiz-Navarro, 1998; Scherrer, 2003; Umbreit, 1996). Strategy can take many forms (Scherer, 1989) and is situation specific (Hegde, 1982; Manimala, 1991; Thain and Goldthorpe, 1990). Strategy is almost always a mix of moves including cost reductions and asset sales to improve efficiency and generate cash, together with a new product/market reorientation. However, this is not necessarily confirmation of the two-stage model of sequential retrenchment and recovery: Balgobin and Pandit (2001) propose a five-stage model for the turnaround of IBM in the UK, which specifies retrenchment after recovery, whereas Maheshwari and Ahlstrom (2004) explain how a major state-owned Indian enterprise addressed its product/market issues *before* downsizing. Ghosn (2002, p. 10) testifies that sequencing did not happen at all at Nissan, "you have to break and accelerate, brake and accelerate all the time... We couldn't say, 'There will be a time for cost reduction and then a time for growth'— we had to do both at once." Short term actions should be taken according to a long term strategic vision, (Brege and Brandes, 1993; Harker, 1996; Ketelhöhn et al., 1991; Thorbeck, 1991; Whitney, 1987).

The action orientation of turnaround managers is commonly acknowledged (Harker, 1996; Manimala, 1991; Marshall, 1989); even more so the need for a sense of urgency (Brege and Brandes, 1993; Brenneman, 1998; Jackson and Pettit, 2008; Marshall, 1989; Pandit, 1998; Thain and Goldthorpe, 1990; Umbreit, 1996; Whitney, 1987). This is often linked to a need to "stop the bleeding" (Thain and Goldthorpe, 1990), usually a reference to the requirement to stem net cash outflows through cost reduction (Chan, 1993; Hegde, 1982; Whitney, 1987), asset disposal (Brenneman, 1998; Jackson and

Pettit, 2008; Whitney, 1987), working capital management (Whitney, 1987), freeing up slack (Ghosn, 2002) or financial restructuring (Brege and Brandes, 1993; Jackson and Pettit, 2008; Maheshwari and Ahlstrom, 2004; Pajunen, 2006; Pandit, 1998; Scherrer, 2003; Thain and Goldthorpe, 1989). The prominence of financial strategy in the turnaround management literature is not surprising, considering that substantial decline causes, above all, a financial crisis. It is therefore all the more remarkable that, with few exceptions, this aspect is ignored by the strategy school. An explanation for such a position might be the hidden assumption that the firm has sufficient financial stakeholder support or sufficient internal slack (i.e. it does not need financial stakeholder support) to execute whatever strategy it has formulated. This is *not* assumed by turnaround managers. The lack of consideration of financial strategy to complement efficiency and entrepreneurial strategies explains the almost complete absence of financial stakeholders from strategic accounts of turnaround. Equally, the recognition of the need for a financial strategy and the power of financial stakeholders over turnaround managers, based on their control over access to cash and conditions for its provision, clarifies the emphasis placed on building and maintaining good relationships with banks, company boards and shareholders (Brenneman, 1998; Finkin, 1992a; Harker, 1996; Ketelhöhn et al., 1991; Khandwalla, 1983; Maheshwari and Ahlstrom, 2004; Pajunen, 2006; Scherrer, 2003; Thain and Goldthorpe, 1990).

Turnaround managers employ a number of common techniques for implementing the plan in dysfunctional (Brenneman, 1998; Ghosn, 2002; Umbreit, 1996), change-resistant (Harker, 1996; Ruiz-Navarro, 1998) or outright hostile (Maheshwari and Ahlstrom, 2004) organisations. There is widespread acknowledgement that culture is important and needs to be addressed (Finkin, 1992a; Ghosn, 2002; Manimala, 1991; McGavick et al., 2004; Modiano, 1987; Thorbeck, 1991). One of the most important factors for doing this is to make strenuous efforts to improve communications (Brege and Brandes, 1993; Chan, 1993; Jackson and Pettit, 2008; Khandwalla, 1983; Maheshwari and Ahlstrom, 2004; McGavick et al., 2004; Remick, 1980; Whitney, 1987) and an important method of accomplishing this goal is to simplify the organisational structure by taking out layers of management so that communications are more direct (Balgobin and Pandit, 2001; Harker, 1996; Whitney, 1987).

Authors	Type	N	Context	Implementation	Management	Extant theory	Financial stakeholders	Strategy
Balgobin and Pandit (2001)	Case	1	IBM	•	•			•
Brege and Brandes (1993)	Case	1	ASEA and ABB	•	•			•
Brenneman (1998)	Case	1	Continental	•	•		•	•
Chan (1993)	How to	11	Global US companies	•	•			•
DiNapoli and Fuhr (1999)	How to	N/A	Generic		•		•	•
Ghosn (2002)	Case	1	Nissan	•	•			
Harker (1996)	Cases	4	Australian engineering	•	•	•	•	•
Hedge 1982	Disc	N/A	Western/Indian models	•	•			•
Jackson and Pettit (2008)	How to	N/A	Generic turnaround	•				
Ketelhöhn et al. (1991)	How to	N/A	Generic turnaround				•	
Khandwalla (1983)	How to	N/A	Complex organisations	•	•		•	•
Maheshwari (2000)	How to	N/A	Indian companies		•	•	•	•
(Maheshwari and Ahlstrom, 2004)	Case	1	State-owned Indian	•	•		•	•
Marshall (1989)	How to	N/A	Generic turnaround				•	
McGavick et al. (2004)	How to	N/A	Generic turnaround	•	•			
Modiano (1987)	How to	N/A	UK manufacturing					
Pandit (1998)	Case	1	British Steel	•	•		•	•
Remick (1980)	How to	N/A	Generic turnaround					
Ruiz-Navarro (1998)	Case	1	Spanish shipyard	•	•	•		•
Scherer (1989)	How to	N/A	Generic turnaround		•		•	
Scherrer (2003)	How to	N/A	Generic turnaround		•		•	
Thain and Goldthorpe (1989)	How to	N/A	Generic turnaround		•		•	•
Thain and Goldthorpe (1990)	How to	N/A	Generic turnaround				•	
Thorbeck (1991)	How to	N/A	Generic turnaround	•	•		•	•
Umbreit (1996)	Case	1	Hotel	•	•			•
Whitney (1987)	How to	N/A	Generic turnaround	•			•	

Key: LSS: large sample study; Case: case study; Disc: discussion, analysis or model; How to: recommendations/advice

Table 3. Key articles on turnaround management by type, context and inclusion of five factors: implementation, management, extant theory, stakeholder power and strategy

Another, almost universally claimed practice is to introduce a culture of accountability (Brege and Brandes, 1993; Harker, 1996; Hegde, 1982; Khandwalla, 1983; McGavick et al., 2004; Pandit, 1998; Scherer, 1989; Thain and Goldthorpe, 1989; Umbreit, 1996). This achieves a number of objectives simultaneously: it creates trust (Ghosn, 2002; Harker, 1996; McGavick et al., 2004; Remick, 1980), fosters participation (Harker, 1996; Khandwalla, 1981), instils confidence (Jackson and Pettit, 2008; Maheshwari, 2000; Pandit, 1998), builds morale (McGavick et al., 2004; Remick, 1980; Thain and Goldthorpe, 1989) and improves control (Jackson and Pettit, 2008; Thain and Goldthorpe, 1989; Umbreit, 1996; Whitney, 1987); in short, it reduces the organisational complexity with which managers have to cope.

However, the master ingredient of any successful turnaround are the top managers themselves. The key to success is therefore a new CEO, and possibly other new top team members, who can bring strong, transformational leadership (Brege and Brandes, 1993; Brenneman, 1998; Harker, 1996; Jackson and Pettit, 2008; Khandwalla, 1983; Maheshwari and Ahlstrom, 2004; Remick, 1980; Umbreit, 1996). While the new CEO and other top managers may possess many different skills and qualities, there is one aspect which stands above all others: credibility. Top managers must either have or be able very quickly to build and maintain credibility with other stakeholders in order to master the turnaround process (Brege and Brandes, 1993; Chan, 1993; Khandwalla, 1983; Maheshwari and Ahlstrom, 2004; McGavick et al., 2004; Reichart, 1988; Scherrer, 2003).

One shortcoming of this body of work is that those CEOs who failed disastrously and sank the company are, perhaps understandably, underrepresented; so although the broad sweep of these documents provides a compelling pattern of behaviour, there is no possibility to compare it with the behaviour of managers who adopted the same techniques but whose company failed to turnaround for motives not captured by these explanations (Boyne, 2006). Another, related shortcoming is the almost complete lack of extant theory so that, while repeated claims can be made for the efficacy of certain actions, there is no contribution to understanding why those actions, and not others, are effective and therefore what constraints might operate on them or what contingencies might govern them.

In summary, the turnaround literature can be viewed as having two distinct but complementary schools of thought. The strategy school is highly focused on a narrow set of strategic choices and is generally not interested in how and by whom those choices are formulated and implemented, or how they are conditioned by powerful stakeholders. It is theoretically inchoate. The management school is highly concerned about whether CEOs or other top managers should be replaced. No definitive answer is as yet forthcoming because, despite widespread opinion and practice that top managers should be and are replaced, replacements still fail and incumbents do succeed. Attention has therefore expanded to the contingencies under which top managers should be replaced. Cognitive studies of management have begun to set out the management characteristics needed to effect successful strategic change but, similar to the strategy

school, they are uninterested in how managers operate in a dysfunctional organisation or deal with powerful stakeholders. Finally, the practitioner literature, generally sidelined by academic works, has a rich story to tell of successful strategies, techniques and tactics as well as how to implement them and how to deal with other stakeholders. Yet it is generally one-sided and theoretically invertebrate.

1.5 Recent conceptions of strategy

One approach which could provide deep insights into the turnaround phenomenon, on a theoretical and practical basis, is the recent and growing research agenda in strategy-as-practice (Whittington, 1996), also known as the activity-based view of strategy (Johnson et al., 2003). Strategy-as-practice (s-as-p) provides a European counterbalance to the overwhelmingly North American perspective on strategy in general (Carter et al., 2008; Clegg et al., 2004) and on turnaround in particular. S-as-p is concerned with *strategising*, the doing of strategy work; it looks at who strategises, how they do it, what they use in order to strategise and how these factors influence strategy (Jarzabkowski and Spee, 2009; Whittington, 2006), because “we have good reason to assume that strategy does not exist independent of a set of practices that form its base” (Carter et al., 2008, p. 92). S-as-p scholars place importance on the use of the gerund form of the verb (e.g. strategising, organising) rather than nouns (strategy, organisation) as the gerund names the action of the verb (strategising is the action of the verb ‘to strategise’). This distinction is to emphasise the *activity* of strategising over the product of strategy (Whittington, 2003). The s-as-p field sees strategy as being continually achieved by practitioners (people who strategise), through practices (social and material tools used to forge strategy, e.g. shared routines, traditions, norms) and praxis (the activities that people perform; what they actually do) (Jarzabkowski and Spee, 2009; Whittington, 2006); practitioners, practices and praxis are interrelated parts of a whole (Whittington, 2006). The s-as-p perspective, by uniting strategy and managers (most s-as-p publications focus on managers within the organisation as practitioners (Carter et al., 2008)) under the notion of strategising, has the potential to contribute to both mainstream turnaround schools or even begin to build bridges between them. Indeed, since s-as-p scholars see strategising and organising blending together in a duality so as to become indistinguishable (Whittington et al., 2006) even the organisational

interventions described by the turnaround practitioner tradition may be able to enter the academic fold and benefit from s-as-p insights.

While practitioners can be top managers (e.g. Jarzabkowski, 2003) there is also a concern for middle management (Whittington, 2003) which could provide new understanding for turnaround researchers who, if they have considered management at all, have focused almost exclusively on top management. For example, Balogun (2006) found that, although some level of compliance can be forced through structures, systems and roles, middle managers make sense of and act upon top management plans through informal processes of lateral communication, and edit those plans through interpretations. Thus, ultimately, the direction of change is determined by recipient interpretations. The implication is that senior managers need to participate in these sense making processes in order to shape them. Sillince and Mueller (2007) also consider middle management implementation in their study of the formulation-implementation interface, while Regnér (2003) looks at the contribution of middle and lower level managers at the periphery of the organisation to the generation of radically new strategies. The periphery had an effervescent interaction with the environment and was much more externally and exploration oriented than the corporate centre which relied on out of date knowledge structures, fed by industry reports or government documents. Consequently s-as-p considers interconnections between actors at different organisational levels (Regnér, 2008), but it also goes beyond the organisation to consider external agents such as management consultants (Regnér, 2008; Whittington, 2003) or even external institutional actors such as chambers of commerce or trade unions (Jarzabkowski and Spee, 2009).

The realm of praxis is extensive and covers the panoply of activities that practitioners carry out in order to bring about a strategy. For s-as-p, this includes not just formal strategy formulation and implementation (the inspiration), but the sometimes extended (sequence of) episodes involved in the “nitty-gritty” of strategy formation (Carter et al., 2008, p. 85) such as budgeting, board meetings, away-days, presentations and team briefings (the perspiration): “all the effortful and consequential activities involved in strategy work” (Whittington, 1996; 2006, p. 619). The idea is that practitioners invigorate formal strategy making by infusing it with their craft. Their craft includes interpersonal skills, communication technologies and scheduling devices, using tools

such as flipcharts, mobile phones or PowerPoint (Whittington et al., 2006). Thus praxis relies heavily on practitioners' capacity to access and deploy existing practices.

The practice field is similarly broad and includes not just intra-organisational routines and procedures but also extra-organisational forces which shape strategy, such as industry recipes (Grinyer and Spender, 1979) or the work of consulting groups or publicly known strategists (Whittington, 2006).

Whittington (2006) places s-as-p in a wider 'practice turn' taking place in contemporary social theory. However, based on Giddens' (1984) theory of structuration, in which the classic actor/structure dualism is conceptualised as a mutually dependent duality (the duality of structure), practice theorists avoid social theory's dualism between individual and society by respecting both the work of individuals and the mechanisms of society: actors are not atomistic individuals, but part of the social, yet they are not automata; people count (Whittington, 2006). At the corporate level this is an appealing facet of s-as-p for turnaround study as it "does not presuppose the primacy of managerial agency but rather encourages the exploration of the centrality of management within the complexity of the processes that go to make up and influence organizations. An activity-based view of strategy allows for, but does not commit to, managerial agency" (Johnson et al., 2003, p. 15). S-as-p would therefore be comfortable in a middle ground position between two contending views of turnaround represented by the strategy school, with its implicit assumption that strategy content can be implemented through a perfectly functioning, generic organisational machine, and the management school which very much advocates the primacy of management.

One promising possibility identified by Jarzabkowski (2004) and Johnson et al. (2003) is the contention that an activity-based view may be able to demonstrate at the micro-level how firm specific routines and processes are configured into localised intangible assets, such as social complexity, to build up valuable, rare, imperfectly imitable and non-substitutable resources that are the substance of the macro-level resource-based view of strategy (Barney, 1991). Both Jarzabkowski (2004) and Regnér (2008) propose that s-as-p can be a key to understanding dynamic capabilities (Teece, 2007; Teece et al., 1997): new resource configurations can be created from existing processes and activities which underpin dynamic capabilities. An illuminating example is provided by

Salvato (2003) in his study of core micro-strategies in two Italian firms. Core micro-strategies are relatively stable bundles of interconnected organisational routines and resources which have stratified over long periods of time and are therefore deeply-rooted in the organisation; when combined with new routines and resources, they produce adaptive strategic initiatives. While the resulting innovations can be radical, the core activities themselves are stable. The insight for managers is that the management task is to single out core micro-strategies and recombination patterns that are successful, to identify external factors to be recombined and to provide the context to allow recombination to take place. This accords with Whittington's (1996) understanding that s-as-p implies a shift in perspective from the core competence of the corporation to the practical competence of the manager as strategist.

The declared research agenda, then, is to investigate how practitioners are prepared to enter into effective practice; to track the course of practitioners over time; to discover how they master necessary practices and build knowledge of what it takes to become an effective strategy practitioner (Whittington, 1996, 2006). The preferred research method is ethnomethodology (Carter et al., 2008; Clegg et al., 2004) and much empirical work includes extended periods of real time observations (e.g. Blackler et al., 2000; Jarzabkowski, 2003; Regnér, 2003; Salvato, 2003; Sillince and Mueller, 2007). However, the requirements of real time observations may represent an impediment to the adoption of s-as-p in turnaround research. With very few exceptions, turnaround research is carried out a posteriori, since only after the process has reached its conclusion is it clear what, in fact, that process was. To clarify, if research is undertaken in a company attempting to recover from crisis and the firm effects a successful recovery, then the research can be placed in the body of work dedicated to turnaround. If, on the other hand, the firm fails and is dissolved, then the study belongs to the stream of research on business failure (e.g. Argenti, 1976; Daily, 1994; Harris and Sutton, 1986; Makridakis, 1991; McGovern, 2007). The strategising in s-as-p is highly context specific (Jarzabkowski, 2004; Regnér, 2008). While localised findings can be documented, it would be difficult to draw any meaningful conclusions about these findings until they can be collocated in their ultimate context of success or failure, which is the most meaningful context for turnaround scholars. Thus, there inheres an uncertainty in the use of s-as-p methodology for turnaround researchers about exactly what type of research they are undertaking, while they are undertaking it.

A more serious objection to the adoption of an s-as-p approach in turnaround is its ontology. The ontology of s-as-p is materially different from that of turnaround and may disqualify it from serious consideration by turnaround researchers. A feature of s-as-p is its fundamental interest in strategy making as a social practice in the production of strategic action, rather than trying to explain strategic change or firm performance. In fact, s-as-p research has not always identified what type of outcome is being examined at all (Jarzabkowski and Spee, 2009). If it is interested in an outcome, it is the success of individual practices and practitioners (Regnér, 2008). The objective of the practice perspective is:

to uncover how people actually get on with their work inside organizations. The concern is principally for the performance of practitioners in terms of their local effectiveness, only indirectly for the performance of organizations as wholes. Effectiveness typically involves a mastery of the routine and skilful adaptation at the edge of standard procedures (Whittington, 2003, p. 118).

S-as-p is therefore less concerned with performance of the organisation as whole and more with understanding what works for managers in order for them to make an impact (Whittington, 1996); an impact could even just be how to bring off a board meeting or a strategy retreat, regardless of organisational outcome (Whittington, 2006). Thus, the measure is not economic performance, but recognition of managerial influence, or even just reflexivity or the formation of reflective practitioners (Johnson et al., 2003). In their review of the literature, Jarzabkowski and Spee (2009) recognise that its adepts need to establish what outcomes are applicable to s-as-p if it is to speak to more traditional research. This is certainly the case for turnaround research which, due to its very nature, is overwhelmingly concerned with why firms succeed or fail which is, according to Porter (1991, p. 95), “perhaps the central question in strategy.” After almost 40 years of research, the most pressing need for turnaround researchers is still to provide insights into the factors that distinguish successful turnarounds from failures (Arogyaswamy et al., 1995; Cater and Schwab, 2008; Pandit, 2000). Thus, while more recent strategy approaches such as strategy-as-practice may hold promise for deeper insights into the ‘nitty-gritty’ of the turnaround process, they may not yet be ripe for the task.

1.6 A process approach

This research adopts a process approach. A process approach focuses the analytical lens at a mid-level resolution between the firm level view which dominates the strategy school and the micro-strategy perspective of strategy-as-practice; this is the Goldilocks Zone for sensemaking in turnaround research. Firm level, content based research is concerned with firm performance, but only aims at answering the “what?” question: what strategy? It does not open the black box of the organisation to explain why that strategy works, or how. Micro-strategy proposes to go deep into the black box at a level of magnification that would reveal the ‘practice inside the process’ (Johnson et al., 2003), but struggles to adjust its optics to clarify the effects on firm performance. Strategy process research delves deep enough into the black box of strategy and the organisation to answer the “how?” and “why?” questions (Langley, 1999; Van de Ven, 1992); importantly, it explains firm performance (Pettigrew, 1992). However, the approach taken in this thesis does not assume a naive separation of content from process, but rather links content to process in a situation-specific context and examines how these three elements interact over time. Based on Pettigrew (1992, p. 9) the research adopts the following five assumptions:

1. Embeddedness
2. Temporal interconnectedness
3. Interdependence of action and context
4. Holistic process
5. Links between process and outcome

The examination of strategic choices and organisational changes is embedded in an analysis of the inner and outer context of the organisation. The inner context includes the structural and cultural circumstances; the outer context encompasses the firm’s macroeconomic, competitive and sectoral environments. In this way, firm performance is linked to both higher levels of analysis in the industry sector and in the wider economy and to lower levels of analysis in terms of culture and history.

Similarly, temporal interconnectedness acknowledges the path dependent nature of the firm’s development in its unique history, but also recognises that the past not only

conditions the present and future options of the firm, but is also alive in the cognitive processes of decision makers.

In common with strategy-as-practice, a process approach concurs with Giddens' (1984) structuration theory and the duality of agency and structure, such that action is seen as the result of the interplay between actor and context. Thus, process analysis requires a theory of agency within a structural framework for human conduct (Pettigrew, 1992). This thesis illustrates how strategic choice is powered by management cognition, aided by implementation techniques, conditioned by environmental realities and constrained by firm resources and financial stakeholder power. The duality of actor and structure is examined using a unique theoretical framework which analyses actors' decisions through the lens of cognitive theory and investigates the underlying structural framework using organisational cybernetics.

In a holistic explanation, "causation is neither linear or singular... the search is for multiple intersecting conditions which link features of context and process to certain outcomes" (Pettigrew, 1992, p. 10). This thesis undertakes a holistic investigation of the turnaround process by examining the interconnected aspects of strategy content and strategy implementation, organisation and environment, management and stakeholders in a turnaround-specific context of financial crisis, over time, under an overarching theoretical framework.

These aspects are built into a model which integrates strategic choice, implementation techniques, managerial cognition, stakeholder power, firm resources, environmental conditions and extant theory. The model is then tested empirically and its predictive and explanatory power is validated by using it to predict and explain the processes which lead to successful and unsuccessful turnaround outcomes.

This study therefore breaks out of the traditional schemata of turnaround studies in order to cross-pollinate insights from across the discipline in order to contribute to efforts to understand a complicated and dynamic phenomenon based on a rigorous process analysis.

Finally, Pettigrew (1992) advocates that one way to encourage progress in process research is to reflect on and codify our own experiences. This is very much the case in this thesis. The disconcerting experience of a dysfunctional organisation led directly to a search for factors which help to implement decisions in malfunctioning firms and this is the subject of the next chapter. The insight that unmanaged complexity was the lead perpetrator of this dysfunctionality is the reason behind the use in the theoretical framework of the powerful science of cybernetics, for which complexity (or, more precisely, *variety*, for cyberneticians) is the very ‘stuff of management’ (Beer, 1979).

1.7 Paradigm, ontology and epistemology

1.7.1 Paradigm

The study presented here examines the role of human beings in an organisation, whose behaviour is contextually conditioned in a real world of concrete social relationships, and whose goal is to ensure the survival of a system by bringing it to an ordered and regulated state. Its assumptions are that empirical knowledge can be generated in an objective way in order to predict cause and effect. Thus, it sits squarely in the functionalist paradigm as described by Burrell and Morgan (1979). Moreover, the conceptual framework developed in chapter three is in line with the grand theory of structural functionalism and its concern with how complex social systems maintain integrity, internal stability and survive over time, as well as its use of the metaphor of an ‘organism’ to describe them. The organism metaphor stresses relationships between diverse, integrated internal components and a symbiotic relationship between a system and its environment; the system has needs or imperative functions which must be satisfied for it to survive and maintain its relationship with its environment (Morgan, 1980).

1.7.2 Ontology

The approach adopted in the thesis, while coming down clearly on the ‘management side’ of the literature requires a different ontology from both the strategic school and other studies from the management school. The ontological treatment by academic writers of a number of important factors is summarised in Table 4. The unit of analysis of the two schools is what distinguishes them; this thesis proposes that *strategic decisions* is an appropriate unit of analysis to look inside the black box of the organisation and examine how these condition and are conditioned by other factors. Human agency is generally sidelined by the strategy school, which assumes that all management teams are alike. By contrast, the management school and this study consider human agency as central and management as a decisive factor in turnaround performance. With analysis at the firm level, the strategy school views the organisation as a black box; by extension, aspects such as culture are assumed to be non-influential and all firms are equally capable of implementing the correct strategic choice, which is determined by the logic of the choice itself (usually the two-stage approach) or specific firm and industry contingencies (usually entrepreneurial/efficiency strategies). Performance results directly from strategic choice. Studies which focus on managerial characteristics are mostly unconcerned with the organisation as a performative entity; it is instead a context requiring certain managerial characteristics. With the required characteristics or the correct cognitive approach in place, strategic change will occur and/or a positive performance outcome will result; implementation or cultural status are assumed to be unproblematic.

A holistic examination, however, must consider the organisation and various aspects which affect its performance, for example culture, actively, and performance outcome is assumed to be an emergent property of the organisation. Strategic choice is determined by *strategic clarity* (Ritchie-Dunham and Puente, 2008), the extent to which strategists’ mental models correspond to the reality they represent; these mental models take into account the organisation and its environment. Stakeholders are an important element of the environment; they are assumed to possess power and to use that power to further their self-interests.

Factor	Strategy school	Management characteristics	Thesis
Unit of analysis	Strategic choice	Top managers' characteristics/cognition	Strategic decisions by top managers
Human agency	Marginal	Central	Central
Top management team	Interchangeable	Unique decisive factor	Unique decisive factor
Organisation	Black Box	Context for managerial characteristics	Structure which performs
Strategic choice	Determined rationally by context	Determined by management cognition	Determined by strategic clarity/conditioned by organisation and environment
Stakeholders	Silent followers	Silent followers	Vocal power groups
Culture	Neutral	Neutral	Restrainer/enabler, modifiable
Change	Return to equilibrium	Driven by cognition	Evolutionary/teleological
Implementation	Subsumed in strategy	Subsumed in management	Distinct, decisive factor
Performance outcome	Determined by strategy	Determined by management characteristics/strategic change	Emergent property of organisation
Environment	May (not) condition strategy	Input to managerial cognition	Input to decisions
Feedback	Not material	May condition cognition	Ongoing effect on decisions and organisation

Table 4. Ontological differences between the strategy school, the management characteristic approach and this thesis

The change mechanism assumed by the strategic school is (usually implicitly) a firm level movement from disequilibrium to equilibrium; whereas for the management school it is a strategy level change driven by managers' cognition. This study assumes both: a base level evolutionary impulse for change as a result of punctuated disequilibrium, steered by goal-driven top management. Finally, the strategy school generally does not consider feedback mechanisms, as the strategy/performance relationship is assumed to be direct and sufficient. Required learning, if any, is contemplated in the initial analysis of causes and contingencies and is built into the DNA of the ensuing strategy. Managerialists conceive of some feedback from the environment and the organisation to management cognition, which then may lead to strategic change. This study regards feedback on performance output from the environment and from the organisation as a material factor which alters decisions and the organisation itself.

1.7.1 Epistemology

The underlying assumption of the research is that how strategic decisions are formulated by top managers and how those decisions are implemented by the organisation determine the outcome of the turnaround process. The premise is that key factors which influence decision making and implementation can be identified and, when applied to the specific goal of turnaround, can broadly predict its outcome. In this sense, the research follows the positivist tradition of the bulk of the turnaround literature which is overwhelmingly deductive, based on hypothesis testing, and attempts to generate laws which apply in set conditions.

This completes the review of the literature. The next chapter will directly address a major gap in the turnaround literature by using elements from practitioner articles, the only body of work which describes to any extent how managers actually implement turnaround strategies, as the basis for a systematic analysis of turnaround implementation.

Chapter 2. Turnaround Manager Survey

In the beginner's mind there are many possibilities, but in the expert's mind there are few - Shunryu Suzuki (1904 – 1971)

The concentration on strategic choice and top management replacement described in the previous chapter has meant that strategy implementation has been a neglected area of study (Boyne, 2006; Chowdhury, 2002), yet the importance of implementation is acknowledged (Schendel and Patton, 1976; Sudarsanam and Lai, 2001). This survey directly addresses this important gap in the literature and attempts to establish what are the most important factors in turnaround implementation. In addition, there are a number of laments in the literature about the lack of attention dedicated to the actual process of turnaround during the recovery period, for example, “Little attention has been paid to a financially troubled business unit's recovery response – the set of reactions designed to profitably reposition the firm” (Pearce and Robbins, 1993, p. 614); “turnaround remains largely idiosyncratic and open-ended due to an overwhelming focus on the content of turnaround situations rather than the actual process of subsequent recovery or decline” (O'Kane, 2006, pp. 112-3); “how firms move away from crippling deterioration to enduring success or eventual death has received almost no attention” (Chowdhury, 2002, p. 250). This gap in the literature on the actions taken during the turnaround process is also addressed. Finally, the review of the practitioner literature in chapter one indicated an a priori case that relations with stakeholders are an essential component of turnaround management and that communication, management credibility and planning are particularly important features of the process. These relationships and features are examined in more detail.

The objectives of the survey are therefore fourfold:

- To determine the key factors for implementing a turnaround
- To establish a ranking of implementation factors in order of importance
- To plot management actions over time during the turnaround process
- To explore managers' relationships with key stakeholders with regard to three widely cited issues: communication, management credibility and planning

This chapter is organised into four sections. Section one presents the results of a literature search undertaken specifically to cull references to implementation. Section

two outlines the survey method adopted. Section three is the main section and details the results of the survey. Section four discusses conclusions.

2.1 Literature search

A list of references to themes which occur frequently in the implementation stage of turnaround was gleaned from a review of 102 articles whose title or abstract contained the word “turnaround”, or, alternatively, contained a clear reference to turnaround such as ‘responding to crisis’ or ‘return to financial health’ and were relevant to turnaround. Many of these themes are to be found in case studies or anecdotal articles describing a particular turnaround experience or recommended methods. Often these themes are mentioned, but not emphasised or analysed, however, the frequent repetition of a particular aspect of implementation across a number of articles was taken as a possible indication of its relevance. These aspects are listed in Table 5 and fall into two broad categories: practical issues or actions, and mental attitude. They are discussed in turn below.

Practical issues/actions	Mental attitude
Action	Accountability
Communication	Confidence
Cross-functional teams	Focus
Early success	Management credibility
Symbolism	Participation
	Urgency (sense of)
	Values
	Vision

Table 5. Recurrent themes in the literature on turnaround implementation

Accountability - (Blumenthal and Haspelagh, 1994; Boyle and Desai, 1991; Colino, 1986; Di Primio, 1988; Francis and Desai, 2005; Harker, 1996; McGavick et al., 2004; Scherrer, 2003). Accountability is a strong theme in turnaround articles and is usually mentioned in comments such as, “Individuals and departments became accountable for company performance” (Harker and Harker, 1998, p. 64) or as a part of organisational change it is important that employees are “accepting responsibility for results” (Blumenthal and Haspelagh, 1994, p. 104).

Action – Schendel et al. (1976) found that, on average, firms suffering decline were relatively inactive in terms of the number of incidents of actions and events; however, companies which successfully turned around were much more active with an average number of 6.8 incidents compared to 3.0 in the decline phase. Grinyer et al. (1990) uncovered a “bias for action”, closely linked to new values, vision, improved motivation and communication; their view was that success comes to action-oriented management. Harker (1996) observed that leaders were energetic, taking actions on many fronts. Other empirical research shows that, when reacting to decline, successful firms simply undertake more actions (Schreuder et al., 1991).

Communication - The references to communication outnumber those of other any other issue in turnaround implementation. Indeed, the case for a *massive* communication effort is made by several authors (Finkin, 1992a; Harker, 1996; Heany, 1985; Janzen, 1983; O'Kane, 2006; Smith and Sipika, 1993; Tourtellot, 2004). In the immediate aftermath of the trigger event, an intense threat is perceived with surprise. This phase is characterised by high levels of energy and abundant disinformation as managers struggle to cope with the complexity of the situation. Management should establish mechanisms for full and effective briefings to provide information and image management to all interested parties order to control rumour and speculation (Smith and Sipika, 1993). The first task of turnaround leaders is therefore to open channels of communication. Examples include fact-based open communication, weekly staff meetings, weekly business reviews, quarterly off-site meetings (Kanter, 2003) and face-to-face sessions with staff in order to get to know them and communicate the vision (Remick, 1980). Practitioners stress the need for accurate, even if negative or unpleasant, information (Ghosn, 2002; Lawrence, 2008; McGavick et al., 2004) as distorted truths may serve short term aims, but will inevitably undermine corporate responsibility and management credibility (Smith and Sipika, 1993). Commitment and motivation require effective communication by example as well as word (Grinyer et al., 1990) and employee uncertainty, causing many of the firm's internal problems, can be reduced if management maintains open channels of communication with employees (Arogyaswamy et al., 1995). An intensive and consistent information policy can be a solution to inertia (Janzen, 1983) since data feedback and diagnostic discussions are key to developing readiness to change (Beer, 1987). Moreover, shareholders will support management if the communication link is strong and they know about problems as they

occur (Kierulff and Petersen, 2009). Raina et al. (2003) stress that clear, precise, unambiguous communication is critical and a number of case studies describe how effective communication was needed (Lawrence, 2008), or how communication was improved throughout the organisation (Colino, 1986; Zimmerman, 1986). O'Kane (2006) recounts how people were 'love-bombed' with information, while McGavick et al. (2004, p. 145) exhort, "communicate, communicate, communicate".

Confidence/it's possible – (Finkin, 1985, 1992a). Generally seen as a management responsibility, many authors consider the generation of confidence in terms of a kind of psychological switch for the organisation, when people begin to believe that the turnaround task can be accomplished; a collective, "We can do this." In a speech at a corporate communications conference in 1987, Ian McGregor, author of one of the largest turnarounds in British industrial history said, "When people recognise the objective as something in which they can participate and as something achievable you will get a tremendous response" (Pandit, 1998, p. 71). Management should have a can-do attitude to breathe new life into the organisation (Finkin, 1992a) and inspire optimism (Remick, 1980); they have to understand their organisations and lead them to places to where they are capable of going (Thorbeck, 1991). Harker (1996) narrates how, "The turnaround leaders... recognised that destiny was no longer a static invincible event, it had become a moving phenomenon which they found they could also influence" (1996, p. 253). Kanter (2003) states the need to restore people's confidence in themselves and one another and engender respect: when people respect one another's abilities, they collaborate better to make a better future. People then begin to see their own role as crucial to the turnaround process (Zimmerman, 1986).

Credibility of management (Finkin, 1985; Kanter, 2003; Kierulff and Petersen, 2009; O'Neill, 1986b) often also referred to as **trust** or **confidence** in management (Chan, 1993; Finkin, 1985; Ghosn, 2002; Harker, 1996; McGavick et al., 2004; Raina et al., 2003; Reichart, 1988; Remick, 1980; Scherrer, 2003). Although an organisation has a limited capacity to sustain losses, that limit is neither immediate nor obvious if managers can convince stakeholders to maintain their support in the short term and be prepared for a long haul. Management earns the trust of employees by listening, debating and being willing to learn (Lawrence, 2008). Management credibility may be one of the leading factors in implementation. Indeed, DiNapoli and Fuhr (1999) believe

that the likelihood of a turnaround boils down to one key ingredient: is management credible?

Cross-functional teams – There are several references to the use of cross-functional teams (Ghosn, 2002; Harker, 1996; Kanter, 2003; Lawrence, 2008; Raina et al., 2003), flexible, temporary teams (Kanter, 2003), new organisational elements as projects (Remick, 1980), one-time task forces (Zimmerman, 1986) and workshops (Blumenthal and Haspelagh, 1994; Zimmerman, 1986). Generally, these create organisational flexibility, encourage innovation and open up communication channels. Only one writer was specifically contrary to this organisational solution, although his concern was for organisational costs: Finkin (1992b) exhorts firms to avoid task forces to solve problems; a better way is to reduce product and operating costs by improving procedures.

Focus – With limited time and resources, the issue of focus crops up repeatedly: the energy created in the process that develops dissatisfaction with the status quo must be channelled towards clear goals (Beer, 1987) and be concentrated on a limited number of objectives of critical importance (Chan, 1993; Remick, 1980) by emphasising what is important (Zimmerman, 1986). A good rule for turnarounds is to focus on the best customers, and ask them what they want and will pay extra for (Brenneman, 1998).

Participation - (Finkin, 1992a; Pandit, 1998), or a sense of belonging (Finkin, 1985). Participation unleashes ideas and motivation, increases risk taking and allows better exchange of information (Beer, 1987). Harker (1996) recounts how companies planned from the bottom up to create participation and improve morale, then revised from the top down. Supervisors were involved in creating a climate in which all individuals were encouraged to make a contribution. A sense of ownership among employees was literally created for Brunswick employees who received free shares in the company (Reichart, 1988).

Symbolism - Symbols serve as information carrying devices that help organisations achieve operational objectives and which take on an expressive role that taps into the emotional needs and values of organisational members. Symbolism can be important during organisational change to signal that change is occurring, the severity of the

situation and the values of the change agents (Armenakis et al., 1996). Each pronouncement and act in turnaround management will have symbolic meaning (Kierulff and Petersen, 2009). Actions with symbolic importance help define the mission (O'Kane, 2006; O'Neill, 1986b) and stakeholder management will involve substantive and symbolic actions (Arogyaswamy et al., 1995). Armenakis et al. (1996) examined the use of symbolism by 145 members of the Turnaround Management Association. The most commonly used and the most effective symbols were (in order) eliminating perks, using medical metaphors ('bleeding patient', 'stop the bleeding'), recognising departments and recognising managers. Symbols were judged to have both practical and expressive content. Eliminating perks contributes to net income and conveys a willingness of executives to share the sacrifices of the organisation, thus communicating fairness. Recognising sections of the organisation reinforces success and communicates the values that change agents require and reward. The 'bleeding' metaphor can be found elsewhere in the literature (Bibeault, 1982; Ketelhöhn et al., 1991; Raina et al., 2003) and signals the fatal consequences of failure to act urgently.

Urgency (sense of) - (Blumenthal and Haspelagh, 1994; Bonnici and Fredenberger, 1995; DiNapoli and Fuhr, 1999; Finkin, 1985, 1992a; Heany, 1985; Pandit, 1998). Turnaround situations are "hardly time forgiving" (Chowdhury and Lang, 1994, p. 205); turnaround managers do not have the luxury of abundant time (Whitney, 1987); they need to create momentum (Remick, 1980) due to the severe time constraints (Fredenberger and Bonnici, 1994) and make quick dramatic and visible changes (Remick, 1980). Managers should just act (Remick, 1980); speed of action (Janzen, 1983) is necessary because of the time pressure (Zimmerman, 1986). In the high velocity environment of turnarounds there is a frenetic race against time (Bonnici and Fredenberger, 1995), so it is important to accomplish the initial phase quickly (Finkin, 1992b). Disaster is assured if action is not taken quickly (Hofer, 1980).

Values - Honesty, objectivity and fairness are highlighted values (O'Kane, 2006; Thorbeck, 1991; Zimmerman, 1986). In a situation of dwindling resources and layoffs, the question of fairness is mainly considered under two aspects: top management compensation compared to the rest of the organisation and redundancies: a company must not implement plant closures and pay cuts but have highly paid managers with perks (Ketelhöhn et al., 1991); everyone should share in the pain and the gain (Finkin,

1985). Harker's (1996) case study described how the benefits of success were shared between workers (pay rises), company (re-investment), shareholders (dividends) and customers (reliability). Brunswick provided an outplacement service for all the employees who were terminated and within six months 90% were placed; symbolically it closed the executive dining room (Reichart, 1988). If layoffs are necessary, helping employees leave with dignity, helping terminated employees to find jobs and avoiding the appearance of inequities can motivate remaining employees to work productively (Arogyaswamy et al., 1995) and reasonable redundancy payments should be made (Pandit, 1998). McGavick et al. (2004) talked of how management paid severance benefits above the legal minimum which reverberated right back into organisation. Brenneman (1998) believed that inhumane firing makes remaining employees not trust the company and explained how Continental went out of its way to treat people fairly and to honour contracts.

Vision – Vision is regarded as an essential ingredient of turnaround by several writers (Grinyer et al., 1990; Harris, 1994; O'Kane, 2006; Raina et al., 2003). All turnarounds need a clear idea of where the organisation should be going (Colino, 1986). Ketelhöhn et al. (1991) posit that vision is essential from the very start of a turnaround and should condition both short and long term actions. The vision should be innovative (Ruiz-Navarro, 1998) or a new and sometimes shocking view of the situation (Zimmerman, 1986). Modiano (1987) argues for an 'operational' vision, not a vague statement of good intentions, but clear statements of where the company has to go and how to get there with hard quantified goals, communicated simply, clearly, consistently and often. Harker (1996) suggests a multi-level leadership approach to deliver the vision.

Wins – Early, demonstrable wins or successes, no matter how small, are considered a vital element by a number of authors (Heany, 1985; Janzen, 1983; Kanter, 2003). Thorbeck (1991) focused hard on "little victories" to lower expectations and create believers (1991, p. 56). Decisive moves and significant improvements will encourage staff enthusiasm and contribution of ideas (Finkin, 1992b). This implies that early decision making with limited resources, under time pressure and stakeholder scrutiny is critical and management credibility can be won or lost early on. The question of early wins also links theoretically to the question of confidence above and thence to

motivation, “There is nothing like success to convert anxious employees into devoted zealots” (Raina et al., 2003, p. 88).

Other issues - The importance of planning in turnaround has been identified by numerous writers (Balgobin and Pandit, 2001; Bibeault, 1982; Brenneman, 1998; Finkin, 1992b; Ghosn, 2002; Harker, 1996; Ketelhöhn et al., 1991; Maheshwari, 2000; Pandit, 1998; Raina et al., 2003; Reichart, 1988; Remick, 1980; Ruiz-Navarro, 1998; Scherrer, 2003; Slatter and Lovett, 1999; Snyder, 1994), but its importance to implementation is not clear. Another issue which bubbles under the surface in the literature is that of the locus of control. Certain writers favour an autocratic approach with centralised decision making and power consolidation; others prefer a more consultative attitude with power sharing. Finkin (1992a) is clear that in turnarounds there is no management by consensus: major change only happens under the direct authority of one leader; the new CEO must have freedom and ability to make changes; if the top manager cannot act decisively, the company is doomed. Scherrer (2003) argues that for the turnaround team to be effective it must have total control over the business and total authority to act quickly. Blumenthal and Haspelagh (1994) propose that strategic transformation requires strong leadership from the top team to set the strategic direction, establish processes to resolve issues and begin the process of building new competences; for firms in a severe financial crisis there is not enough time for a grass roots change and strong intervention from the top is required to jump start the process at the unit level. One industry commentator in Raina et al. (2003) even recommends the command and control style of General Patton “and let the critics be damned” (2003, p. 92). Other authors stress how attempts to prescribe detailed action are counterproductive (Stopford and Baden-Fuller, 1990) and that leadership cannot be independent of a community: imposing the will of the individual on the organisation is damaging for its health (Thorbeck, 1991). Support for shared power and decentralised control is provided by a welter of case studies (Ghosn, 2002; Schendel et al., 1976). For example, the new organisational structure at British Steel, baptised ‘the structure for survival’, involved decentralisation and increased middle management responsibility with managers being given targets and held accountable for results (Pandit, 1998). Reichart (1988) describes the drive for decentralisation as “giving the responsibility to the people who best know how to do the job” (1988, p. 5). Harker and Harker (1998) explain how CEOs amplified their turnaround efforts by “encouraging 'leaders'

throughout the companies to develop learning, growth and continuous improvement” (1998, p. 59). Remick (1980) offers a simple prescription: tell people what is needed, supply the programme, give feedback and reward achievement. Beer (1987) advocates the creation of smaller autonomous business units to create accountability. Zimmerman (1986) narrates how responsibility for production and quality was given to the people in the plant almost on an individual basis. Harris (1994) found that effective change was associated with open management systems, receptivity to change throughout organisation at all levels and a participative, developmental approach. Melin (1985) describes how the centralised power structure in two companies monopolised the interpretation of structural freedom of action for the firm and caused a concentration of strategic activities resulting in narrowed strategic management competence.

This concludes the section on the literature search. The themes which emerged from this search formed part of a data set which was used to determine and rank key success factors in turnaround implantation. The following section describes the research method used to achieve these two objectives and those regarding process and stakeholders.

2.2 Method

The method chosen for this study was a large scale survey of members of the European chapters of the Turnaround Management Association (TMA) using an online questionnaire. This was based on research precedent by Fredenberger and colleagues (Bonnici and Fredenberger, 1995; Fredenberger and Hoy, 1991; Fredenberger et al., 1997; Fredenberger and Bonnici, 1994) with US branches of the TMA. An extensive literature search revealed no similar articles based on collaboration with European chapters of this or comparable institutions so, in addition to insight into implementation factors, the survey promised to add a rare European perspective on turnaround.

According to the TMA website:

The Turnaround Management Association (www.turnaround.org) is the only international non-profit association dedicated to corporate renewal and turnaround management. Its international headquarters is in Chicago.

Established in 1988, TMA has more than 9,000 members in 47 chapters, including 32 in North America, and one each in Australia, Brazil, the Czech Republic, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Southern Africa, Spain, Sweden, Taiwan and the UK, with a chapter in formation in Hong Kong/China.

TMA members are a professional community of turnaround and corporate renewal professionals who share a common interest in strengthening the economy through the restoration of corporate value.

There are nine TMA chapters in Europe. These are in the Czech Republic, France, Finland, Germany, Italy, Spain, Sweden, the Netherlands and the UK. It was expected that all nine chapters would participate. No figures are publicly available for the membership size of the various chapters, but Fredenberger and colleagues' collaboration with the US TMA resulted in sample sizes of between 99 – 145 respondents. A similar response was hoped for in Europe.

2.2.1 Measures

Respondents were asked to rate each of the factors discussed in the literature search according to their importance. The scale used for this question was from 0 – 10 in accordance with Eisenhardt (1989, p. 575), whose study of decision making in high velocity environments measured 'importance' on a scale of 0 – 10, where 0 = "not at all important" and 10 = "extremely important". The same labels were adopted for this study. Eisenhardt's study was regarded as relevant as it was based on a survey of top managers operating in a high speed context: turnaround managers are often at the apex of company decision making operating in conditions of urgency.

Four further factors were also included as their effects on the implementation process in the literature are indeterminate.

- Centralisation of power
- Delegation
- Management incentives
- Turnaround plan

Since the approach ran the risk of finding that all factors were important merely because they were listed, three random factors were introduced: if the factors identified in the

literature were, in fact, important, then the importance of these random factors should be significantly lower. These random factors were:

- Persistence
- Sensitivity
- Experimentation

Respondents were encouraged to add up to five other factors that they felt were important. This question was designed to capture factors not discovered in the literature search. A further question asked respondents to rate the importance of the three values identified, *honesty*, *fairness*, *objectivity* and to add others which they felt were important.

A further question attempted to plot the turnaround process by asking which the top five priorities were over time in four distinct periods: months 1 – 6, months 7 – 12, months 13-18, beyond 18 months. This question was based on Gabarro (2007). Gabarro's work was considered particularly appropriate as it is a study of organisational change over time; it includes seven turnaround cases out of a total of 14 firms; and analyses the number of organisational change actions that take place after the arrival of a new top manager. As discussed in the literature review, the replacement of the CEO is a frequent occurrence in turnaround cases. Gabarro's study shows that the number of change actions fluctuates over time with peaks in the first and third six month period after the appointment of a new top manager.

Since the two factors *communication* and *management credibility* seemed from the literature review more important than other potential factors, questions regarding management's efforts towards a number of stakeholder groups with respect to these two factors were posed on a 0 – 10 scale. A question on the importance of the turnaround plan for the stakeholder groups was also included.

2.2.1 Procedure

The questionnaire was discussed, modified and subsequently approved by a Professor at the Manchester Business School as well as the Presidents of the Turnaround

Management Associations in the UK and Italy. It was translated into Italian and French by the author and checked by qualified mother tongue speakers (an Italian language teacher and a Swiss diplomat) for grammatical correctness. Translations into German and Spanish were made by, respectively, a German top manager with a doctorate in business studies and a Spanish consultant with one of the Top 4 consulting firms who is a DBA programme member at the Manchester Business School. The questionnaire was posted online, using Qualtrics survey software. A downloaded copy is reproduced in Appendix 1. A copy of the letter of explanation of the research's aims which was sent to the association heads is featured in Appendix 2.

Numerous attempts were made over a three-month period to contact the country TMA presidents in Europe by phone and e-mail and encourage them to ask their members to participate in the survey. Phone contact eventually was made with the presidents of eight of the nine national associations (the German president resolutely refused all attempts at communication). Of these six agreed to participate in the research and were: the Czech Republic, Finland, Italy, Spain, Sweden and the UK. A total of 44 respondents chose to identify the chapter of the TMA to which they belonged. Sixty one percent of respondents were from the UK, so that the majority of answers reflect the UK experience. The second most numerous contributor was the Italian chapter (Table 6). Evidently, the collaboration work with the representatives of these two chapters in the discussion and preparation of the questionnaire was a factor in their encouraging fellow members to participate in the survey. In fact, the author was requested to write a short e-mail on behalf of the UK President to send to his association's members (see Appendix 3) and was copied in the e-mail sent to the Italian members (see Appendix 4). No other association provided evidence of communication of the survey link to its members. Two anomalies are also to be noted: the Dutch association explicitly declined to participate, yet there is one respondent from the Netherlands; whereas the Swedish chapter explicitly confirmed they would take part (twice) but no-one from Sweden filled in the questionnaire. Response rates are difficult to gauge, but in phone calls the UK president mentioned 400 members and the Italian president spoke of a mailing list of 60 people. Based on this response rates are roughly 7% and 17% respectively, but not all TMA members are actual turnaround managers, so the percentage of replies from managers could be higher. This latter observation is based on the assumption that only managers could answer the core questions meaningfully which would exclude non-managers (for

example, lawyers or financiers) from taking part. In any case, response rates were much lower than for the US surveys of TMA members cited above of 67%.







#	TMA chapter		Response	%
1	United Kingdom		27	61%
2	Italy		10	23%
3	Czech Republic		3	7%
4	Spain		2	5%
5	Finland		1	2%
6	Netherlands		1	2%
	Total		44	100%

Table 6. Response rates by TMA chapter

2.3 Results

This section presents the results of the survey and is divided into a number of sub-sections according to the question asked and answered. The first sub-section presents some basic data on the experience of the managers in the sample. The second sub-section offers some descriptive statistics on the implementation factors and a statistical analysis using t-tests. The third sub-section synthesises respondents' answers to construct a description and graph of tasks involved in the turnaround process as it unfolds over time. The fourth sub-section examines the importance of three key success factors, communication, management credibility and the turnaround plan, for eight different stakeholder groups.

It is important to note that not all respondents answered all questions consistently. There is therefore some variation in sample size, n , according to whether respondents answered a particular question, or simply skipped it. The key question on the importance of the success factors for implementation had the highest response rate and was answered by 47 managers ($n = 47$) as shown in Table 12 on page 69. The lowest response rate was registered for the question on 'other factors', which only twelve managers ($n = 12$) chose to answer (see Table 15 on page 73). Sample size, according the statistical convention $n = x$, is shown in the heading of each table.

2.3.1 Analysis of sample

2.3.1.1 Firm size

The turnaround experience of the respondents was in a wide range of small, medium and large companies almost all in the range 1 to 5,000 employees, with only one manager having experience in a larger firm.

#	Firm size	n = 44	n	%
1	1 - 50 employees		5	11%
2	51 - 100 employees		10	23%
3	101 - 500 employees		11	25%
4	501 – 1,000 employees		10	23%
5	1,000 – 5,000 employees		7	16%
6	5,001 – 10,000 employees		1	2%
	Total		44	100%

Table 7. Turnaround managers' experience by firm size

2.3.1.2 Sectors

Multiple answers were allowed to the question on sector experience, so that the number of responses (114) is greater than the number of respondents (45). Due to this, the percentages shown in Table 8 sum to more than 100 and indicate that, for example, 76% of the 45 managers had experience in manufacturing turnarounds. This sector was where turnaround managers had been most active, with professional and business services a distant second (38%), and construction and retail the third most frequent sectors (24%). Overall, respondents had a broad range of industry experience, but most individual managers had experience in either one or two sectors (64%). The extreme outliers were two managers with experience in seven and nine industries respectively (Table 9).













#	Sector experience	n = 45	n	%
1	Agriculture, forestry and fishing		3	7%
2	Banking and insurance		6	13%
3	Bio-tech, pharma, chemicals		8	18%
4	Construction		11	24%
5	Education and health care		4	9%
6	Hotel, catering and tourism		6	13%
7	IT and telecommunications		8	18%
8	Manufacturing		34	76%
9	Mining and utilities		2	4%
10	Professional and business services		17	38%
11	Retail		11	24%
12	Other		4	9%

Table 8. Sector experience of turnaround managers










Sector experience No. sectors	n = 44	n	%
1		15	34%
2		13	30%
3		8	18%
4		4	9%
5		2	5%
6		0	0%
7		1	2%
8		0	0%
9		1	2%
Total		44	100%

Table 9. Number of different sectors in which managers had experience

2.3.1.3 *Most recent turnaround experience*

Eighteen out of 26 respondents (69%) classified their most recent turnaround attempt as an unqualified success, indicating that the sample of respondents was a generally successful group, but that even experienced turnaround managers are by no means infallible. Success was most often described either in terms of company survival, meeting stakeholder requirements or both. Other managers referred to the viability of the company in terms of its stability or its finances/creditworthiness. Minority opinions described success in terms of profit or sales/market share. Only one manager considered employees (Table 10). The eight partial successes/failures (31%) fell into four categories: short-term success/long term difficulties; an incomplete change programme; conflicts with stakeholders; or a business which was simply beyond saving (Table 11).

Comments	Complete success - described/explained as:
Success. Saved company that risked closure	Survival
Successful. Although reduced in size, the company is still alive	Survival
Successful - business survived, cash flow control was restored, and exit occurred.	Survival, positive cash flow, manager's exit
Successful - rescue of business and obtaining new finance	Survival, creditworthiness
Company was saved from insolvency. Banks were given possibility of full recovery in Debt to equity and PIK note. Creditors got full recovery albeit deferred. Company restored to profitability. Equity which was totally under water at outset retained 17.5% of company when 2.5% - 5% maximum would have been expectation at outset.	Survival, profitable company, financial stakeholder gain
Success. The company survived a serious crisis and continues to operate with new shareholders and without debt	Survival, new stakeholders, eliminated debt
Successful. Plan was implemented, business restructured and company has survived and is performing well. All stakeholders are believed to be happy.	Survival, stakeholder satisfaction, restructured business
Successful: equity ownership maintained, equity value protected, business positioned to succeed going forwards with options to beat plans, transition from interim to long-term CEO effected without hitch	Financial stakeholder gain, viable business, succession assured
Successful - meeting expectation of stakeholder and directors alike	Meeting stakeholder expectations
Success: stability of shareholders and management	Stakeholder, management stability
success, banks completely repaid (from a starting position of 50% impairment), business completely rehabilitated, jobs preserved, business sold to new trade owner who can invest/grow the business	Financial stakeholder gain, viable business, employment
Successful in stabilising financials and restructuring people and operations.	Stability, restructured company
Successful. Longer term sustainability secured	Viable business
A success. The firm has won important international orders and has won back the trust of the credit system	Sales, creditworthiness
Successful, the company performance turned around to profit and the company was able to find an agreement with the senior lenders.	Profit, creditworthiness
Successful - profitability restored, management team strengthened, cash crisis averted, new funding package agreed	Profit, cash flow, credit
Successful. Financial much improved. Management team more empowered. Shop floor involvement and contribution infinitely better. Morale scored considerably higher on all employee and customer surveys	Improved finances, motivated employees
Success. Maintained position in a difficult market with slight growth	Market share

Table 10. Most recent turnaround attempt – comments on successful turnarounds

Comments	Partial success/failure - described/explained as:
NewCo survives; but getting fresh capital will be the real test.	Short-term survival; long term unsure
Successful as long I was there, when I left they fell back to old patterns and became unsuccessful again.	Short term success; long term unsuccessful
Financially successful, but unsuccessful, in that owners / Directors, did not embrace the change required as totally as they should.	Financially successful; failed to change
Partially successful - stopped the losses and the performance heading in the right direction, but Programme not complete before the restructuring team was dismantled, so with much work in progress it risks losing momentum	Losses eliminated; incomplete restructuring
Restructuring of real estate developer listed on Prague Stock Exchange. Successful - proper business plan was prepared and introduced - commercial terms about financial restructuring achieved Unsuccessful - the communication with different group of creditors have not start in one time (because of top management "wishes") - usage of inexperienced law firm	Business plan in place; communication problems financial stakeholders
Partial failure due to limitations imposed by the owners (conflict between shareholders and lack of effective mandate)	Conflict with shareholders
Successful. Although it was not a business that could be saved the exit was more controlled and creditor and stakeholder exposure was reduced.	Financial stakeholder losses reduced; business died
I would define it a failure because the restructured company has not in reality been relaunched, despite cost reductions; the real missing factor is turnover in a sector a severe difficulties.	Cost reductions; lack of sales

Table 11. Latest turnaround attempt – comments on partially successful or failed turnarounds

2.3.2 Key success factors

The 20 factors, comprised of 13 hypothesised success factors, four potential factors and three random concepts are ranked according to the mean rating for 'importance' in Table 12. A notable finding is that for 15 out of 20 factors the range is the maximum permissible from 0 – 10; the only factor with a limited range is Management Credibility indicating that, across the sample, managers had a very broad spectrum of opinions on the importance of every potential factor, except themselves: no-one rated the latter as unimportant. In this respect, and also due to its clear position at the top of the table, Communication also deserves mention. Only one respondent rated it as relatively unimportant; indeed, 92% of managers rated it from 8 – 10 in importance.

The key question on the importance of the success factors for implementation was answered by 47 managers ($n = 47$). A sample size of $n = 47$ is sufficiently large to provide a margin of error of ± 1 around the mean value of each of the implementation factors with a 99% confidence level. In other words, it can be stated with 99% confidence that the population mean for the importance rating of each implementation factor would fall into a range of ± 1 of the sample mean for that factor (see Appendix 5 for details).

The wide range is, to an extent, due to a group of four managers who rated between 8 and 15 factors at zero. A closer examination of these managers revealed no communality between them in the dimensions that were measured: they were from four different nations, had recent experience in firms with either 51 -100 or 500 – 1,000 employees and had experience in one, three or four separate sectors which were widely varying. While the majority of factors have a small number of respondents rating them at 0 or 1, in all such cases, there was a much higher number of managers giving a value of 9 or 10 (see histograms commencing on page 292).

#	Factor (n = 47)	Min	Max	Mean	Std. dev	Median
1	Communication*	2	10	8.74	1.42	9
2	Management credibility*	5	10	7.98	1.57	8
3	Accountability*	0	10	7.36	2.57	8
4	Urgency*	0	10	7.34	3.24	8
5	Confidence*	0	10	7.15	2.72	8
6	Action*	1	10	7.09	2.55	8
7	Focus*	0	10	7.06	3.05	8
8	Persistence***	0	10	7.02	2.89	8
9	Plan**	0	10	6.89	2.99	8
10	Early successes*	0	10	6.72	2.83	7
11	Participation*	0	10	6.68	3.05	8
12	Vision*	0	10	6.62	2.75	7
13	Centralisation of power**	1	10	6.60	2.08	7
14	Values*	1	10	6.55	3.01	8
15	Delegation**	0	10	6.38	2.63	7
16	Cross-functional teams*	0	10	5.64	2.94	6
17	Sensitivity***	0	10	5.43	2.88	6
18	Symbolism*	0	10	5.36	2.85	6
19	Management incentives**	0	10	4.96	3.32	6
20	Experimentation***	0	10	4.26	3.07	4

*Hypothesised factor **Indeterminate factor ***Random factor

Table 12. Potential success factors in turnaround implementation ranked by mean importance

The top eight factors have a mean above seven, distinguishing them as clearly important factors in turnaround implementation, while the average score of the bottom two is below five, placing them towards the relatively unimportant end of the scale. However, given the small but consistent group of outliers at 0 or 1, the more robust median may be a more meaningful statistic. In all but one case, the median is higher than the mean due to the negative skew of the distribution, most notably for Participation, Values and Management Incentives. Table 12 reports both measures of central tendency.

What of the three random factors? Figure 1 shows the mean importance ratings of the random factors compared to the overall mean of the 13 hypothesised factors. Visually, there is little difference between the means of the hypothesised factors and Persistence, whereas Sensitivity and Experimentation appear significantly different.

Kolmogorov-Smirnov tests showed that the parametric assumption of normal distribution of the differences between the hypothesised factors and each of the random factors was satisfied: hypothesised factors and Experimentation, $D(47) = 0.078$, *ns*; hypothesised factors and Sensitivity, $D(47) = 0.073$, *ns*; hypothesised factors and Persistence, $D(47) = 0.099$, *ns*.

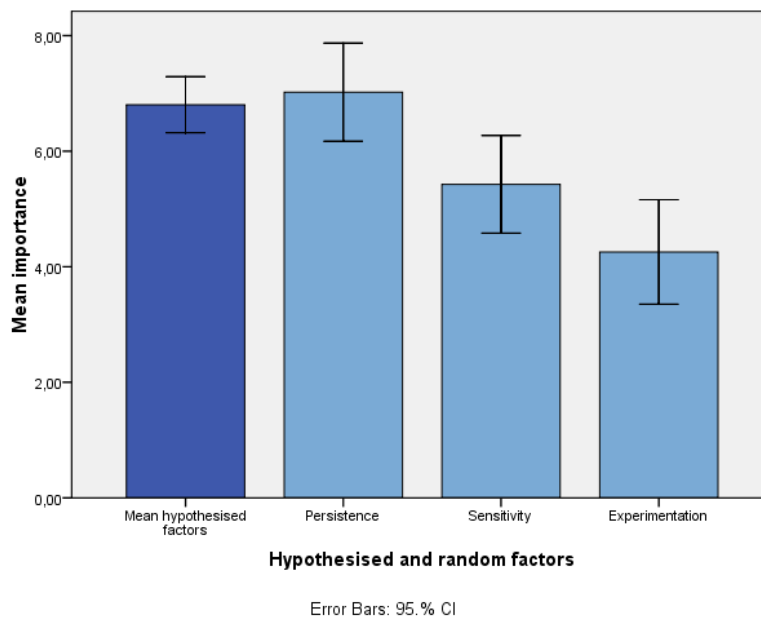


Figure 1. Mean importance ratings for hypothesised vs. random factors

Paired sample t-tests were carried out to determine if the random factors were significantly different from the average of the hypothesised factors. On average, the hypothesised factors ($M = 6.80$, $SE = 0.24$) were significantly more important than both Experimentation ($M = 4.26$, $SE = 0.45$), $t(46) = 6.30$, $p < .001$, $r = .68$ and Sensitivity ($M = 5.43$, $SE = 0.42$), $t(46) = 3.98$, $p < .001$, $r = .51$. The differences are substantial. However, there was no significant difference between the average hypothesised factors ($M = 6.80$, $SE = 0.24$) and Persistence ($M = 7.02$, $SE = 0.42$), $t(46) = -0.75$, *ns*. The differences between the average hypothesised scores and those for the indeterminate factors Delegation, $D(47) = 0.93$, *ns*; Centralisation of Power, $D(47) = 0.076$, *ns*; Management Incentives, $D(47) = 0.127$, *ns*, and Plan, $D(47) = 0.114$, *ns*, were all normally distributed. On average, the hypothesised factors ($M = 6.80$, $SE = 0.24$) were significantly more important than Management Incentives ($M = 4.96$, $SE = 0.48$), $t(46) = 4.46$, $p < .001$, $r = .55$. The effect size was substantial. The hypothesised factors were not significantly more important than Delegation, ($M = 6.38$, $SE = 0.38$), $t(46) = 1.34$, *ns*; Centralisation of Power, ($M = 6.60$, $SE = 0.30$), $t(46) = 0.66$, *ns*; or Plan, ($M = 6.89$, $SE = 0.44$), $t(46) = -0.25$, *ns*.

Overall the importance of the hypothesised factors is demonstrated, although the relatively low scores for Symbolism and Cross-functional Teams indicate that these factors are of more marginal importance. Symbolism can be considered a subset of

communication and may not be, in and of itself, an object of dedicated attention. Cross-functional Teams are a specific organisational solution and may depend on company size and structure and thus be a contingent factor. Otherwise 9 out of 13 scored eight or nine indicating a high level of importance.

Three random factors were included in the survey to control for any responses which rated factors as important due to the mere fact that they were listed in the questionnaire. Of these, two were significantly less important than the hypothesised factors, a fact which tends to demonstrate that the actual importance of the hypothesised factors is real. The third random factor, Persistence, was, on average, as important as the hypothesised factors. This either weakens the case for the importance of the other 13 factors, since there was no significant difference between a control factor and the hypotheses being tested, or represents a serendipitous discovery of a new factor which is genuinely important for turnaround implementation. The data do not allow for a clear resolution of this dilemma but, given the highly fairly high mean and median ranking of Persistence and its significant correlation ($p < .001$) with most other variables, a tentative case for a chance discovery can be made. In any case, this result is in keeping with the exploratory nature of the survey! Three out of four tentative factors were, on average, not significantly different in importance from the hypothesised factors, confirming their status as important success factors.

In 15 out of twenty cases the range was the maximum permissible from 0 to 10; in three others it was between 1 and 10. Thus the sample of turnaround managers rated most factors as both 'not at all important' and 'extremely important'. The only issues which evinced any semblance of consensus were the questions of their own credibility with a range of 5 to 10 and communication, which 51 out of 52 rated at 6 or above. This result is due to a small number of respondents who rated most factors at 0 or 1. How should this result be interpreted? Closer analysis revealed a core of managers who rated from 8 to 15 factors at zero; in some instances other managers rated the same factors at zero and increased the number of zero ratings. There was no communality between the managers in terms of nationality, experience or firm size. Within the limits of the data, the results seem to represent a genuine difference of opinion between turnaround managers. In all instances the 'low raters' were in a minority and the 'high raters' (at 9 or 10) significantly outnumbered them. However, while there may be a majority view,

there certainly seems to be no universally accepted view of what constitutes ‘turnaround management’.

	Accountability	Action	Centralisation of power	Communication	Confidence	Delegation	Early successes	Focus	Mgt. credibility	Participation	Persistence	Plan	Urgency	Values
Action	-0.32													
Central. power	0.43	-0.11												
Communication	0.38	-0.27	0.20											
Confidence	0.80	-0.44	0.38	0.43										
Delegation	0.64	-0.35	0.34	0.27	0.82									
Early successes	0.82	0.01	0.28	0.10	0.64	0.50								
Focus	0.71	-0.19	0.38	0.15	0.61	0.59	0.66							
Mgt. credibility	0.62	-0.24	0.36	0.05	0.56	0.47	0.51	0.47						
Participation	0.75	-0.18	0.22	0.32	0.66	0.55	0.71	0.49	0.44					
Persistence	0.78	-0.23	0.24	0.16	0.77	0.63	0.79	0.72	0.60	0.77				
Plan	0.70	-0.12	0.20	0.02	0.62	0.53	0.75	0.63	0.51	0.61	0.74			
Urgency	0.77	-0.19	0.40	0.15	0.65	0.64	0.72	0.66	0.62	0.67	0.74	0.59		
Values	0.70	-0.25	0.42	0.33	0.73	0.58	0.64	0.52	0.65	0.65	0.69	0.55	0.71	
Vision	0.76	-0.11	0.50	0.25	0.74	0.64	0.70	0.71	0.41	0.62	0.67	0.61	0.63	0.65
Sig. (1-tailed)														
Action	0.01													
Centralisation of power	0.00	0.21												
Communication	0.00	0.03	0.08											
Confidence	0.00	0.00	0.00	0.00										
Delegation	0.00	0.01	0.01	0.03	0.00									
Early successes	0.00	0.48	0.02	0.23	0.00	0.00								
Focus	0.00	0.09	0.00	0.14	0.00	0.00	0.00							
Management credibility	0.00	0.04	0.00	0.37	0.00	0.00	0.00	0.00						
Participation	0.00	0.10	0.06	0.01	0.00	0.00	0.00	0.00	0.00					
Persistence	0.00	0.05	0.04	0.13	0.00	0.00	0.00	0.00	0.00	0.00				
Plan	0.00	0.21	0.08	0.46	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Urgency	0.00	0.09	0.00	0.15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Values	0.00	0.04	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Vision	0.00	0.21	0.00	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Table 13. Correlations between variables with significance levels.

Values as a key success factor scored a mean of just over six on the overall importance ratings of the key success factors. However, when thinking just about values, turnaround managers rated all three of the values which emerged from the literature highly (Table 14). Notably, the more task-oriented Objectivity scored higher than the people-oriented Honesty and Fairness. Only four respondents elected to add to this list.

The additional values were: integrity, respect for others, trust, openness, social impact and a sense of shared experience.

#	Answer (n = 39)	Min	Max	Mean	Std. dev.
1	Objectivity	4	10	9.05	1.30
2	Honesty	5	10	8.74	1.62
3	Fairness	3	10	7.67	1.94

Table 14. Importance ratings of hypothesised values

2.3.2.1 *Other factors*

A limited number (12) of respondents indicated other issues that they believed to be important in implementing a turnaround. These are listed verbatim and reduced to a smaller number of common factors in Table 15.

Issue (n = 12)	Factor	Locus of control
The person in charge	Management	Management
Change the managers	Management	Board/stakeholders
Ask owners to step back and give autonomy to management	Management	Shareholders
Change agents	Management	Management
External stakeholders	Stakeholders	Stakeholders
Management of stakeholders	Stakeholders	Management
Understanding the position of all stakeholders	Stakeholders	Management
Consensual agreement about turnaround solution between all key stakeholders	Stakeholders	Stakeholders
Internal stakeholders	Stakeholders	Management
Flexibility to events	Ability	Management
Diligence	Ability	Management
Honing skills	Ability	Management
Team of advisors who are quick and competent	Ability	Management
Sector-specific knowledge	Knowledge	Management
Knowledge of formal procedures	Knowledge	Management
Clear understanding of norms	Knowledge	Management
Trust / respect	Values	Management
Removing ego	Values	Management
Removing greed	Values	Management
Reputation	Credibility	Management
Focus on cash management	Cash	Management
Creating a focus on cash	Cash	Management
Decentralising power as soon as possible	Delegation	Management
Fun	Attitude	Management
Quick actions for survival	Speed	Management
Funding	Finance	Stakeholders
Robust, credible and feasible business plan	Plan	Management
Introduce risk insurance	Insurance	Management
Industry	Environment	External

Table 15. Other factors considered important in turnaround implementation

Of 29 issues mentioned, four are simply the managers themselves; otherwise most of the issues are some aspect attributable to managers such as their ability, attitude, knowledge, values and credibility (the latter two already listed in the hypothesised factors), or a specific management task, such as managing cash, providing a plan (also in the hypothesised factors) or insurance.

2.3.2.2 Difference between success and failure

In an attempt to investigate key success factors in a more open format, respondents were asked to offer their own opinions, freely expressed, on what distinguishes success from failure in turnaround. Table 16 provides the verbatim answers from turnaround managers. These have been organised into six separate categories. A number of respondents indicated that managers alone are the defining factor. Some regarded management and the people inside the organisation, or management and some feature of the business as requisite combinations; others considered that a necessary and sufficient condition for success is management capability together with support from (mainly) the board and providers of finance. Some managers went further to regard stakeholder support in and of itself as the decisive factor, or stakeholder satisfaction as a definition of success. Only one comment listed the company on its own as a factor that could determine success or failure.

<p>Management & Leadership</p> <p>Person in Charge</p> <p>Leadership</p> <p>Leadership</p> <p>Achieving your aims, whatever they may be. hitting benchmarks, raising rescue finance, hitting a new budget, achieving an exit, etc.</p> <p>Restructuring of operations in parallel with financial restructuring and not just a balance sheet restructuring of existing structure</p> <p>The ability of the advisor to identify truly effective solutions and a relationship of mutual respect with the client</p>	<p>Management and Stakeholders</p> <p>Experienced restructuring team and common ground with key stakeholders (shareholders and lenders)</p> <p>Ability to implement key decisions and support from incumbent Board</p> <p>Commitment of staff and team working, lead to good outward messages to financiers, other stakeholders and commercial markets</p> <p>Saving the business, or part of the business - and whether most stakeholders have been satisfied or not. New or replacement finance is essential to an effective turnaround.</p> <p>Timely and adequate financial support to effect solutions to problems; decisiveness and autonomy of the professionals who are specialised in implementing the choices made</p> <p>Having competent restructuring people involved, good judgment (what is possible) on the key issues which (with hindsight) will have been the factors which determined success/failure, develop sensible plan, agree with stakeholders and rapid implementation, restructuring is not a game of perfect outcomes.</p>
<p>Management and People</p> <p>Harnessing the people, early grip on cash flow</p> <p>Top management commitment to change, and ownership of the problem. Frequently in family businesses, they are not "grown" correctly, and the fail results. The success of the phase up to failure frequently has a personally perceived high emphasis than the failure, the reason for which is so often is relegated to a blip or staff let me down, or the market, rather than anything more fundamental. Always down to people!</p> <p>Leadership, people, process, resulting financial output</p> <p>Five P's: People (capable, committed, well organised and well led)</p> <p>Processes (changed, embedded, ensuring improved performance)</p> <p>Priorities (the critical few acted on, the trivial many not allowed to distract)</p> <p>Pace (implementing fast, fixing issues fast, accelerating 'normal' speed of business)</p> <p>Progress (reliable monitoring, achieving results, communicating successes and fixing issues which arise)</p>	<p>Stakeholders</p> <p>Successful - consensual agreement between all key stakeholders achieved</p> <ul style="list-style-type: none"> - business keep production/activity going - maximise recovery for creditors <p>Unsuccessful - operation stopped</p> <ul style="list-style-type: none"> - lost trust between management/shareholders/creditors - lost value <p>Stakeholder collaboration</p> <p>The buy-in of the board and it's courage to see turnaround through, and not being afraid and shy of unpopular decisions such as downsizing and taking up loans just because shareholders could criticise the board for it.</p>
<p>Management and Company</p> <p>Transparent approach, market specific knowledge and a viable product</p> <p>Underlying viable business, capable management team or ability to make changes to create one, sufficient liquidity to survive the turnaround period, drive and determination to see it through, no conflicts of interest. Bit of luck - no unforeseen adverse events.</p>	<p>Stakeholder satisfaction, improvement in financial results, job preservation</p> <p>An improved position for all or most stakeholders</p> <p>Supportive Main Board - realistic expectations (particularly over timescales)</p> <p>Company</p> <p>Value added of the enterprise and the ROE</p>

Table 16. Verbatim answers to the question, "In your view, what makes the difference between a successful and an unsuccessful turnaround?"

2.3.1 The turnaround process

An extremely wide variety of activities was undertaken during the recovery process over the 18+ month period examined. The top five priorities stated in four consecutive six month periods were reduced to a list which gives the most explanatory power for the least number of factors. It should be noted that a degree of interpretation was necessary for some comments and in those cases the author used his best judgement in allocating answers to a particular factor. Most responses were unequivocal such as “Cash flow” and answers such as “Ensure everyone understands key issues and needed actions” can readily be classified as *communication*, but comments such as “Communicate and manage stakeholders” or, even more ambiguous, “Effective stakeholder communication” can be codified either as *communication* or *stakeholder management*. In both cases these replies were classified as *stakeholder management*, the interpretation in the former case being that communication was in order to manage stakeholders; in the latter the linguistic clue in the word *effective* was inferred as an indication of the ulterior purpose of the communication, beyond merely informative aims, to influence stakeholders, but this could clearly also be interpreted as simple *communication*. Fortunately, the number of such borderline cases was minimal.

For the first six months a total number of 35 factors were listed in 130 responses. Six out of 35 of these factors (17%) accounted for 73 out of 130 responses (56%) and gave the most explanatory power for the least number of factors (Table 17). Table 18 shows the top six factors, the percentage of the total number of responses which these factors account for and the percentage that each factor represents of the top 6 only. This analysis was repeated for the remaining three periods: 7 – 12 months, 13 – 18 months and > 18 months. The results are given below in Table 17 - Table 24.

Table 25 represents a distillation of the data to provide an overview of the turnaround process through the eyes of turnaround managers from start to finish. It can be seen that cash management is the most important activity in the first six months. Indeed, almost half of the turnaround managers ranked this as their number one priority (on a scale of 1 – 5) in this period. The number of responses listing cash management declined in the second six month period and fell to nil thereafter. Logically, analysis was limited to the beginning of the turnaround, after which it was no longer mentioned. Planning activity

Priorities months 0 – 6 (n = 29)	No. factors	No. responses
Top factors	6	73
Total factors	35	130
	17%	56%

Table 17. Number of responses reduced to a number of common factors

Top 6 factors months 0 - 6	No. responses	% all responses	% top 6 responses
Cash	20	15%	27%
Plan	15	12%	21%
Stakeholder mgt.	14	11%	19%
Analysis	10	8%	14%
Mgt. team	9	7%	12%
Communication	5	4%	7%
	73	56%	100%

Table 18. Top 6 factors in the first six months of a turnaround

Priorities months 7 – 12 (n = 16)	No. factors	No. responses
Top factors	7	67
Total factors	22	109
	32%	61%

Table 19. Number of responses reduced to a number of common factors

Top 7 factors months 7 - 12	No. responses	% all responses	% top 6 responses
Plan	14	13%	21%
Product/market	13	12%	19%
Cash	9	8%	13%
Restructuring	9	8%	13%
Implementation	8	7%	12%
Mgt. team	7	6%	10%
Hit targets	7	6%	10%
	67	61%	100%

Table 20. Top 7 factors in the months 7 - 12 of a turnaround

Priorities months 13 – 18 (n = 16)	No. factors	No. responses
Top factors	7	41
Total factors	20	65
	35%	63%

Table 21. Number of responses reduced to a number of common factors

Top 7 factors months 13 - 18	No. responses	% all responses	% top 6 responses
Product/market	8	12%	20%
Plan	7	11%	17%
Mgt. team	6	9%	15%
Implementation	5	8%	12%
Stakeholder mgt.	5	8%	12%
Personnel	5	8%	12%
End TA/BAU*	5	8%	12%
	41	63%	100%

Table 22. Top 7 factors in months 13 - 18 of a turnaround

All 5 priorities > 18 months (n = 14)	No. factors	No. responses
Top factors	6	29
Total factors	19	51
	32%	57%

Table 23. Number of responses reduced to a number of common factors

Top 6 factors > 18 months	No. responses	% all responses	% top 6 responses
Product/market	6	12%	21%
End TA/BAU*	6	12%	21%
Personnel	5	10%	17%
Management team	4	8%	14%
Plan	4	8%	14%
Restructuring	4	8%	14%
	29	57%	100%

Table 24. Top 6 factors after the first 18 months of a turnaround

Activity	Months 0 - 6	Months 7 - 12	Months 13 - 18	>18 months
Cash	27%	13%		
Plan	21%	21%	17%	14%
Stakeholder mgt.	19%		12%	
Analysis	14%			
Mgt. team	12%	10%	15%	14%
Communication	7%			
Product/market		19%	20%	21%
Restructuring		13%		14%
Implementation		12%	12%	
Hit targets		10%		
Personnel			12%	17%
End TA/BAU*			12%	21%
	100%	100%	100%	100%

*End turnaround/business as usual

Table 25. Major turnaround management activities by six month segment months 0 to >18

on the other hand continued at virtually the same level throughout the entire process, however the nature of planning varied over time: in the earliest phase comments were simply of the nature “prepare plan”, or “turnaround plan”; in the second period the emphasis changed to “development of strategic plan”, “approval of plan” or “finalise plan”; by the beginning of the second year approval of the plan is still a factor, as is plan development, but mentions arise of identifying opportunities for growth, not just survival, thinking about the future and even exit strategy. By the final period, planning is about mid-course adjustments, developing a three-year plan or increasing the planning period. References to the management team are also constant throughout the whole process. In the first 12 months continued emphasis is on having the (right) team in place: “capable senior management team”, “mobilise management team”, “get the right key people”, “put strong management team in place” and so on. This continues into the second year but is accompanied by calls for succession planning or delegation. Stakeholder management and restructuring seem to alternate with peaks in shareholder management activity in the first six months of the first and second years. Restructuring is more frequent in the months 7 – 12 and after 18 months, whereas there is a specific focus on implementation (rather than analysis or communication) in months 7 – 18. Virtually no product market activity takes place in the initial period, but it becomes important and constant from then on. Interest in personnel management becomes significant in the second year. Moves to end the turnaround process and get back to business as usual already begin early in year two and increase after 18 months.

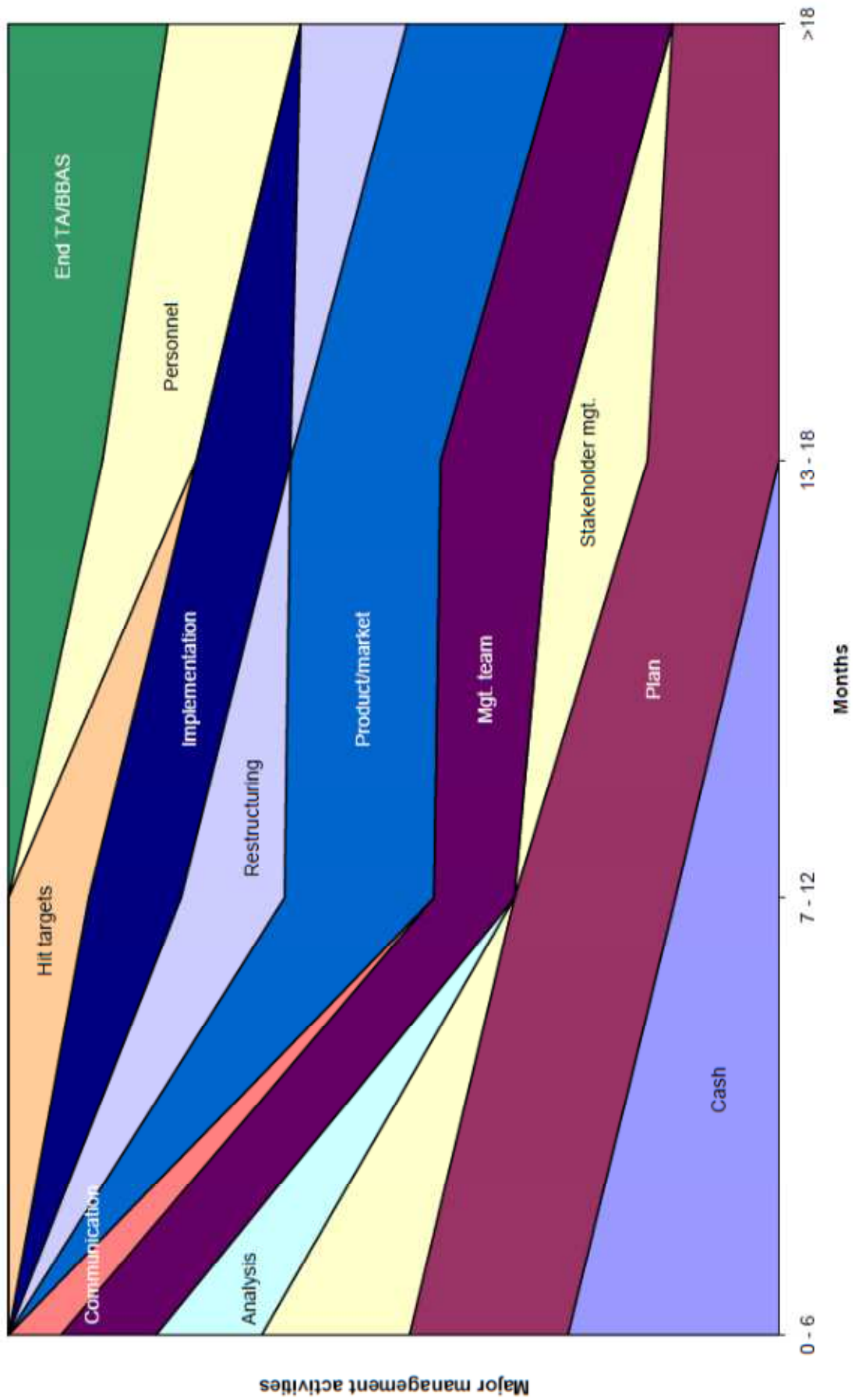


Figure 2. Major management activities during across the turnaround process

Two caveats should be noted in this description of the process: it is not truly representative of a flow, being based on answers which were snapshots of discrete six month periods, in the manner of a time-lapse film. Secondly, the results are an aggregation of answers of independent turnaround managers. As such, issues such as planning for example may, in fact, not be continuous for any given manager; in the extreme case, different groups of managers may undertake planning activity once, but in separate periods, so that the *appearance* of continuity could be, in fact, the outcome of independent managers acting in series. Nonetheless, the nature of the comments reveals a clear logic to the process from early crisis management (focus on cash), to peaks of restructuring (as per Gabarro, 2007) and delayed product/market initiatives; from early analysis to subsequent implementation; from putting the management team in place to developing the team; and from preparing plans to finalising plans with subsequent adjustments for a longer planning period once outside the crisis zone. The results are presented graphically in Figure 2.

2.3.1 Stakeholder relations

The sheer number of references to communication in the literature led to an a priori belief that this was an important issue in turnaround implementation. In fact, communication ranked as the most important key success factor. But who do turnaround managers communicate with? Table 26 shows how turnaround managers rated their efforts to communicate with different stakeholder groups. Unsurprisingly, communication within the top management team heads the list. Presumably, this must be for coordination to achieve their task. In second and third place are stakeholders who are outside of the ongoing turnaround process: the board of directors and the banks. The latter two are, on average, considered markedly more important than the internal organisation and this sheds light on the targets of communication: managers seem more concerned with communicating with stakeholders who have direct or indirect power over them, rather than those company members who are directly involved in effecting the turnaround. Compared to these two groups, shareholders are relatively unimportant in terms of communication endeavours. The level of communication effort diminishes with hierarchical status from middle management to production and administrative staff, but curiously the latter are considered more important than their immediate supervisors.

This is perhaps indicative of attempts to communicate directly with the rank and file. Trade unions rank lowest, although the data does not make it clear if this is due to a lack of ubiquitous presence or that they are genuinely less important in communication terms.

#	Communication with: (n = 39)	Min	Max	Mean	Std. dev.
1	Top management team	3	10	8.46	1.52
2	Board of directors	2	10	8.15	2.15
3	Banks	0	10	8.00	2.88
4	Middle management	0	10	6.95	2.39
5	Production and administrative staff	0	10	6.18	2.75
6	Company shareholders	0	10	6.13	3.22
7	First line supervisors	0	10	6.10	3.00
8	Trade unions	0	10	5.85	3.20

Table 26. The importance of turnaround managers' communication efforts with stakeholder groups

Management credibility was the second issue which emerged strongly from the literature and, indeed, this factor came second in the overall ranking of key success factors, in line with expectations. The top three stakeholders remain the same as for communication, but in this case managers consider it even more important to be credible with the banks than among themselves. This aspect is well featured in the practitioner literature: managers' focus on banks seems to reflect the importance of the gatekeeper role of banks in their capacity as providers of credit and the need for their ongoing support. Seemingly, an important element in banks' deliberations is the credibility of the turnaround management team. Company shareholders move up in credibility building compared to communication efforts, while the internal stakeholders follow a strict hierarchical ranking with trade unions, once again, lowest in consideration (Table 27).

#	Management credibility with: (n = 39)	Min	Max	Mean	Std. dev.
1	Banks	0	10	8.82	1.96
2	Top management team	4	10	8.62	1.46
3	Board of directors	0	10	8.21	2.08
4	Middle management	0	10	7.67	2.38
5	Company shareholders	0	10	7.54	2.60
6	First line supervisors	0	10	6.97	2.85
7	Production and administrative staff	0	10	6.92	2.59
8	Trade unions	0	10	6.72	2.81

Table 27. Ratings of turnaround managers' efforts to establish credibility with stakeholder groups

The question on the turnaround plan was of an exploratory nature. There are indications in the literature that planning is important (Balgobin and Pandit, 2001; Ghosn, 2002;

Harker, 1996; Ketelhöhn et al., 1991; Pandit, 1998; Raina et al., 2003; Ruiz-Navarro, 1998), however, often these are individual case studies or exhortations from academics and practitioners and there seems to be no systematic study on the importance, or otherwise, of planning in turnaround as opposed to following an emergent strategy. Indeed, the turnaround plan was rated as being to some extent important, but ranked roughly in the middle of the other factors. The principal recipients of the turnaround plan are the banks, followed by the board of directors (see Table 28) which seems indicative of the more significant role of planning in establishing legitimacy for the managers with stakeholders who have control over them and their actions, rather than as a tool for managing the organisation, although the latter is not unimportant.

#	Turnaround plan for: (n = 39)	Min	Max	Mean	Std. dev.
1	Banks	0	10	8.56	2.36
2	Board of directors	0	10	8.44	2.17
3	Top management team	0	10	8.26	2.12
4	Company shareholders	0	10	7.00	3.04
5	Middle management	0	10	6.69	2.04
6	First line supervisors	0	9	5.72	2.56
7	Trade unions	0	10	5.23	2.81
8	Production and administrative staff	0	9	5.18	2.56

Table 28. The importance of the turnaround plan for stakeholders

2.4 Conclusions

Most of the themes which were hypothesised to be key factors in implementing a turnaround were confirmed to be important. Communication, management credibility and accountability top the rankings, with communication being of high and absolute (i.e. independent of other variables) importance for all managers. The study provides a rich description of management activity during the recovery process which, as far as can be determined, is the first of its kind and provides a unique insight into the shift in management focus as the firm moves from crisis to recovery. The findings are in stark contrast to those of the strategy school, whose premise is that the single most important factor in turnaround success is the choice of strategy. Such studies implicitly assume that management is a homogenous resource and implementation is automatic. The strong message emerging from this study is that management actions, attitudes and capabilities in the implementation of a turnaround are the determinants of success, conditional upon managers' ability to convince financial stakeholders and the board of

directors to support them. Strategy is subsumed in the business plan, whose principal objective is to persuade financial stakeholders. This view is supported by the comments of managers on what they themselves see as the factors which separate success from failure. In almost all cases this is a question of management, expressed either as leadership, or the ability to manage cash, personnel or change, as well as support from powerful (particularly financial) stakeholders.

This concludes the chapter of the empirical survey of turnaround managers. In the following chapter a conceptual framework is developed which incorporates the main findings of this survey in a holistic turnaround model.

Chapter 3. Conceptual Framework

The mind is not a mirror floating with no foothold, passively reflecting what it comes upon. Mental interests, hypotheses, postulates help *make* the truth the mind declares. There belongs to mind a spontaneity, a vote. It is *in the game* - William James (1842–1910)

During a presentation at the Manchester Business School on turnaround management, the DBA Programme Director tutted impatiently and demanded, “But, is it a *subject*?” This is a question to be taken seriously because, by some definitions, it is not. Certain authors have studied firms which have undergone a period of decline and recovery relative to GNP (Schendel et al., 1976), an industry-relative decline and recovery (Harker and Harker, 1998), a one-way shift from the bottom quartile to the top quartile of either an industry (Pant, 1991) or the entire economy (Furman and McGahan, 2002), or “the reversal of a firm's decline in performance” (Bruton and Rubanik, 1997, p. 70). Goodman (1982, pp. 4-5) considers turnaround as a shift from below average to above average performance in an industry group; Di Primio (1988) claims that even average operations can benefit from turnaround management; while Stewart (1984, pp. viii-ix) describes it in terms of basic management techniques, common sense and “honest, intelligent line management.” If the firms in these studies underwent a turnaround, then turnaround management is not a subject, because there is nothing inherently different in it from the standard management task of improving company performance. In fact, the typical approach in these cases is to try to delineate an appropriate strategy or emphasise techniques for improving operating performance. To be a subject, turnaround management must take place in a turnaround-specific context and involve a set of tasks which are different, performed in a different way, or differently configured from standard performance management. This chapter will argue that turnaround management consists of three core tasks determined by an organisational context of decline culminating in crisis and that managers’ ability to carry out these tasks is subject to two context-specific constraints. The chapter goes on to propose two complementary extant theoretical lenses through which to view the process. Finally, task objectives, constraints and theory, together with key findings on implementation techniques from chapter two, are incorporated into a turnaround model and a prescription for a successful turnaround is outlined.

3.1 Crisis: the turnaround context

A turnaround attempt is only such after a company has undergone a period of substantial, absolute decline, defined as a decrease in its internal resources over a period of time (Cameron et al., 1987a; D'Aveni, 1989), which culminates in a threat to its survival. This is a defining feature of turnaround management: improvement in firm performance from a situation of relatively (to an industry, to the economy) poor performance, or after a minor absolute decline, is not turnaround management; taking an organisation from its failure threshold to a viable state, is (Balgobin and Pandit, 2001; Barker and Duhaime, 1997; Chowdhury, 2002; Lohrke and Bedeian, 1998; Pandit, 2000; Sheppard and Chowdhury, 2005). A concept which captures the point of decline at which organisational survival is threatened and from which performance improvements can be defined as turnaround is *crisis*. The Oxford English Dictionary defines crisis (from the Greek κρίσις) as the point in the progress of a disease when an important development or change takes place which is *decisive for recovery or death*; the *turning-point* of a disease for better or worse; or, a vitally important or decisive stage in the progress of anything; a *turning-point*; also, a state of affairs in which a *decisive change for better or worse* is imminent. Staw et al. (1981, p. 512, original italics) argue that threat is “probably the driving force behind most of the events that the term *crisis* attempts to explain”: although time pressure may interact with threat, most research has shown a simple, direct effect of the extent of potential loss on the perception of crisis. Decline, therefore, does not automatically signify crisis; crisis occurs at an advanced stage of decline when there is a threat to corporate survival. Many scholars consider turnaround as a response to crisis (Bonnici and Fredenberger, 1995; Bruton and Rubanik, 1997; Castrogiovanni et al., 1992; Cater and Schwab, 2008; Harker, 1996; Lamberg and Pajunen, 2005; Scherrer, 2003): “Indeed, it is the threat to firm survival that makes a potential ‘turnaround situation’ conceptually different from firm ‘stagnation’... stagnating firms lack the survival crisis atmosphere and pressure that are present in declining firms needing turnarounds” (Arogyaswamy et al., 1995, p. 497). “Turnaround strategies are a set of consequential, directive, long term decisions and actions targeted at the reversal of a perceived crisis that threatens firm survival” (Cater and Schwab, 2008, p. 32).

Fredenberger and Bonnici (1994, p. 59, emphasis added) describe turnaround specialists as professionals who “rehabilitate failing firms by resolving *financial* crises... Should they fail to reverse faltering demand and the cash flow misfortunes of the firm, they liquidate the business.” This is an important distinction: in turnaround management, the meaning of crisis is limited to that of a financial crisis as a result of which the firm runs the risk of insolvency. This does not include crises caused by external agents, such as sabotage or terrorism, or by catastrophic events, such as explosions or industrial accidents, unless they do, indeed, result in decline culminating in a financial crisis (see for example Sipika and Smith (1993)). The reason for this is that, while financial and other types of crisis share a number of characteristics, their effects on the company are not usefully comparable and the management approaches for dealing with them are dissimilar. Essentially, an event crisis is *localised*; a financial crisis is *systemic*. A single or limited number of short-lived, dramatic occurrences, by their very nature, signal the immediate cause of crisis which then becomes the focus for management action. Moreover, although they may impair a firm’s ability to conduct business, crises provoked by malefactors or misfortune do not necessarily entail a threat to organisational survival as the organisation may otherwise be robust. In contrast, financial crises are widely considered ultimately to be the responsibility of top management, thus the source of the problem is not exogenous, but sits at the head of the enterprise; it is this issue which must be resolved first. In addition, catastrophe crisis management typically concentrates on preparation for, and prevention of, crisis events, team formation (Pearson and Clair, 1998), organisational reputation and media communications (Weiner, 2006). The thrust of management’s efforts is to halt the spread of the effects of the event from its point of impact to the rest of the organisation. By contrast, financial crises are preceded by a decline phase, often lasting years, such that the organisation is debilitated, the causes of crisis unknown and its effects pervasive. In fact, a firm may be in a state of financial crisis for some time before its managers realise it; realisation is only brought about by one or more ‘triggers’, events that are sufficiently shocking to jar perceptions of decision makers so that they catch up with the reality that unless urgent action is taken the company will not survive (Barker et al., 2001; Gopinath, 2005; Grinyer et al., 1990).

This section has defined the terms decline and crisis, and has delineated financial crisis as the context for a turnaround operation. The next section will consider the three core management tasks involved in the turnaround process.

3.2 Management tasks

If the context for turnaround is crisis, the first task in the turnaround process is the management of a financial crisis (Müller, 1985). The crisis management phase ends at the point in the process when, while long term sustainability is not yet assured, the firm no longer runs the risk of imminent failure (Fredenberger and Hoy, 1991). This is materially the case when the firm has created sufficient cash reserves and can reliably produce enough cash from operations to cover operational expenses and minimal investments, at least to cover depreciation. Empirical support for this is provided by the Turnaround Management Survey in chapter two in which, during the first six months of the process, cash management was the most frequently cited activity and was ranked as the highest priority by almost half of all respondents. In the second six month period, cash management was still an important, but less prevalent factor. After twelve months, cash management was no longer a top factor. Consequently, the overriding objective of the crisis management task is to generate enough cash to continue to survive and to finance the second task. This leads to the following pair of propositions:

Proposition 1a: decisions which improve the net cash position of the firm are more likely to lead to a successful turnaround.

Proposition 1b: decisions which do not improve the net cash position of the firm are less likely to lead to a successful turnaround.

The second task in turnaround management is change management. This will be argued theoretically, empirically and logically as follows:

Theory: An organisation whose current trajectory is oriented towards failure is, in cybernetic terms, not viable. Such an organization requires deep structural reorganisation according to cybernetic principles in order for it to become viable again

(Beer, 1979). According to cybernetic theory, a non-viable organisation has, by definition, failed to achieve requisite variety (Ashby, 1956, p. 207) either between management and the organisation or between the organisation and its environment, or both (Beer, 1979). Cybernetics stresses that complicated systems fail because of a concatenation of circumstances; there is no unique cause and therefore no unique solution. Changes must be made across the system in the relationships between its components and its environment. Crisis hit organisations therefore need to be restructured by *variety engineering*. This process involves creating devices, mechanisms or procedures to attenuate variety from the environment vis-à-vis the organisation and from the organisation vis-à-vis management paired with similar methods to amplify the variety of management and the organisation in the reverse direction (Espejo and Reyes, 2011). Weitzel and Jonsson (1989) argue that crisis is the “critical point” in an organisation’s history. At this stage it “must undergo major reorientation and revitalisation, or suffer certain failure.” Such reorganisation calls for “revolutionary changes in structure, strategy, personnel and ideology” (pp. 104-105). Punctuated equilibrium theory confirms this point of view: “The definitive assertion in this paradigm is that systems do not shift from one kind of game to another through incremental steps: such transformations occur through wholesale upheaval” (Gersick, 1991, p. 19).

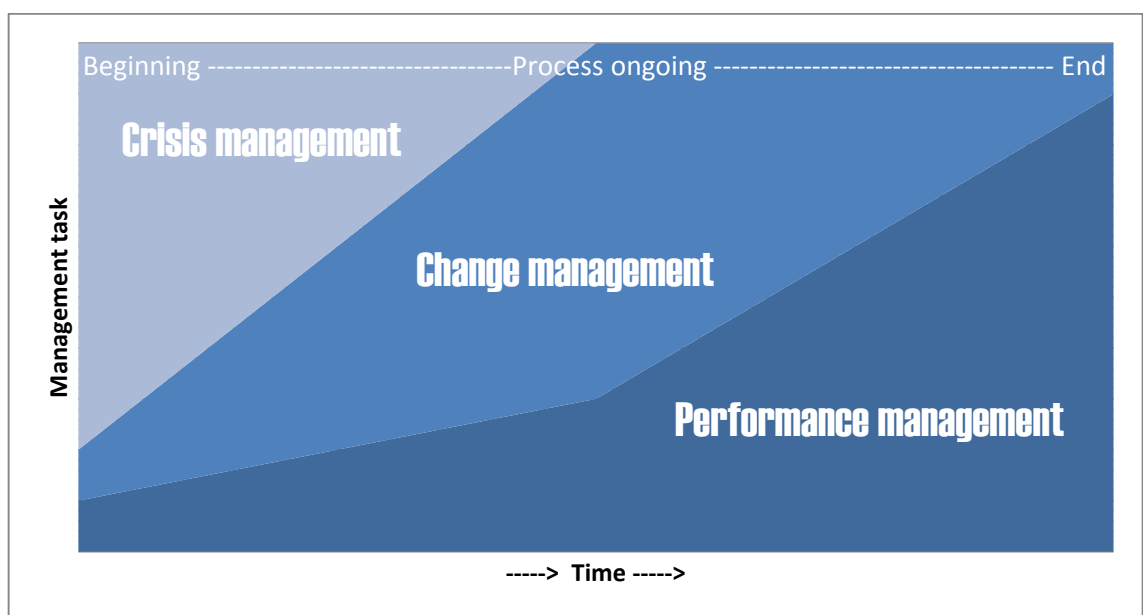


Figure 3. Principal management tasks during the turnaround process

Empirics: A recurrent theme in turnaround cases is that there are no incremental solutions (Chen and Hambrick, 2012; Heany, 1985; Reisner, 2002). “Very significant change in operating efficiency and overall strategy appears necessary to break out of the inertia of earnings decline. Tentative or minor adjustments do not seem to reverse decline” (Schendel and Patton, 1976, p. 241). “The failing firms preferred to do only part of the task. Like many trapped in the limitations of financially motivated turnarounds, they underplayed the importance of innovation in strategy and building organisations that are responsive from top to bottom” and “transitions which affect the whole enterprise require quantum leaps in thinking... This is a quality of mind that rejects the *logic* of incrementalism” (Stopford and Baden-Fuller, 1990, pp. 412-413, original italics). “These major reorientations seem to take place because *many* excesses or deficiencies have developed during periods of pervasive momentum or because a new strategy requires realignment among many variables. Thus there follows a myriad of structural and strategic reversals” (Miller and Friesen, 1980, p. 612, original italics). “Equally important... is the motivation in the change agent to effect a change of vast proportions in a highly ambiguous and often hostile situation” (Khandwalla, 1983, p. 20). Structural change needs to be preceded by a psychological turnaround (Kanter, 2003) and to be accompanied by managed changes in intangible factors such as organisational culture (Bruton and Rubanik, 1997; Finkin, 1992a; Ghosn, 2002), values (Thorbeck, 1991; Zimmerman, 1986), inertia, (Maheshwari, 2000; Ruiz-Navarro, 1998), resistance (Janzen, 1983) and identity (Ghosn, 2002; Jeyavelu, 2009). One explanation for the extent of change required in turnaround is that, in the process of decline, the organisation becomes dysfunctional (Whetten, 1987) and manifests a number of pathologies, including learned helplessness, inability to control staff, slipping standards, limited communication channels, rigid structures, erosion of authority (Krantz, 1985), top heavy management structures, low morale, loss of management credibility (Sutton et al., 1986) scapegoating, resistance to change, reduced innovation, (Cameron et al., 1987a), mutual distrust, hostility, formation of cliques, alienated workforce (Khandwalla, 1983) and deterioration of top management teams (Hambrick and D'Aveni, 1992). Restoration of management *control* over the organisation is therefore an important theme of the change management task.

Logic: the causes of organisational decline are numerous and Table 29 provides a list of commonly cited causes. At this level of analysis the causes are too diverse and context specific to indicate a generic recommendation for change. However, it can be seen that, at a higher level of abstraction, all causes are related to a lack of *strategic fit* (fit). The notion of fit is fundamental to strategic management (Venkatraman and Camillus, 1984) and is defined by Scholz (1987, pp. 78-79) as “the situation in which all the internal and external elements relevant for a company are in line with each other and with the corporate strategy.” The term fit is comprised of three interlinking components:

- Intra-strategy fit between the elements of strategy
- Intra-system fit between internal elements of the organisation and between the organisation and its environment
- Strategy-system fit between strategy and system (internal and external)

Internal	External
Poor management	Increased competition
Poor information	Shrinking market demand
Weak controls	Increase in raw material prices
High costs	Shifting customer preferences
Failed marketing	Obsolete technology
Unsuccessful product/market mix	Legislation
Failure of large project	
Excessive leverage	
Narrow or unprotected niche	
Poor quality	
Bad acquisition	

Table 29. Commonly cited causes of decline

A company which was once financially healthy must have had at one time an adequately successful product/market strategy and satisfactory internal efficiency standards. For it to decline to a level of financial performance that threatens its existence it is not achieving, for whatever reason, a sufficiently good fit (Weitzel and Jonsson, 1989). The strategy/structure combination delivering unacceptable performance therefore needs to be modified (Tushman and Romanelli, 1985). This conclusion is supported by a large number of turnaround authors who have identified the lack of fit between firm and environment as a fundamental generic cause of decline (Arogyaswamy et al., 1995; Barker and Patterson, 1996; Blumenthal and Haspelagh, 1994; Chan, 1993; Drucker, 1993; Grinyer et al., 1990; Harker, 1996; Schendel et al., 1976) or failure (Thornhill and Amit, 2003). The concept of fit is useful in turnaround management because it amalgamates a number of *firm specific* causes of decline, and therefore strategic responses, into an overarching *context specific* explanation of crisis.

Without having to supply a particular cause of decline a priori, the turnaround manager knows in any crisis situation to look for causes of lack of fit in general. More importantly, the turnaround manager knows that the generic solution is to restore fit. Thus, decisions in the change management task should be oriented towards improving fit. In particular, the effect of decisions on internal organisational fit can be readily evaluated by their effects on efficiency and measured in terms of productivity ratios such as output per employee or return on total assets. With fit in mind, the turnaround manager knows that restructuring moves may not be self-referential, but must factor in trends and events in the environment (D'Aveni, 1989). This means that at least part of the change management task must be dedicated to building an organisation capable of capturing relevant data from the environment and interpreting it correctly, for this is surely missing in a crisis-laden enterprise (Daft et al., 1988). The measurement of environmental fit is more problematic and less precise than that of internal fit, with its proxy of productivity. Nonetheless, important events and major trends in the environment are usually evident and, although the ultimate meaning of these developments may not yet be revealed, actions emerging from a process of strategy formulation and organisational restructuring to address them can be taken as evidence of movement towards fit. Ultimately, the concept of fit is an ideal rather than a realistically achievable state, for the simple reason that the external environment is in constant evolution and the firm itself is continually changing. Hence, the task of change management is unending. There is, however, a minimal level of fit required for survival (Hedberg et al., 1976). Change management takes place over much if not all of the turnaround process, but its importance wanes in proportion to the improvement in performance since the latter is the inverse of the need for change. However, even at the end of the process, some change management activity is ongoing; this is a reflection of the need for continuous learning and improvement as the organisation makes minor adjustments to its environment. This leads to the following two propositions:

Proposition 2a: decisions which improve strategic fit are more likely to lead to a successful turnaround.

Proposition 2b: decisions which do not improve strategic fit are less likely to lead to a successful turnaround.

Finally, since the financial crisis is caused by performance deterioration, performance management to achieve sustainability is the third task. This is axiomatic.

This section has delineated three core management tasks in the turnaround process: crisis management, change management and performance management. The three tasks overlap temporally, however, it is likely that more effort is dedicated to crisis management in the early stages of the process and that this gradually gives way to the remaining two tasks. In turn, change management will diminish over time to be taken over increasingly by standard performance management (Figure 3). The next section will argue that managers' ability to carry out these tasks is subject to two important constraints: slack resources and financial stakeholder power.

3.3 Constraints

Turnarounds take place over a finite period of time. The time available is determined by the amount of *organisational slack* (slack). Slack in organisations has been defined by Bourgeois (1981) as a cushion of actual or potential resources which allows an organisation to adapt and to make strategic changes. Cheng and Kessner (1997) describe three types of slack resource: available slack, which are uncommitted resources (e.g. excess cash); recoverable slack which has been absorbed into the system as excess costs, but may be recovered through organisational redesign, for example, bloated overheads (this is the definition of slack formulated by Cyert and March (1963)); and potential slack which consists of untapped resources that financial stakeholders might provide, such as new equity capital or debt. The amount of slack resources divided by the rate at which they are being consumed (both measured in monetary terms) determines the time available for a turnaround attempt. In turnaround, therefore, it is meaningful to conflate slack and time into a single notion of 'slack-time', analogous to the concept of space-time in physics.

$$\text{Slack-time} = \frac{\text{Amount of slack resources (stock)}}{\text{Cash flow (flow)}}$$

Balcaen et al. (2011) found that high levels of available and potential slack allowed distressed firms to postpone an impending involuntary exit, thereby increasing the time to involuntary exit. This accords with Pearce and Robbins' (1993) suggestion that slack is the theoretical basis for retrenchment: managers can increase slack-time by cutting costs and/or by liquidating fixed assets. It is unlikely that a firm will be in crisis unless its cash flow is negative (Bonnici and Fredenberger, 1995), therefore managers will operate on both the denominator to reverse the outflow of cash and on the numerator to increase the stock of slack resources. Once cash flow is sustainably positive it will, of itself, increase the stock of slack and at this stage it is to be expected that the turnaround attempt is progressing well. Conversely, if cash flow remains negative, the firm will eventually exhaust reserves of slack, at which point slack-time runs out and the turnaround attempt ends in failure. This is expressed neatly in DiNapoli and Fuhr's (1999, p. 13) 'survival axiom': "*out of cash + out of credit = out of business.*" Empirically, researchers have found a significant positive relationship between slack and firm performance in turnaround cases (Abebe, 2010; Chowdhury and Lang, 1994) and that firms with high slack have more options for strategic decision making than firms with low slack (Lohrke et al., 2004). Filatotchev and Toms' (2003) analysis indicates that a vital feature of survivors in a declining UK industry was the ability to raise funds from equity and debt markets. Failure and bankruptcy studies support these findings. Beaver (1966) found that the cash flow-to-total debt ratio was the best predictor of failure and had "excellent discriminatory power" (1966, p. 101). Hambrick and D'Aveni (1988) uncovered evidence of early weaknesses in slack in downward spirals leading to failure. Sheppard (1994) discovered a consistent, significantly negative relationship between survival and a firm's financial leverage, while Cook et al. (2012) found that firms undergoing bankruptcy procedures are significantly more likely to succeed if they have greater resource strength. This discussion leads to the following propositional couple:

Proposition 3a: decisions which increase slack-time are more likely to lead to a successful turnaround.

Proposition 3b: decisions which reduce slack-time are less likely to lead to a successful turnaround.

The second major constraint is imposed by financial stakeholders who limit top management power (Trahms et al., 2013). Financial stakeholders are external lending institutions, most importantly banks, but also leasing companies, and shareholders. The argument for this constraint is based on the notion of asymmetric power: financial stakeholders acquire power as the organisation becomes more dependent on these stakeholders than the stakeholders are on the organisation (Pajunen, 2006). Financial stakeholder power is a function of the extent of their control over the firm's access to a most essential resource for the operation and survival of the organisation: cash. Empirical findings indicate that the attitudes of financial creditors can make or break a survival attempt (Cook et al., 2012) and that, during decline, stakeholders protect their own positions while the interests of the organisation take second place (Gopinath, 1991). Thus a turnaround will only be successful and lasting if the goals of different stakeholders are reconciled (Pajunen, 2006). In a crisis, the risk-discounted, net benefits of a turnaround strategy must be shown to supersede the benefit from simply milking the company, liquidating it, or selling off the assets. In this case, not only does consensus between managers and financial providers become a necessary condition for the start of the turnaround process, the opinions of non-managerial, financial stakeholders become a determinant factor which affects the continued provision or the withdrawal of capital (Filatotchev and Toms, 2006). DiNapoli and Fuhr (1999, p. 1) speak of stakeholders "sorting through the wreckage" of companies in turnaround situations, trying to assess management's ability to execute a turnaround plan, the costs of a turnaround attempt compared to the costs of alternatives and the value that can be realised from turnaround, sale or liquidation of the business. Because of asymmetric information, the crisis status of turnaround companies is likely to increase the variance in risk assessment between managers, who have firm-specific or turnaround experience, and external capital providers. As power flows to financial stakeholders, they have increased potential to condition the shape and direction of the ensuing strategy by favouring strategies with less potential upside, but with lower risk. Furthermore, assets which are used as collateral can be removed from management's calculations altogether by credit providers who prefer the relative certainty of partial credit recuperation through an asset sale compared to the strategic risk, at any level of discount (Filatotchev and Toms, 2006). In such circumstances asset retrenching will depend on the market for used assets, not on management discretion. This problem is more acute for firms with specialised or firm specific assets where disposal opportunities are more limited. As

such, financial and governance structures that have evolved over the company's history may create substantial restrictions to management's latitude to design, and ability to implement, a strategic response in a crisis-laden firm (Filatotchev and Toms, 2003). The next brace of propositions therefore emerges as follows:

Proposition 4a: decisions which weaken financial stakeholder power are more likely to lead to a successful turnaround.

Proposition 4b: decisions which strengthen financial stakeholder power are less likely to lead to a successful turnaround.

3.4 Theory in turnaround

There is no theory of turnaround and little extant theory in other fields has been adopted to explain the turnaround phenomenon (Pandit, 2000). In the limited number of instances where theory has been applied, it has generally provided limited explanatory power. For example, empirical research based on the structure-conduct-performance (S-C-P) framework has provided weak explanations or comes up blank. In a study specifically designed to test the S-C-P framework, Pant (1991) found that only firm size and the interaction between operating profit and sales had significant (negative) effects on turnaround outcome, however the regression model had a "poor" fit. Hambrick and Schechter's (1983) study of underperforming firms found no discernible difference in conduct or performance of high market share firms; they used a range of different strategies which either failed or succeeded and there was no correlation between prior market share and turnaround outcome. O'Neill (1986a) found that market concentration was not important in his study of 51 commercial banks. Francis and Desai (2005) adopted the S-C-P paradigm to investigate, among other things, the effect of firm size and industry munificence. Neither size nor munificence had any significant impact, but factors *internal* to the firm, slack resources, employee productivity, and decline severity, were significant. In this case, a problem with S-C-P is the industry level unit of analysis which considers the firm in its industrial context but, with its underlying assumption that all firms are alike in terms of management and other resources, does not look 'under the bonnet'. In this respect the resource based view (RBV) which adopts the

firm as its unit of analysis might seem more promising. Morrow et al. (2007) used the resource based view as a theoretical framework in a large scale study. The authors looked at what they labelled 'strategic' actions only (i.e. not cost cutting) in single product manufacturing firms. The authors found that only those new products or acquisitions which were valuable and difficult to imitate had a statistically significant positive relationship on the performance variable (shareholder expectations), however, the impact of the exact *opposite* of adding valuable and difficult to imitate resources, asset divestment, was twice as strong as either resource variable.

It would seem that an explanation of turnaround requires a theory which embraces both industrial environment and the firm is necessary, but even this is not sufficient, for both the S-C-P and at least the "high church" variant of RBV (Levinthal, 1995) are based on assumptions of rational choice and profit maximisation (Barney, 1986; Newman, 1978). Yet, a state of crisis renders organisations dysfunctional and the likelihood that rational choice is a basis for explanation or prediction of a dysfunctional organisation is low. At a minimum, rational choice assumes a logically consistent set of beliefs, a clear ranking of preferences and optimisation of utility given those beliefs and preferences. In a two-product trade-off, for example the classical choice between guns and butter, this results in an indifference curve along which any combination of the two commodities yields equal utility. In more complex situations, this means that numerous dimensions are integrated and balanced contemporaneously, and an explicit trade-off between values is made which maximises utility. Beliefs are based on observations from the environment and are a function of characteristics of the environment, not the observer (Chai, 2001). However, Satz and Ferejohn (1994, p. 74) argue that, "The concept of human rational agency in terms of maximising over a complete and consistent set of preference orderings is not psychologically realistic." It is contended here that the complexity of turnaround management and the effects of stress combine to vitiate assumptions of a logically consistent set of beliefs and the ability to evaluate preferences coherently. Senge (2006, p. 17) says, "In most companies that fail, there is abundant evidence in advance that the firm is in trouble. This evidence goes unheeded, however, even when individual managers are aware of it. The organization as a whole cannot recognize impending threats, understand the implications of those threats, or come up with alternatives." In addition, much important information from the environment is lacking, misinterpreted or even false. The possibility to optimise is accordingly compromised.

Moreover, the empirical findings of the survey in chapter two suggest that the actual objective of turnaround experts is not optimisation, but survival.

In a crisis, managers are faced with a complex attainment task. They must discover which of their actions or orientations are now contributing to failure, but were not doing so before. They must identify the changed elements, the levers to be manipulated, as well as the feedbacks and the delays that conceal their interdependence. This is compounded by the possibility that events which might spotlight a firm's problem areas might not be objects of the firm's tracking system, or might be rationalised away in the light of past success. Discussing the psychological roots of corporate failure, Levinson (1994) found that managers incapable of dealing with this level of complexity focus on immediate, practical problems that they feel comfortable dealing with; they slip into fire fighting mode, but are unable to envision a solution to take the firm out of the fire zone, "There is little evidence... about the degree to which the failed chief executives had the conceptual capacity to cope with the increasingly complex level of information that the top management of a contemporary major corporation must comprehend" (1994, p. 429).

Complexity is compounded by the effects of stress on individuals and results in a number of pathologies, the most important of which impact decision makers' information processing capabilities and thereby reduce their ability to manage the crisis. Stress causes a tendency to become forgetful, impatient, disorganised and to block out information (Milburn et al., 1983); to interfere with open-minded exchange of information and ideas, and factor in opposing views (Tjosvold, 1984); and to become impulsive and accept solutions providing immediate relief without weighing longer term implications (Janis and Mann, 1977). Impaired cognitive processes due to crisis-induced stress can lead to poor decision quality, an excessive focus on short term issues at the expense of long term outcomes, a reduction in the capacity for abstract reasoning and an inability to predict the consequences of courses of action (Smart and Vertinsky, 1977). Moreover, even some information which is properly processed is subject to prior distortion as certain organisational members deliberately manipulate or falsify information provided to decision makers (Barker et al., 2001; Daily, 1994) in order to maintain power or status (Starbuck et al., 1978) or buy time (Argenti, 1976). Staw et al. (1981) argue that, under threat, a system is likely to economise on information

processing by decreasing non-essential peripheral channels and reducing the number and complexity of items of information coming into the system. This then leads to a reduction in the system's ability to respond to the threat by narrowing its behavioural repertoire. Given a mechanistic shift due to threat rigidity, information channels are switched from receiving information from the environment to receiving and transmitting increased control information and instructions. Failure can be explained in terms of an organisation which narrows its environmental input and response capacity when market parameters change or task and learning environments mutate beyond recognition. This is precisely the moment when it should be increasing its channel capacity from the environment, since only matching the increased variety in the environment with an equal variety in response can ensure the survival and stability of the system.

Thus, overloaded and impaired cognitive systems are working with high quantities of low grade information, oriented towards short term control rather than holistic solutions. If this is so, the assumptions of rational decision making do not hold for crisis situations. Some writers have contested criticism of theories based on their assumptions and propose that theories be judged on their ability to *predict* (Edwards, 1954; Friedman, 1953). According to this logic, decision makers need not actually seek to optimise as long as the actions they take are consistent with optimisation, i.e. *as if* they were seeking to optimise (Satz and Ferejohn, 1994). This argument falls down by default: until the turnaround process is engaged, decisions have been, and continue to be, taken which are self-harming both at an individual level (in terms of reputation, career, job and so forth) and at the organisational level and cannot be reconciled with rational optimisation outcomes.

The turnaround construct therefore calls for a theory which is not based on rational assumptions or optimisation and which provides (1) a positive and normative explanation of how decisions are taken in a complex, dysfunctional organisation in a condition of crisis and (2) a normative explanation of how turnaround executives manage complexity and decisions are implemented in order to achieve the goal of survival. The following sections will present two complementary paradigms which combine to offer an alternative to the theory of rational choice. These are organisational cybernetics and cognitive psychology.

3.4.1 Organisational cybernetics

Cybernetics was originally defined by its founder as the science of control¹ and communication in the animal and the machine (Wiener, 1948). The branch called organisational cybernetics owes much to the work of Stafford Beer and his Viable Systems Model (VSM). Developed over a thirty year period (Beer, 1984), the VSM was first introduced in his book *Brain of the Firm* (1972) and was subsequently elaborated and explained in *The Heart of the Enterprise* (1979) and *Diagnosing the System for Organizations* (Beer, 1985). The model draws on mathematics, psychology, biology, neurophysiology, communication theory, anthropology and philosophy (Leonard, 2009) and embodies the cybernetic laws and principles regarded as necessary for viable² organisations (Jackson, 2003). Its proper field of application is in highly complex probabilistic systems (Beer, 1967). Its concepts not only explain why firms decline, but can also provide a framework to design adaptive, goal seeking organisations and improve management's ability to steer them away from crisis to viability. Most pertinent to turnaround management is that it elucidates the systemic and structural laws which must be observed for an enterprise to be efficacious (to reach its goals) and efficient (to increase productivity), to adapt to internally and externally generated turbulence, to balance short and long term thinking, and thence be viable (Espejo and Gill, 1997; Jackson, 2003). According to organisational cybernetics, the poor performance of an organization and the ensuing pathologies are the surface result of the violation of deep seated cybernetic laws. In essence, the model achieves viability by establishing requisite variety (Ashby, 1956) between management and operations, and between the organisation and its environment.

Cybernetic theory is a promising framework for analysing turnaround. The ontologies of cybernetics and turnaround are similar in many important respects. It emerged from the survey in chapter two that communication was the single most important success factor in implementing a turnaround; the issue of control in a dysfunctional organisation

¹ Control in cybernetic terms is understood to mean ensuring that systems, or system components, perform to system requirements; the concept contains no connotations of power, hierarchy or coercion. Control is self-regulation based on feedback - Beer, S. 1967. *Cybernetics and Management*, London: The English Universities Press Ltd. 2nd edition.

² Viability in cybernetic terminology signifies capable of maintaining an independent identity within a shared environment - Beer, S. 1984. The viable system model: its provenance, development, methodology and pathology. *Journal of the Operational Research Society*, 35, 1, 7-25.

and the highly complex nature of the set of turnaround tasks have been highlighted in this chapter and elsewhere. A science dedicated to communication and control in highly complex probabilistic systems directly addresses these issues. There is also a shared appreciation of the value of action: as evidenced in the survey, an action orientation is highly valued by turnaround managers. A cybernetic system is a communication network and communication is only worthy of its definition in a cybernetic world if it provokes action; it is “a *circular process*, a continuum of ‘negotiation’ between the sender and the receiver until their actions are coordinated” (Espejo and Reyes, 2011, p. 29, original italics). Another aspect which emerged from the survey is the matter of planning: turnaround managers are continuously engaged in planning throughout the process; it is an activity which does not diminish over time. Beer (1979) stresses that planning is the act of managers committing resources; the planning process, and not the plan, is the important result. Indeed, plans should be continuously ‘aborted’, i.e. constantly updated to reflect the latest information, rather than slavishly fulfilled. More fundamentally, the central problem with which cybernetics concerns itself is performance (Pickering, 2010), but not the highest performance outcome possible within constraints. In contrast to rational thinking, cybernetic agents do not search for optimal outcomes; they do not seek to maximise anything or even find *the* correct answer. Indeed, such notions are meaningless within the framework. The solution required in the realm of cybernetics is one that works (Beer, 1967, p. x). The ultimate goal of a cybernetic organism is *survival* (Beer, 1981). This is also the ultimate measure of success of turnaround management. A cybernetic system achieves its goal through a process of adaptation with its environment; an organisation succeeds in a turnaround attempt through progression towards strategic fit.

Turnaround	Cybernetics
Communication	Communication
Control over dysfunctional organisation	Control of highly complex probabilistic systems
Complex tasks	Complexity itself
Performance issues	Performance
Management objective is survival	System purpose is survival
Action orientation	Communication <i>is</i> action
Continuous planning	Plans are continuously ‘aborted’
Organisational fit	Environmental adaptation

Table 30. Shared ontology between turnaround and cybernetics

Essential to the VSM is Ashby’s (1956) notion of variety, the number of possible states of a system, which is a measure of complexity. Ashby’s Law of requisite variety posits

that only variety can destroy variety (1956, p. 207); in plain English, any would-be system controller must have the means to deal with the complexity of the system to be controlled. According to Beer, “It has always seemed to me that Ashby’s Law stands to management science as Newton’s Laws stand to physics; it is central to a coherent account of complexity control” (Beer, 1984, p. 11): the law asserts itself inevitably. In fact, the VSM is in essence a sophisticated elaboration of the consequences of Ashby’s Law for human organisations (Jackson, 2003).

A core cybernetic concept for dealing with variety is the Black Box. The idea behind the Black Box is that a controller does not need to know what goes on inside it; what matters are inputs and outputs. A controller determines the range of output values which are necessary for viability, then manipulates a limited number of inputs in order to achieve an output level which falls within those limits. The controller is deliberately ignorant of the processes which transform inputs into outputs: there is no analysis of cause and effect. Thus, the complexity of the system is managed by attending to a small quantity of vital parameters.

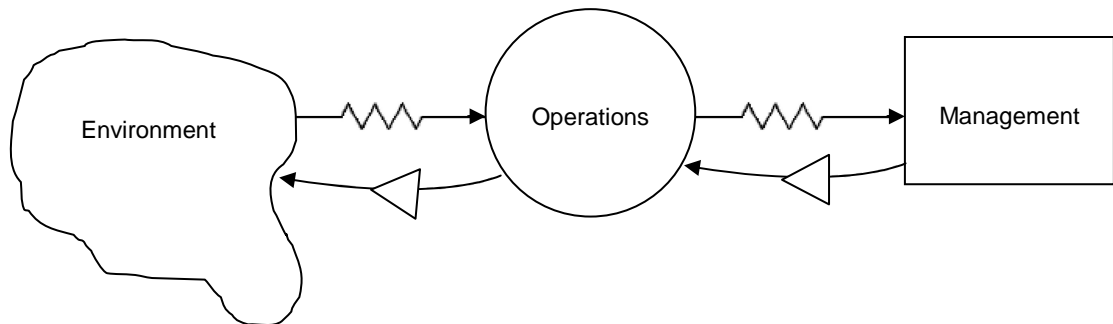
An indispensable corollary of the Black Box is the notion of feedback. A Black Box is a system, but it also a component of a larger system. The output of the Black Box becomes the input either to another system component, or to another system. That system will communicate its required range of inputs in order for its outputs to fall within *its* requisite range. This feedback then determines if the output of the initiating system is acceptable; if not it will alter its inputs to attempt to produce the necessary output level, and so on. Components in a system are thus structurally coupled by continuously interacting information feedback loops which communicate simple “acceptable/not acceptable” or “too high/too low” messages and stimulate corrective action in an ongoing dance, until each element is satisfied. Once the whole system is producing outputs commensurate with the internal requirements of all its components and the external systems with which it interacts, it has reached a state of equilibrium and is ultrastable. The property of ultrastability (Ashby, 1952) is the ability to re-establish equilibrium after expected *and unexpected* shocks to the system. This is a viable state. In order for systems to be able to react to expected and unexpected shocks, the system requires not only a mechanism to adjust feedback, but a second device which can change the feedback adjustment mechanism; a second feedback loop. The

intervention of this second device, known as an Adjuster Organiser (Beer, 1979, pp. 64-72), receives, interprets and acts on input from the environment in order to guide its intervention. This double-loop feedback is synonymous with organisational learning.

The idea that systems are made up of sub-systems and are themselves part of a wider system is the fourth principle of cybernetics: recursion. For management purposes, this notion has similar consequences to the Black Box for dealing with complexity. Managers at one level of recursion need not, and should not, interfere at lower recursions (they usually cannot intervene at higher levels) and should treat systems at a different level as Black Boxes. Their task is limited to ensuring coordination between system components. The only exception to this is if the behaviour of a system component threatens the viability of other parts of the system, or the system itself; or if it launches an 'algedonic' signal (alert) that it requires external intervention. Control is therefore intrinsic to the system; it emerges from mutual adjustments and negotiations between persons, groups and units in interaction (Espejo and Reyes, 2011). This allows self-organising tendencies within the system to be employed productively, but also requires that the parts in the system are in agreement with the goals of the system (Jackson, 1989). Recursion has equally important consequences for the management of variety from the environment. Component sub-systems directly and autonomously interact with different parts of the system's environment, thereby multiplying the variety of the system vis-à-vis its environment without imposing a burden on its central management.

Thus, these four principles, variety, feedback, Black Box and recursion stand at the core of cybernetics. Based on these principles, Beer argues that organisations need to be designed, in the same way that engineers devise machines or constructions. The difference is that, whereas a mechanical or civil engineer will construct a vehicle or a road to *withstand* its environment, the cybernetician is creating a mechanism to *adapt* to its (Pickering, 2010). Indeed, the hallmark of a viable system is that it responds not only to known and predictable variations in its environment, but also to unknown and unpredictable disturbances (Espejo, 1989). This is done by designing the organisation based on its information processing requirements, and not vice-versa as typically happens (Jackson, 1989). Variety is the 'stuff of management' (Beer, 1979) and managers become 'variety engineers': they use a series of techniques intended to reduce

variety from the environment and from the organisation. Their goal is to achieve *requisite variety*, the capacity to maintain outcomes of a system within its target levels and the capacity to produce responses to all disturbances that might take the system out of its target set (Espejo, 1989); if they lack requisite variety it can be “pumped into a management system” by variety engineering (Beer, 1979, p. 89).



Moves to attenuate variety from the environment to operations and from operations to management are matched by moves to amplify management variety towards to operations and operational variety towards the environment.

Figure 4. Variety engineering

The VSM posits that there are five necessary and sufficient systems interactively involved to create a complete viable system (Beer, 1979).

System 1 (S1): The first subsystem of any viable system consists of those elements that produce it. These elements are themselves viable systems; they perform the primary activities of the organisation, that is to say they produce the product or service which the organisation provides to its environment in order to exist. In order to be viable in their own right, S1 elements need to be responsive to changes in their local environment according to their own priorities; they therefore must have the capacity to create, regulate and implement their own policies with the maximum level of autonomy consistent with the constraints of overall systemic cohesion. Thus, all viable subsystems, not only the company as a whole, need to be capable of policy making, regulation and implementation. If management overly restricts any one of these capabilities in the S1 entities the organization will not be adaptive to changes in the environment. In the VSM, the way to ensure the autonomy of System 1 elements is for management to exercise control by resource negotiation, co-ordination and audit, rather than authoritatively down the vertical command channel.

System 2 (S2): This is the co-ordination function which provides regulatory input across S1 elements in order to minimise disturbances from, and maximise cohesion between, highly autonomous subsystems. S2 is generally explained in terms of example, rather than its function. Examples include timetables, production scheduling, quality standards, human resource policies, insurance coverage and so on. Functions which are typically engaged in S2 activities could be accounts receivable, IT services and employee training. S2 activities do not generate income and are a cost to the enterprise though, done well, they can save money.

System 3 (S3): The role of System 3 is the operational control of System 1 and the management of service functions, such as human resources or accounting. S3 sits on the vertical control axis and formulates plans and is responsible for the operating performance of the overall system. Since in most cases resources are the principal means of delivering the performance, it achieves this by entering into a resource bargain with S1 elements in which S3 agrees to provide a certain amount of resources in return for a required level of performance. A vital part of S3's responsibilities is to allocate resources to those subsystems which contribute most to the achievement of the whole system's objectives and this may limit the autonomy of individual subsystems in the interest of the greater system. Once the resource bargain is reached, S3 leaves S1 to get on with its tasks and manages through co-ordination and audit, although it may intervene on the basis of information provided by Systems 2, 3* or 4. Finally, S3 provides information needed by System 5.

System 3* (S3*): Known as the audit or monitoring function, System 3* is a servant of S3 and exists to provide it with direct, sporadic access to S1's activities. Done well, S3* gives confidence that information being passed back by S1 is accurate; it also assures System 1 that S3 understands its needs and circumstances. Two conditions are necessary for S3* to be effective: firstly it must bypass unit management and engage directly with operational activities (i.e. jump one level of recursion); secondly, it must be sporadic in order to not to be predictable and to avoid micromanagement.

System 4 (S4): Interaction with the whole system's environment and the system itself is the role of System 4. S4 is described by Beer as the "great linking mechanism between volition and autonomic control... the biggest switch of the whole organisation" (Beer,

1981, p. 135). It houses the system's whole apparatus for adaption. Its responsibility is to build a model of the firm's future environment and compare that with the model it has of the whole system (including itself). To do that it must communicate extensively with S3 in order to have a thorough understanding of the system's operational capabilities and also to communicate shifts in the environment that require responses from S3. S4 also helps the organisation to represent itself to its environment. It therefore includes functions such as research and development, recruitment, marketing, marketing research, public relations and so on. Last but not least, it is responsible for sending information on environmental activities and trends to System 5.

System 5 (S5): The policy function is embodied by System 5. This system is responsible for balancing the needs of System 3, the here and now, with System 4, the future; for making sure that the organisation as it is currently resourced and configured is able to make the necessary adaptations to its environment; and that it can retain stability while adapting. System 5 promotes and structures a rich dialogue between Systems 3 and 4; failure to do so can either result in the wrong decisions being made, decisions being implemented badly, or not being implemented at all. Finally, System 5 expresses the identity and purposes of the complete system to the greater system of which it is part.

Two final aspects of a viable system need to be added in order to apply the model to a purposive organisation. The first is to determine the identity of the system; the second is, in fact, to determine its purpose. The organisation's purpose must be formulated after taking into account the current and potential relationship with its environment in order to determine with which elements in the environment the firm needs to interact. Done well, this initial move can attenuate environmental variety (Jackson, 2003). Conceptually, both identity and purpose are exogenous to the system, although they may be determined within it. System 5 expresses and represents the organisation's purpose which, ideally, also comes from, or at least is accepted by, the operational elements.

Consequently, the following duo of propositions is made:

Proposition 5a: decisions which improve viability according to the cybernetic principles of the VSM are more likely to lead to a successful turnaround.

Proposition 5b: decisions which do not improve viability according to the cybernetic principles of the VSM are less likely to lead to a successful turnaround.

The VSM proposes an organisational solution for strategy implementation and describes how the organisation should act; it also provides a structure through which strategy can be formulated: S3 takes into account the strengths and weakness of the organization; S4 evaluates opportunities and threats in its operating environment; the S3-S4 dialogue combines the two; and S5 provides closure in terms of a final decision. However, it does not deal explicitly with strategy formulation; it unapologetically applies only to organisational structure. But, as Beer points out, “if the structure is dysfunctional, then no amount of financial wizardry, of insightful man-management, of business technique, will save the day” (Beer, 1985, p. x). Beer (1967) acknowledges that adaptive systems can occasionally go wrong, when “a phase of development appears in which its features are unfavourable to survival” i.e. a crisis. At this point “a new and highly directed corrective is applied” (1967, p. 136). Unlike the cybernetics of nature, which operates at the species level through natural selection, in industry, unsuccessful mutations are vetoed by *management*...

They are not indiscriminately embarked upon, as in nature, and allowed to work themselves to self-destruction. Management *foresees* that a particular mutation would have this effect, and vetoes it. Management also foresees that the right mutation is likely to have survival-quality, and *selects* it. So foresight and selection are key attributes of management; they are also the major characteristics of intelligence. Now foresight is a matter of constructing a behavioural model of a situation: the model is filled out by experience, and this is a learning process” (Beer, 1967, p. 136, original italics).

Thus, at the heart of the organisation sits the manager, a fortiori in situations of crisis; more specifically, the mental model of that manager, which has grown through experience and is nurtured by learning. Beer (1979) is quite clear that this mental model is an inescapable responsibility of the individual manager: “*nothing* can save the manager from his personal obligation to regulate his own muddy [Black] box – which is the model in his head of the operations for which he is responsible.” Stated

cybernetically, “No regulator is competent to regulate anything beyond the real-world projection of the model it contains” (1979, p. 72, original italics).

The next section will therefore shift down several levels of recursion, below that of the system, beneath its subsystems, beyond even its managers, to consider the mental model within the cognitive system of the men and women called on to shape its identity, determine its purpose, select the ‘right mutation’ and apply a ‘highly directed corrective’.

3.4.2 Cognitive psychology

Mental models are psychological representations of real, hypothetical, or imaginary situations (Johnson-Laird et al., 1998). They have “a central and unifying role in representing objects, states of affairs, sequences of events... the way the world is and the social and psychological actions of daily life and in understanding the way the world is”, and thereby enable individuals to make inferences and predictions, to experience events by proxy and to decide what actions to take (Johnson-Laird, 1983, p. 397). The distinction between mental models and schemata (plural of schema) is nebulous but, according to Johnson-Laird (1983), schemata might turn out to be a special case of procedures for constructing mental models. According to schema theory, schemata represent knowledge about objects, relationships between objects, and (sequences of) events and actions at all levels of experience and abstraction. New knowledge is coded and assigned to an existing or newly created category. All generic knowledge is embedded in schemata, which are organised mental structures (Rumelhart, 1980). Mental models are partial representations of reality; there is a many-to-one mapping from the world to the mental model (Johnson-Laird, 2004). When individuals obtain knowledge, they endeavour to make sense of that knowledge by breaking it down into chunks and store it in memory in categories (Rumelhart, 1980). For the purposes of this discussion, the finer points of difference between the two concepts are not material: what is important is that both are concepts for describing cognitive simplification methods which allow the mind to deal with the complexity of the world and are,

consequently, theoretical explanations for cognitive limitations³. The discussion will therefore proceed as if they are one and the same.

This simplifying aspect of cognitive theory is consistent with the Carnegie School which posits that complex decisions stem from behavioural factors rather than rational economic optimisation (Hambrick et al., 1993): managers have limited knowledge and ability; when making choices they use a simplified mental model of reality. Thus, any explanation for strategic decisions must take into consideration the mental models of strategists (Porac and Thomas, 1990). Empirical work supports this: Barr et al. (1992) suggest that, rather than demographic characteristics, mental models are better predictors of whether changes in top management team members will be associated with strategic change. Tripsas and Gavetti's (2000) historical case study of Polaroid recounts how declining performance was linked much more to the outdated mental model of its top managers than its ability to gain new capabilities; in fact, a change in mental model only occurred with a wholesale change of the top management team. The authors conclude that firm level strategic prescriptions depend on how managers model the problem space.

Phenomena of organisational behaviour can be explained by discrepancies between managers' models and reality (Simon, 1955). Cognitive simplification devices, such as rule-of-thumb heuristic principles and analogies can be useful to help decision makers assess probabilities, predict values and take action; however, such methods can be subject to systematic biases (Tversky and Kahneman, 1974). More importantly, many of the psychological pathologies of acute stress discussed above can essentially be explained as an exaggeration of humans' natural tendency towards cognitive simplification: new information which does not fit into existing schemata is ignored (Staw et al., 1981); individuals focus on information which is explicit in their models and fail to consider possibilities that lie outside their models (Johnson-Laird et al., 1998). Therefore, decision makers' *strategic clarity* (Ritchie-Dunham and Puente, 2008), the accuracy with which strategists' mental models correspond to the reality they represent, will materially affect decision making (Trahms et al., 2013). Gary and Wood

³ Calori et al. note that *mental maps, cognitive maps, cognitive structures, schemata, mindsets* and *beliefs* are all mutually substitutable labels for this construct in management cognition studies: Calori, R., Johnson, G. and Sarnin, P. 1994. CEOs' cognitive maps and the scope of the organization. *Strategic Management Journal*, 15, 6, 437-457.

(2011) found a positive relationship between effective decision heuristics and mental models, and showed that accurate knowledge about the key principles of the deep structure of a problem domain leads to superior performance. Lim and Klein (2006) also find that mental model accuracy is instrumental for performance. Based on computer simulation studies, Gavetti (2012) argues that cognitive representations simplify the strategist's task of searching out superior opportunities by vastly reducing the complexity of the landscape to a limited number of alternatives, but managing mental processes is central to strategic management: superior performance stems from the strategist's ability to overcome cognitive impediments.

A number of studies have highlighted that methods of categorisation differ according to an individual's level of expertise in a given field. Chi et al. (1981) found evidence to suggest that novices categorised physics problems by their surface features, whereas experts categorised according to major principles governing the problems, the "deep structure" (1981, p. 125); novices achieved "naive" representations of problems, whereas experts formulated "scientific" representations at a much deeper level of understanding (1981, p. 134). Chi and colleagues interpreted their results to signify that the knowledge available for a problem type constrains and guides the final form its representation will take: the categorisation of problems differs between novices and experts because of the knowledge content of their schemata; hence experts' schemata provide data-driven responses to fragmentary cues. In particular, the knowledge contained in the schemata of experts includes potential methods to solve the problems. In this way, experts have a more forward-looking approach to problem solving in which the unknown elements of a problem are secondary to determining the class to which it belongs and therefore the underlying principles which govern its solution. Once the problem is categorised, the expert restricts search to a limited number of solutions. Novices' schemata lack abstracted solution methods. Gary and Wood (2011) confirm these findings: their computer-based simulations show that managers only need accurate mental models of the key principles governing the business environment to achieve superior decision rules and performance outcomes; managers do not need complete mental models of the environment. Kiesler and Sproull (1982) also suggest that, while neophytes concentrate on details, experts focus on general constructs. Gavetti and Levinthal's (2005) work on analogy suggests that it is far more important that an analogy shares the structure of the target problem than to identify the best possible

solution within the problem context. Rehder (2003) labels the emphasis on the importance of studying the knowledge that people bring to bear to the task at hand the *theory-based view* of conceptual representation. According to Rehder, special status is granted in this field to causal knowledge because it is this which enables an organism to attain control over its environment. Causal model theory claims that people's knowledge of categories includes not just features but also a representation of the causal mechanisms that link those features. Rehder's (2003) study provides empirical support for the claim that people have a representation of the causal mechanisms that link category features and have mental models that expect determined features in members of particular categories. The author also suggests that causal models may be triggered by the first category members that a person encounters. This is confirmed specifically for strategic thinking by Dragoni et al.'s (2011) findings that accumulation of relevant work experience is significantly related to executives' ability to think strategically about their organisations and business environments. Ndofor et al. (2009) suggest that new leaders with recent top job success may be more able selectively to identify and implement only those changes that produce short term results, while avoiding unproductive change. Finally, there is some empirical support from cognitive studies of management which indicates that the greater managers' *perceptions* of severity of decline, the more likely they are to adopt a retrenchment strategy (Musteen et al., 2011). Thus, retrenchment may have psychological roots rather than be a rational automatism.

A mental model is a highly personalised concept. Before incorporating the concept of a mental model into a theoretical framework, it is important to decide exactly whose mental model is being considered. It will be argued here that, while many managers are important in a turnaround attempt, the chief executive is the one that matters most, closely followed by a small cadre of top managers. This is argued as follows. An organisation in crisis is prone to be dysfunctional and lacking productive direction. In this case, middle and lower management's traditional calculations of effort/output ratio are invalid; they are likely to be abnormally engaged in trying to achieve localised objectives through a system which no longer responds to their expectations but, without a synoptic view of the organisation, will be unable to understand why, or how to solve the issue. The only faction with the possibility to collate ideas, interpret information and intervene at the level of the entire system is top management (Daft and Weick, 1984); the only individual with responsibility for the whole organisation is the chief executive.

Moreover, a crisis requires radical restructuring of assets and a transformation in corporate strategy. The only person entitled to sanction such far-reaching changes and the power to push them through is the chief executive. Thus, the privileged position of the chief executive along with the responsibility and power invested in the role suggest that the mental model of the head of the company is, at least in organisational terms, the most qualified and the most influential. Theoretical support for this proposition is supplied by upper echelon theory (UET). Hambrick and Mason (1984) contend that the performance of an organisation is ultimately a reflection of its top managers. Their model contains values, aptitude, skills, knowledge, cognitive style and demeanour as required qualities in a top management team; the requisite amount of each quality will be determined by the organisational context and inter-team relations. UET research has increasingly focused on the processes underlying top management team decision making such as consensus, conflict, social integration and decision speed (Certo et al., 2006). At the heart of UET is a focus on the influence of executive cognitions, values and perceptions on strategic choice and the resultant performance outcome (Carpenter et al., 2004). However, ultimately, a top management team must formulate strategic decisions and act upon them. This requires the role of and power invested in the CEO to integrate the cognitive complexity and diversity of views among the top management team and produce an actionable synthesis; the CEO is the top management team's 'cognitive integrator' (Calori et al., 1994, p. 439).

Thus, decisions elaborated by, or at least sanctioned by, the mental model of the chief executive will largely determine the outcome of a turnaround attempt. The greater the strategic clarity of the chief executive's mental model, the higher the probability of success. Other things being equal, cognitive biases and psychological pathologies, possibly caused or aggravated by stress, will deteriorate the ability of the mental model to assimilate and process information accurately. Conversely, expertise will enhance the mental model's ability to categorise information effectively and formulate accurate solutions based on deep knowledge of underlying principles and cause and effect mechanisms.

This leads to a dyad of propositions as follows:

Proposition 6a: more accurate mental models of top management decision makers are more likely to lead to a successful turnaround.

Proposition 6b: less accurate mental models of top management decision makers are less likely to lead to a successful turnaround.

3.5 Examination of interdependencies between decisions

The five sets of propositions 1a and b to 5a and b analyse decisions which are interdependent and therefore form a gestalt. The role of the sixth pair of propositions, 6a and 6b, is considered in the penultimate paragraph in this section, following the discussion of the interrelations between the first five propositions on decision content.

	Net cash position (1a &1b)	Strategic fit (2a &2b)	Slack-time (3a &3b)	Financial stakeholder power (4a &4b)
Strategic fit (2a &2b)	X			
Slack-time (3a &3b)	X	X		
Financial stakeholder power (4a &4b)	X	X	X	
Cybernetic principles (5a &5b)	X	X	X	X

Table 31. Interdependence between decision content in propositions 1a&b to 5a&b

Each of the decisions considered in propositional couplets 1-5 can affect or can be affected by each of the others, as illustrated in Table 31 with a cross in the appropriate cell. These decisions are therefore all correlated, but the relationships are stochastic. This is because neither the direction, nor the extent of the correlation can be predicted a priori and will depend on a number of contextual factors, including time. This is consistent with process theory in which the basis of explanation is the probabilistic arrangement of variables rather than direct causality of dependent variable from independent variable(s); each variable is only a necessary condition for the outcome and alone is not a sufficient condition; and temporal ordering is critical for the outcome (Mohr, 1982, p. 38; Pettigrew, 1990). This section will examine interdependencies

between decisions and present examples of how these interdependencies might manifest themselves in given situations.

Decisions which improve the net cash position of the firm can provide liquid resources necessary for restructuring to improve strategic fit and in accordance with cybernetic principles. Such decisions can also simultaneously increase slack-time and weaken financial stakeholder power. On the other hand, decisions which increase cash by liquidating highly productive resources (often those with the highest cash value) can destroy strategic fit. Centralised cost saving policies lacking requisite variety can reduce system 1 autonomy and negate cybernetic principles. Both of these initiatives can lead to a subsequent decrease in slack-time as performance deteriorates and losses mount. Increased cash from borrowing will improve the firm's net cash position, but will increase stakeholder power. Moves to improve strategic fit and restructure according to cybernetic principles are costly in cash terms and will therefore deteriorate its net cash position in the short term. These moves are likely to absorb other forms of slack and reduce slack-time. In the medium to long term, however, these same moves are the only sustainable way for the company to become self-sufficient in cash and remove the slack-time constraint. Major restructuring for strategic fit, or according to cybernetic principles, not only has a cash cost, but also an accounting cost which can aggravate net losses. Increased losses accelerate the deterioration of shareholder equity and increase the debt/equity ratio, a common component of loan covenants. Violation of loan covenants usually gives the lender the right to change the terms of, or even call, the loan, thus significantly increasing financial stakeholder power. On the other hand, improvements in strategic fit and variety management lead to increased organisational performance in terms of turnover and profit, which increase firm autonomy and diminish financial stakeholder power. Finally, the two constraints, slack-time and financial stakeholder power are also interrelated. Increased debt finance extends slack-time, but also increases financial stakeholder power. Increases in slack-time from asset sales, however, reduce financial stakeholder power. Decisions which increase financial stakeholder power can lead to reductions in slack-time if these stakeholders prefer to extract value from the company rather than wait for the outcome of the turnaround process, either by taking dividends (shareholders), forcing the liquidation of assets (shareholders or debt holders), or reducing loans (debt holders).

The interdependence among elements in the decision gestalt is one explanation for the complexity facing turnaround managers noted by many scholars (Boyne and Meier, 2009; Chowdhury, 2002; Lohrke et al., 2004; Pandit, 2000; Schendel et al., 1976). The challenge of turnaround management is, therefore, to navigate the decision gestalt in such a manner and with such timing that decisions operate in synergy with one another and create momentum towards the process goal of survival. The corollary to this is that managers need to avoid taking sets or sequences of decisions which collude to thwart progress towards the turnaround goal. Such a system of decisions would work as follows. There are two constraints on management autonomy, slack-time and financial stakeholder power, examined by propositions 3 and 4, respectively. These constraints must be loosened or removed in order that management can take necessary decisions regarding strategy and organisational structure. The loosening or removal of slack-time and financial stakeholder power constraints does not contribute positively to the restoration of strategic fit (proposition 2) or the restructuring of the organisation according to cybernetic principles (proposition 5), but is necessary in order that decisions regarding fit and cybernetic structure can be properly formulated and implemented. Decisions regarding cash are central to the turnaround process (proposition 1). The lack of cash is, of itself, a constraint on the organisation. Decisions which improve the net cash position of the firm should be contrived not only to relieve this constraint, but also to relax slack-time and financial stakeholder power constraints, in order that cash can act as an enabler for decisions aimed at restoring fit and restructuring according to cybernetic principles. A claim of cybernetics is that an organisation conforming to cybernetic principles will, by definition, achieve strategic fit because it will have the requisite variety to adapt to its environment: strategy will therefore emerge spontaneously from structure. In a situation of crisis, however, two forces combine to impede this process: firstly, the organisation is dysfunctional and is not able autonomously to develop requisite variety because its communication network is impaired. Secondly, the slack-time available is too limited for autonomous processes of adaption. The directive intervention of the strategist is therefore necessary (Beer, 1967). Thus, top management decisions to achieve strategic fit are the only ones which will lead directly to performance improvement. These decisions may not contravene cybernetic principles and must be supported by decisions which accord with cybernetic principles: the structure must support the strategy. In this way, the decisions

contemplated in propositions 1a to 5a work in concert in the process towards a successful turnaround.

The final brace of propositions, 6a and 6b, relates to the accuracy of top managers' mental models. It is an assertion of this thesis that only an accurate mental model will be able systematically to formulate decisions which are mutually reinforcing over the duration of the process. That is to say, only a mental model with a high level of strategic clarity will be able to devise consistently sets of decisions which take into account the organisation, its environment and the interdependent nature of the decision gestalt contained in propositions 1 – 5 to recreate the strategic fit of that organisation in its environment. Thus, an accurate mental model is a prerequisite for appropriate decision making (Conant and Ashby, 1970).

Finally, only the successful implementation of appropriate decisions formulated by an accurate mental model will ultimately lead to success. The next section therefore completes the analytical framework by illustrating how key factors for turnaround implementation are linked to decisions.

3.6 Implementation factors

The survey in chapter two uncovered eleven highly important success factors (median importance rating ≥ 8 on a scale of 0 – 10) in the turnaround implementation process, while so far this chapter has formulated six propositions as part of an analytical framework. This section of the chapter now describes how the eleven success factors for implementation are linked to the six propositions. Of the six propositions, five are concerned with decision content; the sixth is concerned with the accuracy of the mental model of the managers who formulate those decisions. The implementation factors are those most important to render decisions, formulated by managers' mental models, effective in the real world. In strategic terms the notion is similar to that of *strategic dissonance* (Burgelman and Grove, 1996), but at the level of individual decisions, rather than that of the whole corporation: the implementation factors serve to reduce divergence between intent and action. In cybernetic terms, the implementation factors are methods which transform decisions devised in the 'informational domain' into

effective actions in the ‘operational domain’, where things actually happen, thus rendering decisions formulated into true cybernetic decisions by realising their intent (Espejo and Reyes, 2011). Not all implementation factors are important in all decisions. Table 32 indicates with a cross in the appropriate cell which implementation factors (ranked in order of importance) are relevant to which class of decisions (listed according to the proposition number).

Proposition	Net cash position (1a &1b)	Strategic fit (2a &2b)	Slack-time (3a &3b)	Financial stakeholder power (4a &4b)	Cybernetic principles (5a &5b)	Mental model (6a &6b)
Implementation factor						
Communication		X		X	X	X
Management credibility		X		X	X	X
Accountability		X		X	X	X
Urgency	X		X		X	X
Confidence		X			X	X
Action	X	X			X	X
Focus	X	X		X		X
Persistence		X				X
Plan	X	X	X	X	X	X
Participation		X			X	X
Values		X				X

Table 32. Implementation success factors relevant to decision class of propositions

3.6.1 Propositions 1a and 1b – Net cash position

The first set of propositions in the framework concerns decisions which affect the net cash position of the enterprise. Four implementation factors are important in rendering decisions taken to improve the net cash position effective. Ranked highest in importance is a *sense of urgency*. The urgency surrounding cash management is often referenced in the practitioner literature in terms of ‘stop the bleeding’ (Armenakis et al., 1996; Bibeault, 1982; Raina et al., 2003), a metaphor for companies haemorrhaging cash. This was confirmed in the survey: during the first six months of a turnaround attempt cash is the highest priority activity of managers and was the number one *focus* for almost half of the respondents. Urgency and *action* are linked together by a number of authors (Hofer, 1980; Janzen, 1983). Actions to reduce cash outflow and increase cash inflow are taken almost immediately the process gets under way and must be manifold and effective, for the survey shows the cardinal importance of cash wanes after six months

and is negligible after one year. Cash flow forecasts form an essential part of any business *plan* for a firm in crisis. The plan must demonstrate that the cash that can be realised from turnaround outweighs that of the sale or liquidation of the business (DiNapoli and Fuhr, 1999), and reliable risk and outcome assessments need to indicate that the future stream of cash to the firm's assets is above the firm's cost of capital (Filatotchev and Toms, 2006).

3.6.2 Propositions 2a and 2b - Strategic fit

The second pair of propositions in the framework regards decisions which have an impact on strategic fit. It has been argued that the loss of strategic fit is a fundamental generic cause of decline and that efforts to re-establish fit once continued decline has led to a state of crisis will involve wholesale change in strategy and structure. Thus, decisions to re-create strategic fit are pervasive and practically all of the implementation factors are important in the realisation of those decisions. Of the highest importance is *communication*. Communication is a vital factor at many organisational levels if the company is to re-establish a minimal amount of internal, external or intra-strategy fit (Hedberg et al., 1976). The top management team must discuss and determine causes of lost fit not only among its members, but also with external advisors, and coordinate an organisation-wide march to a new concept of strategic fit. This will involve the presentation of and persuasion about a new vision for the company in order to convince stakeholders and marshal resources towards radically new corporate goals (Gavetti, 2012). This new vision must have a concrete expression in an articulated turnaround *plan* (Modiano, 1987). A number of studies confirm that within a short period of time top management formulate a recovery plan. The plan is critical to successful recovery and is based on situation analysis, which includes information gathering activities, gaining control, managing stakeholders and improving motivation (Balgobin and Pandit, 2001). Harker and Harker (1998, p. 61) describe the process used to effect turnaround changes as "purposeful, cohesive planning involving many managers and workers". Confirmation of this comes from the survey, in which communication was significantly correlated with establishing a culture of accountability, building confidence and a sense of participation among organisational members (see Table 13 on page 72). The scale of change involved in turnarounds from a condition of crisis to a

new expression of fit (Chen and Hambrick, 2012; Heany, 1985; Reisner, 2002) is likely to alter some of the organisation's central, enduring and distinctive (CED) characteristics which are linked to members' self-concepts through organisational identification (Dutton et al., 1994); this is liable to raise self doubts and lower collective self-esteem (Jeyavelu, 2009). It is critical therefore that moves towards strategic fit be accompanied by measures which build *confidence* in organisational members that the challenge to be faced is possible and is one in which they can participate (Pandit, 1998). The question of *participation* is highly correlated with *accountability* ($r = .60$): the two factors go hand in hand as part of efforts to re-build self confidence in members of a dysfunctional organisation connoted by learned helplessness (Krantz, 1985) by giving them back a degree of control of their own fate. Confident people collaborate better to make a better future (Kanter, 2003), accept responsibility for results (Blumenthal and Haspelagh, 1994) and begin to see their role as crucial to the turnaround process (Zimmerman, 1986). Of the success factors, that of confidence was most highly correlated with the question of *values* ($r = .62$). Evidently, values expressed by management contribute significantly to building confidence that people will be dealt with objectively, honestly and fairly. This is not only important in terms of restructuring moves towards strategic fit that change internal powers structures, bring in new managers and promote others (Beer, 1987), but also when the new structure for fit requires that people are laid off. Inhumane firing can make remaining employees not trust the company (Brenneman, 1998), while helping employees to leave with dignity and avoiding the appearance of inequities can motivate remaining employees to work productively (Arogyaswamy et al., 1995).

A crucial implementation factor for decisions aimed at rebuilding strategic fit is a *credible management* team (Kanter, 2003). A credible management team not only creates confidence that the new vision and turnaround plan for the company can re-establish strategic fit, but is decisive in convincing stakeholders that it is, in fact, achievable (DiNapoli and Fuhr, 1999). Management credibility ranked as the second most important success factor in turnaround implementation in the survey; the question of credibility regards, above all, the ability to restore strategic fit through transformational leadership (Brege and Brandes, 1993; Khandwalla, 1983; Maheshwari and Ahlstrom, 2004). Transformational leadership harnesses dissatisfaction with the status quo and channels that energy through a clear *focus* on new goals (Beer, 1987), the

overriding focus being on the restoration of strategic fit. Maintenance of focus on the goal of achieving fit will require clear-eyed persistence on the part of management team it will encounter a number of obstacles from unmotivated or disenfranchised stakeholders in dysfunctional (Brenneman, 1998; Ghosn, 2002), change resistant (Harker, 1996; Ruiz-Navarro, 1998) or outright hostile (Maheshwari and Ahlstrom, 2004) organisations. Finally, for the “myriad of structural and strategic reversals” (Miller and Friesen, 1980, p. 612) required by the major reorientations necessary to reach a necessary level of fit in a limited period of time (Whitney, 1987), the *action* orientation of successful transformational turnaround leaders is cardinal and is widely recognised in the literature (Grinyer et al., 1990; Schendel et al., 1976; Schreuder et al., 1991).

3.6.3 Propositions 3a and 3b - Slack-time

The framework’s third duo of propositions considers decisions which modify slack-time. Since slack-time is a time/asset constraint only two of the implementation factors are important in relaxing this constraint. The first is a *sense of urgency*. Companies in crisis have a depleted and dwindling amount of time, material assets and financial resources available. They must reach a point at which they become cash positive from operations, and the slack-time constraint is gradually loosened, before they exhaust their stock of slack-time. The second implementation factor important in dealing with the slack-time constraint is a credible, and evolving, turnaround *plan* which provides a forecast of how long it will take to reach the break-even point, and describes policies and actions to cover the cash deficit in the intervening time period (DiNapoli and Fuhr, 1999; Raina et al., 2003).

3.6.4 Propositions 4a and 4b - Financial stakeholder power

The fourth couple of propositions deals with decisions which influence financial stakeholder power. Like slack-time, above, financial stakeholder power is a constraint. However, unlike slack-time, which is determined by objective factors such as cash policies and assets, financial stakeholders are human beings and therefore the range of

implementation factors important for decisions which impact financial stakeholder power includes psychological considerations. Of paramount importance is *communication* with the board of directors and the banks. These two stakeholder categories ranked in second and third place as the *focus* for turnaround managers' communication efforts: managers are most concerned about communicating with stakeholders who have direct or indirect power over them; even more than those company members who are directly involved in effecting the turnaround.

Management credibility is ranked as the second highest success factor and managers consider it more important to be credible with the banks than even among themselves. Managers' focus on banks is well featured in the practitioner literature and reflects the importance of the gatekeeper role of banks in their capacity as providers of credit and the need for their ongoing support. An essential element in banks' deliberations, therefore, is the credibility of the turnaround management team (DiNapoli and Fuhr, 1999; Filatotchev and Toms, 2006). Thus, stakeholder power is an issue on which turnaround managers are sharply focused.

Material to the question of management credibility is management's ability to formulate an actionable *plan*. Kierulff and Petersen (2009) state that even incumbent management can enhance its credibility by developing a conservative turnaround plan and then sticking to it. Harker's (1996) case study shows that the turnaround plan is a form of negotiated 'contract' with owners and stakeholders. The quality and credibility of the plan is then evaluated by stakeholders who, on the basis of this, can determine the extent of their support for the enterprise and its managers. The plan has both symbolic and substantive value. It outlines the approach management will take and signals the quality of management, in terms of discipline, preparedness, industry or firm specific knowledge, and the ability of the organisation to match the extent of the changes required. Significantly, it is often a condition for financial support (Filatotchev and Toms, 2006). Moreover, once accepted, the plan becomes the official guide to turnaround: management must, and must be seen to, stick to the commitments and deadlines contained in it. *Management accountability* to financial stakeholders is therefore documented in the plan.

3.6.5 Propositions 5a and 5b – Cybernetic principles

The fifth dyad of propositions pertains to the affinity between decision content and cybernetic principles. Given the transformational nature of moves to establish a structure according to cybernetic principles in a dysfunctional organisation, most of the implementation factors important to that transformation are the same as those for achieving strategic fit and for similar reasons. In addition, since the ontology of turnaround is strikingly similar to that of cybernetics (as highlighted in Section 3.4.1) the method of implementation will naturally reflect decision content. For example, the issue of *communication* stands head and shoulders above all other factors for successful turnaround implementation, while communication is the very stuff of cybernetics: a cybernetic organisation is, above all, a communication network. It is therefore logical to expect (and difficult to imagine otherwise) that communication is an important implementation factor in decisions made according to cybernetic principles. Similarly, the *action* orientation involved in turnaround management is also mirrored in cybernetics which defines communication not as the mere transfer of information, but the confirmation of that transfer through transforming action. A further instance is the importance of the turnaround *plan*, which was revealed through the time series section of the survey in Chapter 2, Section 2.3.1. to be at least as much about planning as the plan. Indeed, planning was the most consistently important activity undertaken throughout the turnaround process; it does not diminish over time. Beer (1979) stresses that planning is the act of managers committing resources; the planning process, and not the plan, is the important result.

The question of *accountability*, so important in turnaround implementation is also central to cybernetics. Indeed, the notion of accountability in turnaround is (perhaps unwittingly) directly according to cybernetic principles: communication channels are freed up from information flows dedicated to command and control down the central command function by striking a resource bargain with system 1 components responsible for performance outcomes. Autonomous system 1 components are then free to absorb variety from their environment as long as they maintain the resource bargain (i.e. remain accountable for performance). This is also an important attenuator of variety from the organisation vis-à-vis management. The ability to obtain required resources in return for agreed performance levels, along with professional autonomy, inspires

confidence among organisational members while enhancing *management credibility*. Astute use of System 3* through proper auditing breeds confidence among managers that accountability is well reposed while simultaneously builds management credibility by convincing other organisational members that management understands thoroughly their situation. *Participation* is therefore fundamental to both cybernetics and turnaround implementation. Finally, while a *sense of urgency* is not intrinsic to the Viable System Model, in turnaround's defining context, crisis, which is understood as a cybernetic breakdown, Beer's exhortation is first and foremost to "ACT FAST!": "Fast action works, in the crisis mode, and nothing else will" (Beer, 1981, pp. 350-351, original capitals).

3.6.6 Propositions 6a and 6b - Mental model

The final brace of propositions is related indirectly to decisions and concerns the mental model of decision makers. These propositions deal with *strategic clarity* (Ritchie-Dunham and Puente, 2008), the accuracy with which strategists' mental models correspond to the reality they represent. The premise is that more accurate models will tend to formulate decisions in accordance with propositions 1a to 5a, whereas less accurate models are more likely produce decisions conforming to propositions 1b to 5b. Mental model accuracy is a function, inter alia, of prior experience, expert knowledge, appropriate analogy, cognitive biases, and the ability to overcome cognitive impediments and to assimilate new information not present in existing schemata. While strategic clarity is considered to be a determinant of decision content, its impact on implementation factors is less clear. However, in light of the fact that the implementation factors have been identified in numerous case studies and accounts of turnaround managers' experiences, and have been confirmed by turnaround professionals in the survey, it is likely that the importance of most, or all, of the implementation factors will be present in the mental models of managers with prior turnaround experience or expert knowledge of turnaround. This, in turn, will render it more likely that the implementation factors are adopted by these managers.

3.7 Summary of model

The conceptual framework developed above is illustrated graphically in Figure 5. This forms the analytical apparatus of the thesis. It is predicted that a successful turnaround will unfold according to the prescription which follows in the next section. Conversely, some or all of the moves prescribed will be notably absent in a failed turnaround.

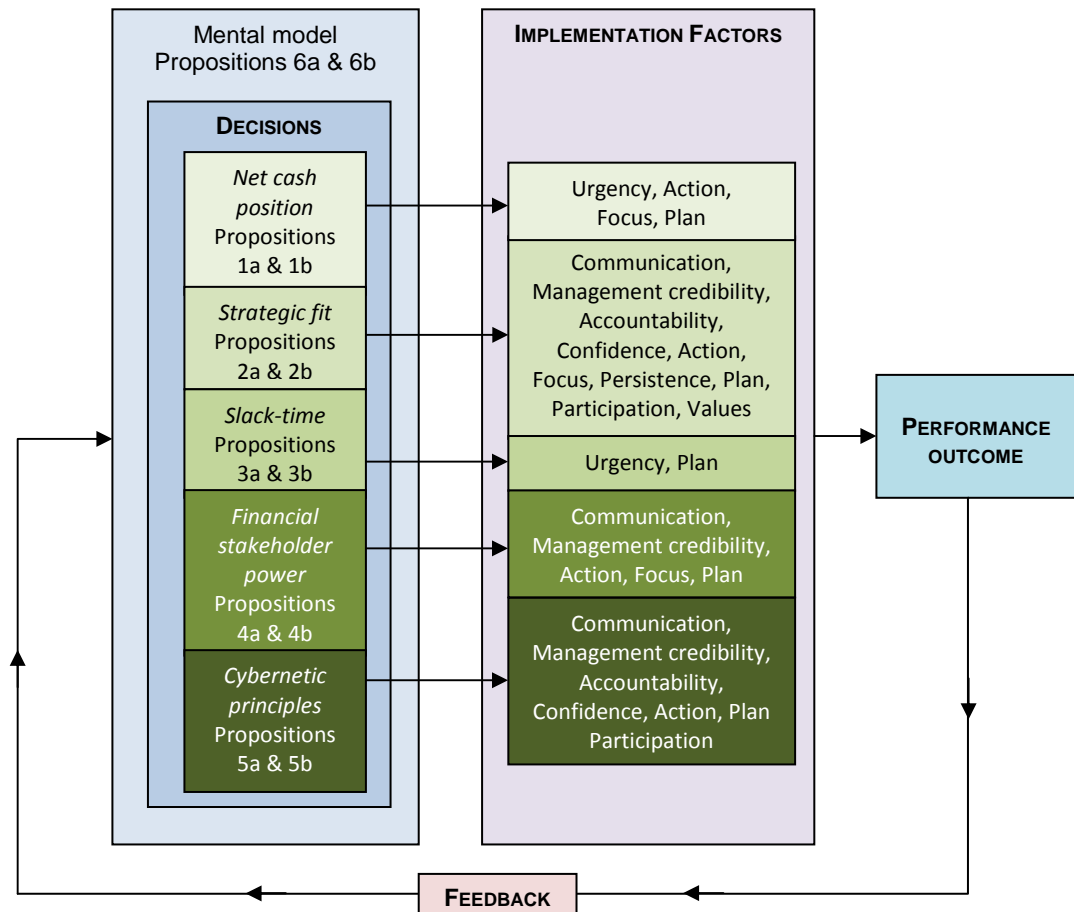


Figure 5. Basic turnaround process: mental model, decisions, implementation, outcome, feedback

3.7.1 Prescription for the turnaround process

This section presents a normative prescription of how a turnaround attempt should proceed in order to be successful. A turnaround effort can begin only after one or more triggers have established in the mind of the leaders of a company that the organisation is in a state of financial crisis. The decision to attempt a turnaround will require the tacit or explicit approval of the external providers of finance. The chief executive will be

credible to the board and financial stakeholders, or will be replaced by one who is. The chief executive, together with a small cadre of top managers, will formulate a turnaround plan whose strategic goal is to restore the enterprise to a viable state: i.e. to survive. This strategy will necessarily be shaped by the dual requirement to produce cash and restore strategic fit: cash is needed to continue to survive *and* to finance organisational restructuring towards fit. In order to devise a successful strategy, the chief executive and other top managers involved in the process will have accurate mental models of the organisation and its environment. They will restructure the organisation according to cybernetic principles of viability. Implementation of strategy will be facilitated through planned, focused, action-oriented and persistent initiatives of management to improve communication, increase management credibility, promote accountability, create a sense of urgency, invoke confidence in members of the organisation, increase participation and foster values. Executive decisions will not be influenced by external finance providers, who will not have sufficient power to intervene in the process. The organisation will possess enough slack-time to complete the process. Organisational actions will generate cash which is used to restructure the organisation and redirect its efforts towards increased fit: this is a positive feedback loop at the core of the process. Once the firm is self-sufficient in cash the crisis phase ends. Moves to restructure and improve fit continue until performance levels fall within the required range for viability, after which management effort is almost entirely dedicated to standard performance management and some minor structural adjustments to environmental fluctuations. At this point, turnaround is complete and the process ends: the organisation will have adequate cash, strategic fit and a cybernetically valid structure. These three conditions are separately necessary and jointly sufficient for viability.

The process is summarised in Figure 6 and is illustrated by the path of the green arrows. This is the only path to sustained performance improvement; the red arrows ultimately lead to lower performance. An accurate mental model formulates decisions which improve the net cash position and strategic fit of the organisation, increases slack-time, weakens financial stakeholder power and accords with cybernetic principles; these decisions are executed with the relevant implementation factors listed in Figure 5. Although inaccurate models are able to form individual decisions in the range of propositions 1a – 5a, inaccurate mental models will not, systematically, be able to

formulate coordinated sets of decisions to match the complexity of the organisation in its environment. Both accurate and inaccurate mental models are capable of producing decisions not conforming to propositions 1a to 5a. Even if those decisions are then implemented with the relevant implementation factors they will not bring about a sustained performance improvement. Finally, decisions formulated by an accurate mental model according to propositions 1a - 5a are unlikely to lead to higher performance unless implemented according to the relevant implementation factors.

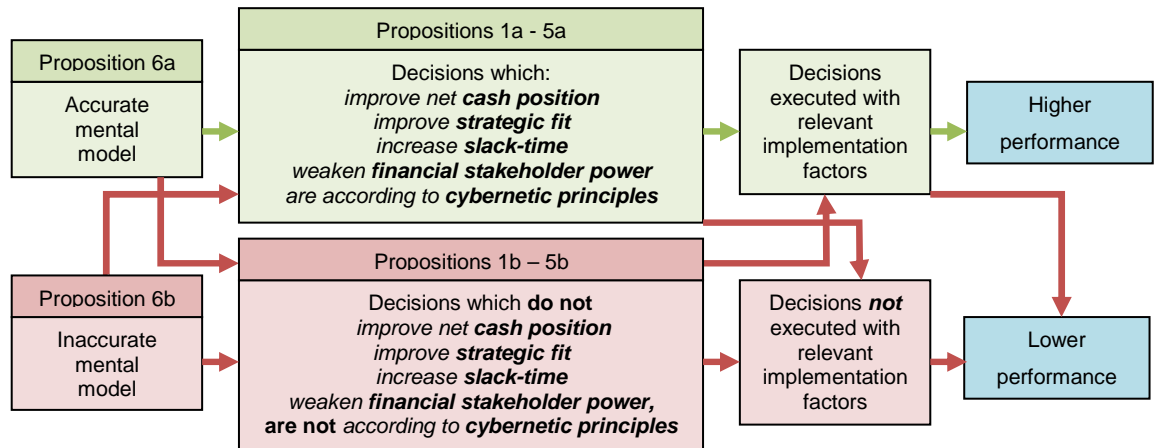


Figure 6. Path to performance (green arrows): an accurate mental model leads to required decisions, executed appropriately

This concludes the chapter on the conceptual framework. This framework will be applied to two turnaround cases, one which succeeded and one which failed in chapters five and six respectively. The following chapter explains the choice of cases and the case study method used for analysis.

Chapter 4. Method

Model-making, the imaginative and logical steps which precede the experiment, may be judged the most valuable part of scientific method because skill and insight in these matters are rare. Without them we do not know what experiment to do. But it is the experiment which provides the raw material for scientific theory. Scientific theory cannot be built directly from the conclusions of conceptual models — Herbert George Andrewartha (1907-1992)

This chapter sets out the method used for the empirical research carried out in the rest of the thesis. It is organised into three sections. Section one explains the choice of method; section two provides operational definitions of turnaround; section three details the process of determining the cases and demonstrates how the cases fit the operational criteria.

4.1 Choice of method

Turnaround usually takes place over a number of years and it is only at the end of a turnaround attempt that studies can meaningfully analyse the course of events, for the final outcome, a successful or failed turnaround, is what defines the process. Pandit (2000) proposes that the occasional and limited attention paid to context and process in the corpus of work on turnaround can be enhanced by small sample case studies with more holistic examinations to produce supporting rationale for the empirical findings of large sample quantitative studies. Such case studies can generate holistic explanations within and between cases. The choice of research method is therefore an analysis of the turnaround process through a matched pair of case studies using a recognised methodology, as advocated by Yin (2009). The unit of analysis is strategic decisions which will, of necessity, require the sanction of the chief executive. According to Yin (2009, p. 2) a case study design should be considered when:

- a) “how” or “why” questions are being posed
- b) the investigator has little control over events and
- c) the focus is on a contemporary phenomenon within a real life context

Case studies “*explain* the presumed causal links in real-life interventions that are too complex for the survey or experimental strategies” (2009, p. 19, original italics) and are judged according to four criteria:

1. Construct validity: data credibility is enhanced through the use of multiple sources of evidence which, in this case, consists of press articles, companies' annual reports and accounts, analysts' reports, stock exchange filings, industry reports and semi-structured interviews with company directors who were instrumental in the turnaround efforts.
2. Internal validity: the theory/outcome of the comparison of the turnaround vs. non-turnaround companies enables pattern matching such that inferences can be drawn about the impact of managerial decisions to allow explanation building as a complement to research focused on strategy content.
3. External validity: case studies rely on analytical generalisation. The result of the turnaround process is dichotomised into two possible performance outcomes: success or failure. It is proposed that the outcome can be explained in terms of the conceptual framework, thus the cases are generalised to the model. Analytic generalisation is strengthened by the model's successful explanation of both a successful and a failed turnaround case.
4. Reliability: the case study protocol has documented procedures and a database. Steps are described in order to enable a complete audit of the research.

4.2 Operational definition of turnaround

The earliest definition of turnaround in an academic article was made by Schendel et al. (1976). Their study operationalised turnaround as four years' uninterrupted decline in net income relative to GNP growth followed by a mirror image upturn phase of four years' growth in net income normalised to GNP. There are a number of drawbacks with such a broad-based definition. First of all, it ignores finer variances by industry, for example Pandit (2000) provided the example of a firm which is outperforming its competitors but is in a difficult environment when the economy is booming. In this case the firm is above average for its industry but below the average GNP growth, hence the benchmark is flawed. More importantly, it lacks an absolute anchor (Hambrick and Schechter, 1983, p. 234). Other studies have used dramatic shifts from the bottom to the top quartile of an industry (Pant, 1991), or the entire economy (Furman and McGahan, 2002), to define turnaround. This presents some problems. There is no discrimination

between firms that are profitable or in a life-threatening situation, nor is there an indication about whether companies are stable or declining rapidly, so any shift from bottom to top quartile, while an impressive feat in itself, is not necessarily a turnaround. Further, and more generally, an issue with relative definitions is that some firms will always, by definition, fall into the category requiring turnaround, whether or not this is in fact the case; thus the need for turnaround is *defined into* an industry or an economy. This cannot be. For example in an industry in which all firms are growing, all are cash positive and all are earning a rate of return above the cost of capital, no firm is a turnaround candidate. According to Pandit (2000) the use of industry average performance as a benchmark is highly controversial. The implicit assumption is that firm performance is a largely a function of industrial characteristics and leads to the identification of turnaround candidates based on industry performance not firm performance.

Barker and Patterson (1996, p. 306) state that, “Decline occurs when an organisation becomes less adapted to its environment and resources are subsequently reduced within the organisation” adding that, if unabated, decline “will lead to the dissolution of the organisation.” This echoes the definition of Cameron et al. (1987a, p. 224) from the decline stream of research: “Organisational decline is a condition in which a substantial, absolute decrease in an organisation's resource base occurs over a specified period of time.” If this is correct, then decline refers to the firm itself, not to aggregates of external organisations, and is a significant reduction in the resources of the firm with respect to its former state. In this case, decline relative to a firm's industry or to the economy as a whole is, *per se*, without meaning in a turnaround context. Relative decline which leaves the company in a positive profit and cash position with absolute growth in both does not, by definition, lead to any reduction of resources; neither does it entail the dissolution of the organisation. A company in relative decline requires some kind of performance improvement to catch up at least with the average performers, but the radical strategic renewal or dramatic asset reduction and cost cutting associated with the turnaround process would be out of place in such a relatively mild context.

The majority of researchers have used accounting data to determine decline, crisis and turnaround (Poston and Harmon, 1994). Accounting data has been criticised by certain scholars for its susceptibility to manipulation or its variability across firms due to

different accounting standards (Pandit, 2000). Several turnaround studies use return on investment (ROI) and a two year period after the trough of decline as the cut-off point to measure turnaround success (Chowdhury and Lang, 1993; Hambrick and Schecter, 1983; Robbins and Pearce, 1992). ROI based measures suffer from the weaknesses of any accounting measure, for example, variances in depreciation and inventory valuation methods across firms (Hambrick and Schecter, 1983). The unexplored assumption behind ROI measures is that all firms have equal tax rates and all industries have equal capitalisation ratios (Winn, 1993). Moreover, since ROI is a ratio, it can be affected by changes in the numerator, denominator or both (Arogyaswamy et al., 1995). For example, an increase in capital investment can reduce ROI if it does not produce an immediate increase in net income, but the investment could be important for longer term turnaround success. Winn (1993) states that ROI is not a useful measure for companies with severe losses unless assets are held constant. She further points out that in turnaround studies which examine decline and recovery in terms of net income (or ROI which uses net income as the numerator) it is not surprising that revenue increasing and cost reduction moves are strongly correlated with turnaround. If this is so, it is the measure of turnaround that is driving actions to achieve turnaround, which begins to look like the tail is wagging the dog. The answer, for managers at least, is to identify the specific performance deficits of organisations and design measures and actions accordingly.

However, Krueger and Willard (1991) raise the valid point that measures should provide an unequivocal signal to both researchers *and* managers that turnaround is needed. Conversely, if researchers use measures that managers do not recognise, the latter may not take action thereby providing inconsistent results in turnaround studies. Beyond this, many firms, particularly small businesses, companies in fragmented industries, or less sophisticated organisations, may not know their cost of capital or their growth/decline rates relative to others in their industry, whereas accounting information is usually readily and systematically available to management and financial stakeholders. Despite the drawbacks with accounting measures, movements in absolute earnings and negative cash flows are clear signals of decline or recovery and are much more regularly observed and known (particularly among small companies) than the risk free rate or ratios such as ROI.

Several studies (Barker and Duhaime, 1997; Chen and Hambrick, 2012; Mueller and Barker, 1997; Robbins and Pearce, 1992; Sudarsanam and Lai, 2001) have used Altman's Z-score (Altman, 1968) as a measure to indicate the severity of a turnaround candidate's financial condition. Firms with Z-scores below 3.0 run an accentuated risk of insolvency; those with Z-scores below 1.8 face imminent bankruptcy. There is evidence that the Z-score systematically overstates the probability of failure of distressed firms (high Type II error rate), since the model was constructed a posteriori on firms which had, in fact, failed (Poston and Harmon, 1994). In addition, the Z-score was developed using data from companies in the United States and its application in a UK context may be less accurate. Nonetheless, it is a widely accepted model for indicating that a firm is in distress; it is frequently used in the turnaround literature; and it has the benefit of including ratios based on data from the balance sheet, the profit and loss account as well as (for public companies) market capitalisation. As such it is a more complete summary analysis of a company's financial status than profit or simple ratios such as ROI. The model is explained in Appendix 7.

Review writers have suggested a number of separate measures to capture different aspects of performance (Lohrke et al., 2004; Pandit, 2000). These include, risk free rate of return, opportunity cost of capital, profit and qualitative information from business press or outside experts such as consultants or industry analysts. This idea of a fuller definition of the conditions for recovery is echoed in Lant et al.'s (1992) operational definition of strategic reorientation as a continuous variable which reflects changes in strategy, structure, control systems and power distribution. Overall, a package which includes the following elements would represent a robust system for selecting turnaround candidates and determining turnaround success:

1. Pre-tax profit/losses
2. The risk free rate of capital
3. Operating cash flow
4. Altman Z-score
5. An independent, qualified opinion on the solidness of the company

Pre-tax profit rather than net earnings is used since the latter are subject to fiscal effects and distortion from extraordinary items. Pre-tax profits are a minimum requirement for sustainability: a series of pre-tax losses indicate that a company is in decline. The ROI should, at a minimum, exceed the risk free rate of capital. According to Barker and

Duhaime (1997) this is a conservative indicator of performance and is consistent with Porter's (1980) opinion that a company is failing if it does not earn at least a risk-adjusted rate of return above the risk free rate. ROI is defined as profit after tax divided by invested capital (long term capital) in accordance with turnaround authors Hambrick and Schechter (1983, p. 237), who compare ROI after tax with the cost of capital, and Barker and Duhaime (1997) who measure the ratio of net income to invested capital against the risk free rate. Therefore ROI is measured as follows:

$$\text{ROI} = \frac{\text{Profit after tax}}{(\text{Total assets} - \text{short term liabilities})}$$

The risk free rate of capital is operationalised as the average daily short term conventional gilt yield for the relevant year using data from the United Kingdom Debt Management Office (<http://www.dmo.gov.uk>). Cash from operations is the essence of viability for a profit making organisation; negative cash flow from operations means that the company is dependent on external financiers or is forced to deplete its asset stock. The Altman Z-score is an insolvency predictor and a value of less than 3.00 in any given year is an indication that a company runs an increased risk of insolvency. An independent opinion takes into account qualitative, non-financial information such as the company's position vis-à-vis its competitors or the quality of its management. The final definition question is that of time. If a firm is performing well on all of the success criteria, the time taken to reach this happy condition is not material to the definition of turnaround success. How long a firm should be in decline *before* it is considered a turnaround candidate is an important consideration. Generally, a one year decline would not be considered sufficient: authors who have contemplated the issue favour at least a two year decline to avoid false positives (Krueger and Willard, 1991) and, although there are exceptions, the majority of definitions used in empirical research have applied a minimum of two years' decline This is operationalised as at least two years' consecutive pre-tax losses. The operational definitions used in this study are summarised in Table 33.

Pre-decline	Turnaround candidate	Turnaround success
Positive pre-tax income	Altman Z-score < 3.0 for ≥ 1 year	Altman Z-score > 3.0
Positive operating cash flow	Pre-tax losses for ≥ 2 years	ROI > risk free rate of capital
	Negative operating cash flow	Positive pre-tax income
		Positive operating cash flow
		Viable strategy and management

Table 33. Definition criteria for turnaround candidates and success

4.3 Choice of cases

The choice of cases for the matched pair in this chapter and the next was the result of a painstaking examination of possibilities using the Fame database (www.fame.com). Searches were carried out by major categories, for example, *machinery, equipment, furniture, recycling*, for UK companies in manufacturing industries that had stopped trading because they had either been dissolved or had gone into liquidation in the period from 01/01/2000 – 31/05/2012. The minimum turnover in the last year for which accounts were available was £20 million in order to include companies with a minimum public profile. Start-ups which had never reached a profit position were eliminated by the operational definition. For those three digit standard industrial codes (SICs) which had five or more failed companies a further search was carried out for companies which were still trading at 31/05/2012 but had experienced a minimum of two years' pre-tax losses. These were then further examined to determine if they met the other criteria of the operational definition, with the Altman Z coefficient providing the main screening filter for companies which had moved from either the distress or the grey zone to the safe zone (see Appendix 7). Those companies which had successfully turned around were then matched against the failed companies by selecting pairs in similar market segments, with matching 4 or 5-digit SICs, which had experienced losses in the same time period and which had turnover of the same order of magnitude. This was in order to control for industry trends, macroeconomic effects, and size. A number of companies met these criteria in the industries listed in Table 34.

This list was then further refined by searching the Factiva database to determine the quantity of publicly available data on each company. In essence, the number of press

articles available acted as a filter to screen out those firms for which only a small data set was available, defined as a minimum of around 100 published articles. Three pairs remained as shown in Table 35.

Sector	No. Matched pairs
Carpets	2
Clothing	2
Communication equipment	2
Computers and peripherals	5
Electric components	5
Furniture	2
Hydraulic, pneumatic	1
Machining	3
Metal structures	1
Paper	2
Wire, chains, springs	1
	26

Table 34. Early matched pairs by sector

Company	SIC code	Losses at start of turnaround (£K)	Year into losses	Year into profit	No. Factiva articles
Interface Europe Ltd.	13931	139,605	1998	2004	153
Gaskell PLC	13939	68,890	2001	Dissolved	496
Centerprise International Ltd.	26200	83,372	2006	2009	94
Plasmon PLC	26200	61,554	2002	Dissolved	606
Daks Simpson Group PLC	18221	20,409	2005	2009	96
Aquascutum Limited	18221	31,775	2005	In receivership	108

Table 35. Matched pairs of turnaround/non-turnaround companies and number of published articles

Using information from the Fame database, the names of the managing directors, finance directors, company secretaries and other directors who were employed by the three unsuccessful turnaround companies immediately before and during (most of) the years of pre-tax losses were identified, as were those employed by the three successful turnaround companies who were present during (most of) the loss making years and the early return to profit. Efforts were then made to track down the current whereabouts of these directors and to make contact with them in order to invite them to participate in an interview to discuss their experience of the turnaround stage. This was mostly an online search using a variety of sources listed below and involved phone calls to the managers' current organisations.

- Websites of the surviving companies
- www.fame.com
- www.linkedin.com
- www.company-director-check.co.uk
- www.whitepages.co.uk
- www.bt.com
- www.192.com
- www.companiesintheuk.co.uk
- www.wikipedia.org

In all cases either an e-mail address or a private postal address was found for the managing director, the finance director or the company secretary; in some cases other directors were also contacted. Twenty lived in the United Kingdom, one in the Netherlands and one in Japan. E-mails were sent with a read request and letters were sent by registered post. Numerous attempts to follow up the initial contact were made which resulted in interview appointments with the former finance director of Gaskell, and the chief executive and the finance director of Plasmon only. The other company directors either did not respond or were unavailable for interview. This left two halves of two pairs. Therefore, a second search through the Fame database was undertaken using slightly looser industry parameters. Based on experience from the previous round, only PLCs were included in the search, as only public companies have the reporting requirements, and hence the publically available information, required to piece together their story. Plasmon, a data storage company was matched with Dialog Semiconductors (Dialog), a semi-conductor company. Gaskell, a carpet manufacturer, was matched with Airsprung Furniture Group (Airsprung), a bed and upholstery manufacturer. The logic behind these pairs was to match the strategic challenge that the companies faced. In the case of Plasmon/Dialog, both were technology companies whose challenge was to manage innovation and investment in capital and R&D in a fast moving environment on an international scale. For Gaskell/Airsprung, both providing products to UK households, the challenge was to manage a UK manufacturing base, supply chains and marketing to compete with cheap imports in a changing retail environment. In the event, only the chief executive of Airsprung agreed to be interviewed and thus Airsprung/Gaskell became the matched turnaround/non-turnaround pair for the study.

Airsprung and Gaskell were in the same market sector: Airsprung was listed on the FTSE AIM stock exchange in the Household Goods sector, sub-sector Furnishings; Gaskell was listed on the FTSE main market in the Household Goods and Home

Construction sector; sub-sector Furnishings. Independent confirmation of the compatibility of the match is given by an analysts' report which included Airsprung and Gaskell in the same benchmark performance group (Sadif Investment Analytics, 2010). Basic details of the match are given in Table 36; further details are provided below.

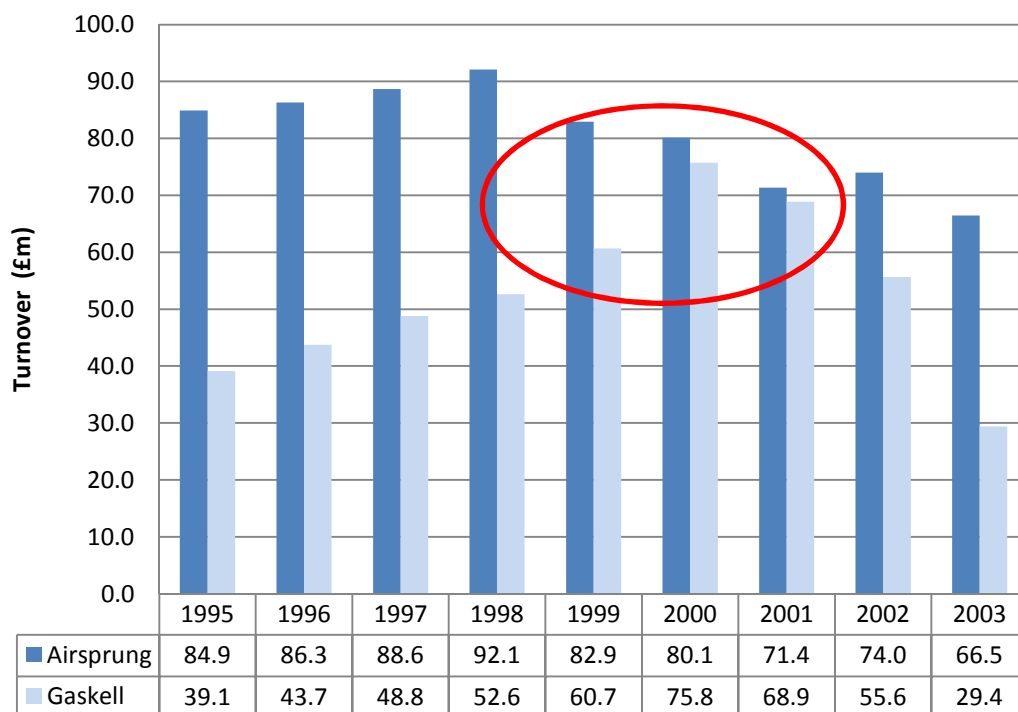
<p>Company: Airsprung Furniture Group PLC Date of incorporation: 1976 Sector: beds, mattresses, upholstery SIC: 31030 Turnaround: yes Year pre-tax losses started: 1999 Year pre-tax profits returned: 2007 Turnover into losses: £83m Turnover into profit: £45m Current status: active Latest accounts: 2013 (£51m sales; £1m net profit)</p>	<p>Company: Gaskell PLC Date of incorporation: 1948 Sector: carpets, carpet tiles, underlays SIC: 13939 Turnaround: no Year pre-tax losses started: 2001 Year pre-tax profits returned: N/A Turnover into losses: £69m Turnover into profit: N/A Current status: dissolved Latest accounts: 2003 (£29m sales; £1m net losses)</p>
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Table 36. Matched pair Airsprung Furniture Group PLC vs. Gaskell PLC

- The two companies achieved record growth rates before entering the decline phase.
 - From 1988 to 1998 Airsprung grew at a compound annual growth rate (CAGR) of over 12% from £29.3m to its historical peak of £92.1m.
 - From 1992 to 2000 Gaskell grew at a CAGR of over 13% from £28.3m to its historical peak of £75.8m. Figure 7 shows the growth in turnover of both companies as they approach the decline phase
- Both companies had their best ever pre-tax profit results in 1998: Airsprung, £6.9m; Gaskell, £5.1m
- After 1998, both companies entered a phase of decline, Airsprung in sales and Gaskell in profit
- By 2000 the two firms were very similar in size:
 - Airsprung had a turnover of £80m with 1,669 employees
 - Gaskell had a turnover of £76m with 1,074 employees
- By 2001, both companies were making losses
- The companies were among the top UK manufacturers in their respective segments
 - Airsprung was second largest bed manufacturer
 - Gaskell was the fourth largest carpet manufacturer
- Both companies appointed a new chief executive to undertake the turnaround attempt and both chief executives lasted the entire course of the process. The two companies also had a generational change of chairman during the process
- Prior to the crisis stage, both companies had effected infelicitous acquisitions which contributed to, or directly resulted in, their decline

A final point on the choice of cases: Siggelkow (2007) suggests that it may be desirable to choose a particular organisation because it has some special feature which fosters insights that other organisations might obscure. This is the case with Airsprung: when it entered a state of crisis, Airsprung had no long term bank debt whatsoever. The arguments developed in this chapter will contend that corporate slack (defined below)

and the power of external providers of finance are determining factors for the outcome of the turnaround process and the instance of an extreme case, with no long term bank debt, brings enhanced clarity to these arguments.



Source: company accounts

Figure 7. Airsprung Furniture Group PLC vs. Gaskell PLC: turnover 1995 – 2003

For Gaskell, a total of 480 press articles and public information service announcements were downloaded from the Factiva database (1990 – 2006); 109 articles were downloaded from the Access World News site. Similarly for Airsprung, 649 articles and announcements were found on Factiva (1999 – 2008) and 240 on Access World News. These were then coded using NVivo 10 software. The coding scheme breaks down strategy into six broad areas which are further sub-divided in order to obtain a finely grained analysis of strategies employed. The coding also features detailed breakdowns of leadership and management issues, and implementation factors. Stakeholders were divided into six categories with particular attention paid to banks and shareholders, given the results of the survey in chapter two. Each company's industry context was segmented by overall trends and competitor moves. This approach clarified the main environmental trends and events, and allowed the development of a detailed chronology of events during the turnaround process on the one hand; on the other it enabled an in depth analysis of the strategic response, and highlighted management and stakeholder

issues. The intention was to achieve a thorough understanding of strategic decisions, stakeholder positions, the organisation's situation and its environmental context in order to overlay the conceptual framework and evaluate how accurately the framework would trace the journey from crisis to recovery or failure. Full details of the coding scheme are supplied in Appendix 8 on page 296.

The initial batches of articles were supplemented by others found on the Internet as the research proceeded and these are listed in the references with the relevant hyperlink. The articles, together with financial analysts' reports, company annual reports and accounts, industry reports, and personal interviews with company directors, comprised the data set. Analysts' reports were downloaded from Thompson ONE.com. Annual reports and accounts and industry reports were downloaded from the Key Note website (www.keynote.co.uk/academics/index). These consisted of:

- Airsprung Furniture Group PLC Report and Accounts 1986, 1990, 1995 – 2010
- Gaskell PLC Report and Accounts 1997 - 2003
- Bed Bedrooms and Upholstered Furniture 2000
- Domestic Furniture Manufacturers 2003 – 2008
- Home Furnishings 2001 – 2011
- Household Furniture 2000 - 2008
- Carpets and Floor Coverings 2000, 2002, 2009
- Carpet and Flooring Industry 2003 – 2010

The interview with Richard Hopkin, former Finance Director and Company Secretary at Gaskell, took place in his home on 1 February 2013. The interview with Tony Lisanti, chief executive of Airsprung, took place in his office at the company's headquarters on 11 February 2013. Interviews were recorded and subsequently transcribed. Copies of the transcription and the recording were sent by e-mail to each interviewee, who had the opportunity to amend or retract any part of the interview. Neither did so. A copy of the interview questions can be found in Appendix 9 on page 297.

4.3.1 Do the cases meet the operational definitions?

4.3.1.1 *Airsprung PLC*

Pre-turnaround

Airsprung made its first pre-tax losses in 1999, but these were due to exceptional costs of the sale of a subsidiary; net of the restructuring costs the company was still profitable. In any case, in the five years previous to 1999, Airsprung had growing sales and pre-tax profits and positive operating cash flow as shown in Table 37. Therefore, before the crisis, Airsprung was a successful and growing company in good financial health.

(GBP '000)	1994	1995	1996	1997	1998
Turnover	73,105	84,887	86,307	88,642	92,077
Pre-tax profits	5,906	6,812	5,383	6,860	6,918
Operating cash flow	7,151	7,445	8,679	8,277	7,124

Table 37. Figures for Airsprung's turnover, pre-tax profit and operating cash flow 1994 - 1998

Crisis

In 2001 Airsprung again had pre-tax losses, but recovered in the following year. From 2003 – 2006, however, the company suffered pre-tax losses. By 2005 the situation had begun to have a significantly negative effect on the balance sheet and the Altman-Z score was below 3.00 from 2003 – 2007. Cash flow from operations was negative from 2004 – 2006. The data in Table 38 show that Airsprung meets the operational definition of a turnaround candidate.

Operational criteria	Airsprung's results
Altman Z-score < 3.0 for ≥ 1 year	Altman Z score = 2.41 (2005); 2.07 (2006); 2.67 (2007)
Pre-tax losses for ≥ 2 years	Pre-tax losses = £0.5m (2003); £4.1m (2004); £3.0m (2005); £1.4m (2006)
Negative operating cash flow	Operating cash flow = -£2.6m (2004); -£2.2m (2005); -£0.9m (2006)

Table 38. Altman Z-Scores, pre-tax losses and operating cash flows during the turnaround confirming a state of crisis

This is corroborated by the opinion of the chief executive during an interview. In the excerpt below he is referring to a graph showing company performance over several years till 2013.

This is the rolling PBT [profit before tax]. That's 2002; that's when I joined back here. That's where it had been. Yeah. And that's where we continued to drop. We gradually, this is the recession, this was when the credit crunch hit and that's where we are now. So we are still some considerable away from that level of profitability, but here it was actually insolvent ... it had got that bad. It had taken, I don't know, in fact apparently it was up here at one time. It had taken six, seven years to get to this sort of parlous condition that it had got to and it took about three before we broke even and started making money again. So yeah, it was in sort of freefall (interview with Tony Lisanti).

Post-turnaround

Figures in Table 39 are for 2008, the second year in which the company made pre-tax profits after three years of losses. The analysts' comments are from 2010. Moreover, a credit rating based on the latest available accounts for the year ending March 2013 show that the company continues to thrive and has a 0.00% likelihood of failure according to its QuiScore and QuiRating⁴ shown in Figure 8. Based on the data in the period before the turnaround, during the crisis and after the turnaround, Airsprung satisfies the operational definitions: it is a company that was once financially sound, entered in a phase of crisis and emerged as a viable firm. It is therefore a successful turnaround.

⁴ The QuiScores and QuiRatings, which are developed and maintained by CRIF Decision Solutions Limited, take into account a range of factors. These include the presence of any adverse documents appearing against the company on the public file and the timeliness of getting the accounts filed. In addition, the underlying economic conditions are factored in to the equation. However, the most important factors relate to the financial performance of the company as evidenced by their balance sheet and profit and loss account. In determining a score, a number of separate calculations are performed using various combinations of the key financial items - these include turnover, pre-tax profit, working capital, intangibles, cash and bank deposits, creditors, bank loans and overdrafts, current assets, current liabilities, net assets, fixed assets, share capital, reserves, shareholders funds. Source: <http://www.jordans.co.uk/reports/FAQ.do>

Operational criteria	Airsprung's results
Altman Z-score > 3.0	Altman Z-score = 3.39
ROI > RFR	ROI = 9.80% > RFR = 4.24%
Positive operating cash flow	Operating cash flow = £0.2m
Positive pre-tax income	Pre-tax income = £1.464m
Viable strategy and management opinion from independent analyst.	"Airsprung Furniture Group is an above average quality company with a neutral outlook. Airsprung Furniture Group has weak business growth and is run by passable management. When compared to its closest peer, Airea Plc, Airsprung Furniture Group shows similar undervaluation and is more likely to outperform the market" (Sadif Investment Analytics, 2010). The same report rated Airsprung's management in second place in a group of competitors (p. 4).

Table 39. Airsprung Furniture Group results for 2008 and analysts' comment 2010 meeting the definition of turnaround

Fame - company report of Airsprung Group PLC


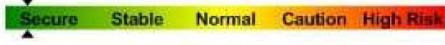
Airsprung Group PLC
Trowbridge, BA14 8RQ (England)

Formerly publicly quoted
The GUO of this controlled subsidiary is PORTNARD LIMITED

Registered no
Status

01277785
Active

Credit score & rating

Current QuiScore	95	(31/03/2013)	
Percentage likelihood of failure (%)	0.00	(31/03/2013)	
Previous QuiScore	94	(31/03/2012)	
QuiRating (GBP)	717,407		

Source: FAME database

Figure 8. 2013 credit rating for Airsprung Group PLC

4.3.1.2 *Gaskell PLC*

Pre-turnaround

Gaskell increased its annual turnover monotonically from £28.3m in 1992 to £52.6m in 2000. From 1995 – 1998 it had the fastest growth rate in the UK flooring industry (Key Note, 2000a). In 1997, Gaskell celebrated 50 years as a stock exchange quoted company with its best ever profit performance as pre-tax profits reached £3.7m. As a result, the PLC's share price increased by almost 200% and the company was featured in the 1997 Top Ten Share Performance League for the entire London Stock Exchange (Gaskell, 1997). Profits reached record levels again the following year to reach an all-time peak of £5.1m in 1998. In the five years previous to 1999 when, for the first time since 1992, profits fell, Gaskell had growing sales, pre-tax profits and operating cash flow as shown

in Table 40. Therefore, before the crisis, Gaskell was a successful and growing company in good financial health.

(GBP '000)	1994	1995	1996	1997	1998
Turnover	38,230	39,116	43,716	48,783	52,629
Pre-tax profits	714	807	1,207	3,655	5,051
Operating cash flow	1,401	1,821	2,642	4,266	5,198

Table 40. Figures for Gaskell's turnover, pre-tax profit and operating cash flow 1994 - 1998

Crisis

Gaskell registered the first pre-tax losses in its history in 2001, after which it never returned to profit. The Altman Z-score was already in the grey zone by 1999 due to a leveraged acquisition which worsened the state of its balance sheet. Cash from operations was negative only in 2003 (the last year for which full year accounts are available). This is mostly because depreciation charges and reductions in working capital were sufficient to cover operating losses for previous years. Data summarised in Table 41 show that Gaskell meets the operational definition of a turnaround candidate.

Operational criteria	Gaskell's results
Altman Z-score < 3.0 for ≥ 1 year	Altman Z score = 2.18 (1999); 2.03 (2000); 1.67 (2001); 1.0 (2002)
Pre-tax losses for ≥ 2 years	Pre-tax losses = £6.6m (2001); £9.0m (2002); £0.9m (2003)
Negative operating cash flow	Operating cash flow = £-7.2m (2003)

Table 41. Altman Z-Scores, pre-tax losses and operating cash flows during the turnaround attempt confirming a state of crisis

Post-turnaround attempt

In 2005 Gaskell was placed into administration and its remaining businesses sold off piecemeal in order to pay off debt; shareholders lost all value. This was therefore a failed turnaround attempt.

Chapter 5. Airsprung Furniture Group PLC

The success of most things depends upon knowing how long it will take to succeed - Charles de Montesquieu (1689-1755).

Airsprung Furniture Group PLC (Airsprung) traces its roots back to 1871, when Mr Hedley Chapman founded H. Chapman & Co, wholesale bedding manufacturers and began making straw mattresses in Trowbridge, Wilts. In 1901 the company was bought by the Yates family for the sum of £8,500 in cash and remained under family ownership and control for the next hundred years. The firm traded as Chapman's of Trowbridge till 1965 when the name of the main subsidiary was changed to Airsprung Limited. Chapman's became Airsprung Holdings until, in 1976, Airsprung Group PLC was formed as a public company trading on the Over-the-Counter (OTC) market. It was subsequently renamed Airsprung Furniture Group PLC in 1990. From 1968 – 1980 the company undertook a phase of vertical integration and grew to become the second largest bed manufacturer in the United Kingdom (Airsprung, 1986). Airsprung increased its annual turnover monotonically in the decade from 1988 to 1998 from £29.3m to its historical peak of £92.1m in 1998, representing a compound annual growth rate (CAGR) of over 12%. In the same period profits before tax (PBT) grew from £2.6m to a peak of £6.9m (CAGR 10.4%). The year 1999 saw the first interruption of the unbroken growth trend and the first pre-tax losses in over ten years, however the signs were equivocal. Turnover fell by over 10% to £82.9m and pre-tax losses stood at £1.8m, but the latter included exceptional costs of the closure of a subsidiary, Casterbridge Furnishing, including a goodwill write-off, totalling £8.1m. (Casterbridge Furnishing was the result of an amalgamation in 1997 of two subsidiary companies in the cabinet division, Intasco and Menasco, acquired in 1994 for a total value of £7.2m.) The sales and pre-tax profits of continuing businesses, on the other hand, were £80.8m and £6.7 respectively. With no exceptional closure costs the following year, 2000, saw a return to pre-tax profits for the group but the growth machine of the 90s had stuttered: the company managed to hold onto results similar, but slightly under, 1999 levels for continuing businesses (sales £80.1m, PBT £5.6m). After that, however, a decline set in which would see Airsprung's sales fall to less than half of their peak level and pre-tax losses reach over £4m.

This chapter presents a case study of a successful turnaround and is divided into five sections which in turn examine the environment, detail a chronology of the process, discuss top management background prior to the turnaround and apply the turnaround model developed in chapter three to strategic decisions. The final section discusses the findings and draws conclusions on the moves of the company and the explanatory power of the turnaround model.

5.1 The Environment

5.1.1 Market description and drivers

The UK market for household furniture includes upholstered and cabinet furniture, tables and chairs, beds and mattresses, and fitted units for bedrooms, kitchens and bathrooms. The bedroom furniture segment, in which Airsprung predominantly operates, consists of beds, mattresses and headboards, bedside tables, dressing tables, chests of drawers, under-bed storage boxes, ottomans and similar items. Free-standing and fitted wardrobes are also included. Beds and mattresses are the most important products in this sector, as they have a limited life-span and are therefore purchased more frequently. Divans account for over half the value of sales of beds, as their unit price is more expensive than that of bedsteads, although their volume is lower. In terms of volume, double-bed sales account for nearly 60% of the sector (Key Note, 2000b). A bed is generally considered to be an essential item of furniture and replacement purchases are one of the main factors driving sales: in a typical year around three times as many people buy a replacement bed than buy for the first time (Key Note, 2004). Consumer spending on household furniture is considered to be discretionary as it can be easily deferred and the size of the market is linked to the state of the economy and disposable income. Another driving factor is the housing market, as a purchase of a new home is usually accompanied by the acquisition of new furniture, not only for first time buyers. Finally, growth in population contributes to overall consumer spending growth (Key Note, 2000b). Some statistics for these growth factors for the period 2000 – 2007 are shown in Table 42.

Percentages

	GDP growth ¹	Base interest rate ²	Real household disposable income ⁴	Changes in number of property sales ⁵	Changes in house prices ⁶	Population growth
2000	3.6	6.0	4.1	-6.7	13.6	0.36
2001	2.1	4.7	3.6	8.5	6.2	0.37
2002	2.2	4.0	2.1	7.3	16.9	0.37
2003	3.1	3.7	2.7	-8.8	14.4	0.41
2004	2.5	4.6	1.3	1.4	11.1	0.51
2005	2.5	4.6	1.8	-16.8	6.5	0.60
2006	2.6	4.8	1.1	25.5	4.7	0.62
2007	2.5	5.5	0.5	-2.6	11.0	0.65

Notes

1. Gross domestic product at market prices, seasonally adjusted, chained volume measures
2. The base interest rate is the average for the relevant financial year
3. Average earnings growth is the actual (not real) annual average for the relevant year
4. Real disposable income growth is based on the Real Disposable Income series, seasonally adjusted, financial years, chained volume measures, reference year 2006
5. Property sales are based on Land Registry data for England and Wales
6. House prices are based on the mix-adjusted price for the UK

Sources: Households Below Average Income An analysis of the income distribution 1994/95 – 2009 10 May 2011 <https://www.gov.uk/government/publications/households-below-average-income-hbai-199495-to-201011>.
Property sales based on Land Registry data, by district, from 1996 (Table 588) Housing market: house prices from 1930, annual house price inflation, United Kingdom, from 1970 (Table 502) <https://www.gov.uk/government/statistical-data-sets/live-tables-on-housing-market-and-house-prices>

Table 42. Growth factors in the UK household furniture market, trends 2000 – 2007

5.1.2 Macro-trends

In line with growth in the main market drivers, GDP, disposable income, house prices, population growth and, for the most part, property sales, the furniture market in general and the bedroom furniture sector in particular grew strongly over the period 2000 – 2007, with a slight inflection in growth curve in the year 2003. In the years leading up to 2003 the housing market boom had encouraged many homeowners to withdraw equity from their homes and spend on more expensive household items, indicating confidence that rising house prices had made them richer and would continue for some time. Consumer purchases had also been stimulated by a number of home makeover and design programmes on television. Structural changes were also taking place, with a growing number of single person households driven by changing demographics: an ageing population, with more elderly people living alone after the death of their partners; the decline in marriage and a rise in the average age when people do get married; and the increasing number of people separating or getting divorced (Key Note,

2008). Bedroom furniture was the fastest growing segment (apart from ‘other furniture’), the growing appreciation of the value of a good night’s sleep being an additional factor (Key Note, 2004):

increasing awareness among consumers about the importance of a good night’s sleep, with retailers reporting that consumers are prepared to pay more for beds than they were in the past. Once often neglected because it is less public than other rooms in the home, the bedroom has also taken on more of a fashion element. According to retailers, growing numbers of consumers no longer replace only their mattress, but are increasingly likely to purchase a new frame or divan and headboard (Key Note, 2004).

In 2003, the downward trend in prices, driven by increasingly intense competition between retailers and imports of low cost product from China, combined with a slowdown in the housing market and uncertainty about the effects of the war in Iraq to halt the growth trend. Strong growth in the industry resumed in 2004 and carried through to 2007, once again on the back of a growing economy, and increases in disposable income and the overall population which, in the decade from 2001 to 2011, grew by over four million (ONS, 2013) or over 1,000 a day, twice the European average, representing the largest increase of the last century, excluding the Second World War period (Beckford, 2012). The dip in property sales in 2005 had no discernible effect; house prices continued to rise. Overall, retailers enjoyed ‘boom conditions’ (Key Note, 2008, p. 1). By 2007 the total furniture market was worth £10.32bn, up 33% from its 2000 level of £7.75bn (Key Note, 2004, 2008). Reflecting the increase in demand, on the supply side the number of domestic mattress manufacturers increased between 1999 and 2007 from 70 to 90, including an increase from 10 to 20 firms with turnover in the range £1m - £5m and an increase from 20 to 25 firms with turnover above £5m.

5.1.3 Low cost imports

Low cost imports dominated the furniture sector and grew in importance in the reference period. While the overall UK market for household furniture grew by 19% from £8,640m to £10,322m in the years 2003 – 2007, the total value of imports in the same period grew by 33% from £3,475m to £4,619m. Taking an average of the cost of goods sold (COGS) of three major retailers, MFI, IKEA and DFS in the years 2003 and 2007, a rough assessment of the value of imports at retail prices can be obtained by

adding on the percentage difference between COGS and sales. This crude estimate would put the portion of UK sales accounted for by imported furniture at 61% in 2003, growing to 66% in 2007. The high level of cheap imported furniture created intense competition at the lower end of the mass-market furniture sector, reducing value added for suppliers and retailers alike (Key Note, 2004, 2008). A further problem for British bed makers was caused by a change in consumer preferences from traditional UK manufactured divans to lower priced bedsteads, a move which favoured cheap imports (Key Note, 2004).

There has been a significant shift away from divans to separate bedsteads among younger buyers. Increased fashion consciousness, and being able to mix and match bedstead and mattress make competitively priced yet good quality imports account for a growing proportion of sales within the UK (*Cabinet Maker*, 2000c).

Over the period, Airsprung and other UK manufacturers quickly accepted that this was not a short term phenomenon and were forced to adapt:

Airsprung Group is to move production of its Bymacks ranges overseas. Its Gloucestershire factory has closed with the loss of 50 jobs after a 13 week consultation period. Production will move to sister firm Cavendish in the short-term, before going abroad... Lisanti blamed the closure on imports, saying it had been 'savagely undercut' (*Cabinet Maker*, 2004b).

The growing influence of low cost imports is understood and has been fully engaged in by our management, and the greater emphasis on product design and marketing is being cultivated in order to avoid Airsprung becoming simply another generic supplier of beds and upholstery (*Dow Jones Newswires*, 2004).

Market conditions in 2002/03 were highly challenging, especially at the entry point upholstery level. Very high levels of competition, mainly from imports from low cost sources in the Far East and Eastern Europe, created significant price pressure. This situation shows no sign of changing, and the actions of many of our competitors in either moving manufacturing overseas or closing operations altogether, unfortunately provide a backdrop to the state of this market for these types of product. (Airsprung, 2003).

There is a disappointing admission about the state of UK manufacturing industry, how semi and fully finished products are increasingly being sourced from low cost base economies such as China. This is presented in fashionable terms as 'outsourcing', with the prospect to improve product offering and customer service. I recognise this makes practical sense but it still reflects how the UK has fallen behind. (*Citywire*, 2004).

5.1.4 Retail: changing structure and increasing competition

A significant development in the behaviour of the retail sector was the pressure exerted on manufacturers to reduce prices:

Price pressure from several major retailers has become fierce, with suppliers increasingly subjected to requests for previously unnegotiated discounts or rebates. (Airsprung, 2003).

Tony Lisanti, Airsprung Furniture chief executive said the group had seen a 'bottoming out of the downturn - it's not getting any worse. It does seem retailers are picking up a little and that is coming through but nothing dramatic,' he said last week. However, he added that more retailers were asking for rebates or discounts. 'So many of them are doing it, it's becoming very general.' (*Cabinet Maker*, 2003b).

This pressure on prices derived from increased consolidation in the retail sector, as multiple furniture chains increasingly dominated the retail furniture market, with a retail outlet within 10 miles of most UK homes, new large-scale entrants and increased competition between the retail giants:

the industry has also become increasingly competitive and the total value of retail sales fell in 2003, as fierce competitive pressures led to widespread discounting. Traditional retailers such as MFI and DFS have struggled against intense competition from a wave of new furniture retailers, including Homebase, Argos, Marks & Spencer and B&Q. At the same time, suppliers to retailers such as Argos, which increasingly source products from low-cost producers in countries such as China, face growing pressure to reduce their prices (Key Note, 2004).

The largest retail chains were significantly bigger than the largest bedding manufacturers. For example, the two largest retailers in 2003/4, MFI Furniture Group and IKEA, had turnovers of £1,482m and £686m respectively. The largest bed manufacturers at that time were Silentnight Group Ltd with sales of £277m and Airsprung, whose sales amounted to just £49m. Not only were large retailers able to exert their relative power on manufacturers to lower their prices (Porter, 1979), they also had supply chain capabilities which allowed them to source product directly on a global basis. For example, they were able to buy imports of pine bedsteads at approximately UK manufacturing cost (*Dow Jones Newswires*, 2004). Early warning of this phenomenon arrived for Airsprung in 2000 in the form of the dramatic loss of one of its most important customers, MFI, which had decided to source cheaper pine beds from the Far East. Manufacturers were caught "wrong-footed" by this growth in retail multiples and were slow to react to the globalisation of the market (*Cabinet Maker*, 2003d).

The biggest challenge to Airsprung and indeed its competitors is how to provide value within an industry that is fast becoming dominated by fewer and larger retailers, be they catalogue or high street based (*Dow Jones Newswires*, 2004).

I respect the chief executive's frankness about a critical challenge ahead: that all furniture/bed manufacturers face a market that is increasingly dominated by fewer and larger retailers - whether catalogue or high street based. One is aware how food retailers' muscle has made life a lot harder for manufacturers (*Citywire*, 2004)

The “fierce competition” (Key Note, 2004) between retail multiples led to a significant shakeout of weaker players and contributed to severe turbulence in the industry.

The backdrop to the market has been and continues to be one of decreasing numbers of high street national retailer outlets... Although other furniture retailers, including traditional high street, home shopping and retailers utilising new routes to the consumer, are indeed growing, the short term impact of the industry losing major and longstanding players has had a considerable destabilising impact on much of the supply base (*Dow Jones Newswires*, 2005a)

Three large retail chains, Courts, Alders and MFI, went into administration. Courts met its fate in 2003, a result of the combination of a drop in UK sales and the effects of Hurricane Ivan on its Caribbean operations. All of its UK stores were subsequently sold or closed to considerable public controversy as customers lost deposits or were left without the furniture they had ordered leading, in some cases, to outlets being besieged and damaged by angry customers (Courts, 2011). Alders produced a £23m loss in 2004, ascribed to “ever fiercer competition on the High Street” and its chief executive, ex-BHS boss Terry Green, spoke of the impact of the “speed of the transformation” in the competitive environment (*BBC*, 2004). Its owners put the company up for sale in December 2004, but by January the following year it went into administration, with almost all its 45 stores being subsequently sold or closed. MFI (itself the subject of a successful turnaround in the 1970s – see Seabright (1985)) struggled throughout the early years of the millennium. Squeezed at the top end of the market by Habitat and John Lewis and at the lower end by Tesco and Asda, MFI faced strong competition for its core market from B&Q and IKEA. It was later accused of misleading its customers over its discounts (Poulter, 2005) and, dogged by order errors and supply chain problems as well as the ill-considered acquisition of Sofa Workshop, its sales fell from £854m in 2003 to £742m in 2005. In the following year it was acquired by Merchant Equity Partners for one pound (*BBC*, 2008b). In 2008, MFI went into administration and its 111 stores were closed down (*BBC*, 2008a).

In summary, the available evidence strongly indicates a significant and sustained period of growth of consumer demand for household products in general and beds in particular. On the other hand, increased competition from foreign companies, driven by the low manufacturing costs of certain economies, notably China but also Eastern Europe, was an important competitive factor for UK firms. Moreover, changes in the retail structure due to a greater portion of the market being served by large multiple retailers and the

entry of new large-scale retail businesses clearly intensified rivalry between companies. This drove retail prices down and forced some major retailers out of business. Increasingly powerful retailers were able, in turn, to force manufacturers' prices down (or not accept cost increases) either by wielding superior power, by sourcing directly from low cost producers, or a combination of both. The disappearance of large retail realities increased turbulence in the market place. Airsprung's challenge was therefore to navigate a task environment of growing munificence (capacity), complexity (heterogeneity, dispersion) and dynamism (turbulence) (Dess and Beard, 1984). The next section will examine what Airsprung actually did.

5.2 Chronology of Decline and Turnaround

In 2000, Airsprung operated nine subsidiary companies: Airsprung Beds, Airsprung Scotland, Gainsborough, Duckers and Sprung Slumber were involved in the manufacture of beds, including divans, mattresses, sofa beds and bedsteads; this represented the core of the group's activities. Bymacks and Cavendish Upholstery were manufacturers and distributors of upholstery; Airofreem and Fitex produced foam, felt and fibre fillings for sister companies and external customers. In the year ending March 2000 Airsprung reported a return to profits, a new acquisition, Enchanted House (incorporated into Sprung Slumber) and, despite capital expenditure of £3.3m and the purchase for cancellation of £2.9m of preference shares, a net cash position of £1.8m. The year had also had its challenges: £300,000 redundancy costs at Duckers, which took total losses to £1.2m in the subsidiary, installation problems on the main paint line at Airsprung Beds and the loss of a major private label customer, MFI, to the market leader in bed manufacturing, Silent Night (*Cabinet Maker*, 2000b). However, although the market remained competitive, a number of new customers and a declining cost base gave rise to a confident outlook for the year ahead (Airsprung, 2000). That confidence was misplaced, but it only became apparent after a number of months.

In April 2000, Airsprung publicly denied it would sell Duckers (*Cabinet Maker*, 2000a), but in September it announced the sale which would later take place for £450,000 cash with a book loss of £2.4m. Following on from the Casterbridge closure, the group was now out of the cabinet business completely (Westphal, 2000). At the shareholders'

annual general meeting in July, the chairman reported a difficult start to the year with lower sales and margin pressures, but still expected to capitalise on opportunities and increase market share (*Regulatory News Service*, 2000a). The optimism was shared by brokers Beeson Gregory who forecasted full year pre-tax profits of £7.3m, stating, “We are confident that most of the group’s problems are now behind it” and making a BUY recommendation for “underrated” shares (Berry, 2000). In reality, the group would never again come even close to such results. By September the group issued a profit warning, blaming price competition, low cost imports and a drop in demand. Shares fell by 28% to 73.5p, just over half of their value at the beginning of the year (*Reuters News*, 2000b). The half year results showed a drop in sales of 6% to £32.8m, with operating profits down to just £320,000 compared to £2.4m the previous year. Pre-tax losses of £2.15m were registered; significantly down from the 1999 figure of £2.45m profit. In February 2001, the group issued its second profit warning for the financial year and shares fell again, this time by 12%. Shares fell a further three percent when the full year results were published for the year ending March 2001: excluding Duckers, operating profits were down £4m to £2.7m, while pre-tax losses stood at just over £200,000, confounding analysts who had been expecting a profit of £1.85 million (*Reuters News*, 2001). The gap in expectations was officially due to bad luck: the winter floods, fuel blockades and labour shortages (Richards, 2001). Accordingly, the group chairman remained upbeat, declaring, “I am confident that the current year will see a return to growth in sales and profitability” (*Regulatory News Service*, 2001b). And it did.



Source: www.airprungbeds.co.uk

Figure 9. Airsprung products: divan (left) wooden bedstead with mattress (right)

In June 2001, Airsprung acquired upholstery design and manufacturing company Peter Guild Holdings Ltd (Peter Guild) for £826,000 in cash. The company had net assets of £250,000 and its previous year's turnover had been £5.4m. The chief executive, Peter Zimniak, described this as an “excellent acquisition” providing the group with a strong offering in the higher priced, more resilient segment of the market (*Regulatory News Service*, 2001a). In July, the chairman's statement at the annual general meeting reassured shareholders of the return to profit by year's end. However, all was not well within the company, as evidenced by Zimniak's resignation “by mutual consent” in August, after 25 years of service with the group, five of which as chief executive (*Regulatory News Service*, 2001c). No replacement was named for Zimniak, who later received a £262,000 compensation for loss of office.

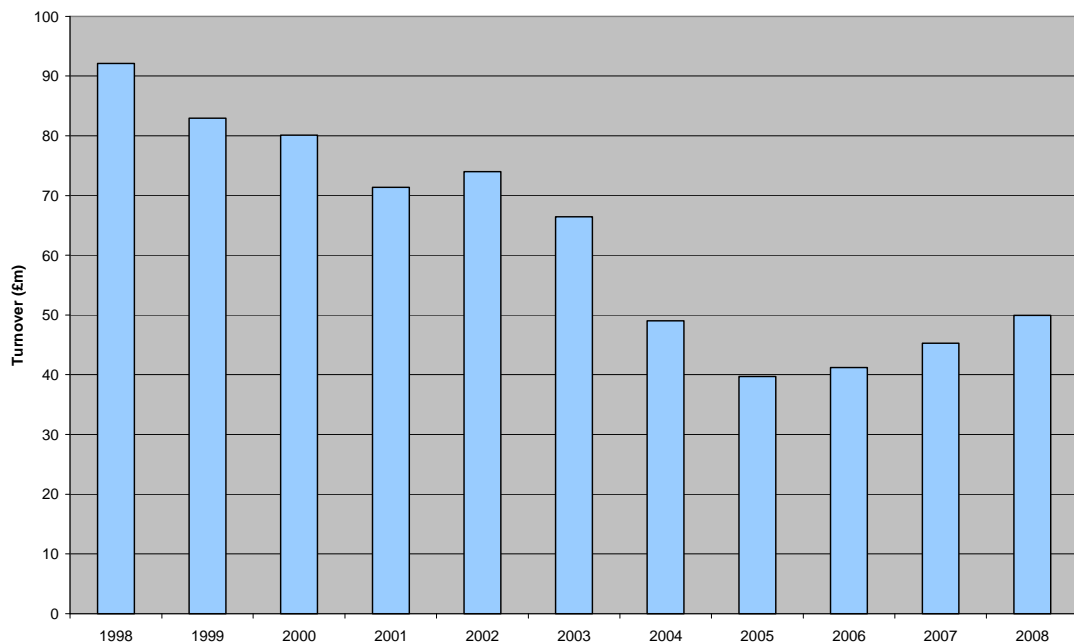


Figure 10. Airsprung's turnover 1998 (historical peak) - 2008

On the heels of this, Airsprung made a further profit warning, as it was unable to fulfil its order book due to staff shortages. Shares fell 16% on the back of the news. Pre-tax losses for the half year amounted to £71,000. In October, the sale of the Ducker's former property in Rotherham at its book value added £2.4m to the cash reserves when completion took place in March of the following year, but this was not before a further profit warning in February 2002, advising that results would be “significantly less” than the £1.3m forecast by analysts due to problems in Airsprung Scotland's Glasgow plant

and continuing labour problems in Airsprung Bed's Trowbridge factory (Kipphoff, 2002). The company's woes were summed up by Chairman Philip Bradshaw: production and distribution costs were too high and the company had experienced a poor sales and production performance (*Cabinet Maker*, 2002a). Share value slipped a further 19%. Management upheaval followed, with several layers of management being taken out and with the appointments of a new MD and production director in Scotland. Peter Guild's managing director left after nine years with the company. By year end pre-tax profits were just over half a million pounds, but operating losses in Scotland had grown to over £400,000. Thanks to the sale of the Rotherham property, the group had no bank debt.

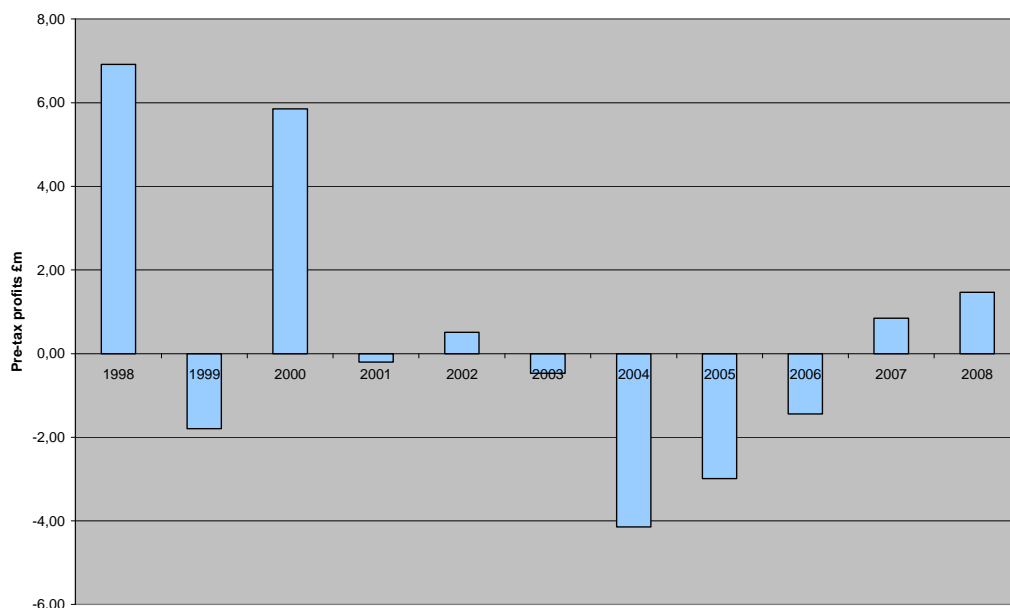


Figure 11. Airsprung's pre-tax profit from 1988 (historical peak) to 2008

A new chief executive, Tony Lisanti, took office in April 2002. Lisanti had previously been group MD of DIY company Spear and Jackson. After a management review, Airsprung Scotland was closed in July with the loss of 103 jobs and Scotland lost its only bed manufacturer. The 22 year-old operation was described as not economically viable as it was unable to generate sufficient demand. Costs of closure amounted to £900,000. In the same month Airsprung announced the closure of the Bymacks factory in Dursley, Gloucs with the loss of a further 70 jobs, although the business was maintained. The premises were sold for £2.25m against a book value of £920K; the sale was completed in March 2003, within the fiscal year. The half year results in September showed pre-tax losses stabilised at around £0.3m but turnover had fallen by £7m

compared to the same period in the previous year. In October, Airsprung Beds announced its efforts to overcome its labour bottleneck by new work practices and the introduction of a night shift which would improve output capacity by up to 30%. With 700 workers, a move of the Trowbridge factory was ruled out and the company had no option but to sort out its problems. By November the new chief executive was claiming that the £1.8m restructuring programme was 75-80% complete. The sale of company property continued in January 2003; this time warehouses in Trowbridge were sold for £800K against a book value of £550K. The ferment in the group's main site continued as trade union GMB publicly voiced concerns that the subsidiary was at risk of closure stating there was "no doubt that Airsprung Beds is in trouble" (*Reuters News*, 1999b). In the same month a new managing director was announced, another ex-Spear & Jackson manager, followed by yet another in May: the new marketing manager for the bed division. In March, the Yates family, the group's largest shareholder, ended over a century's interest in Airsprung with the announcement that it was selling its stake in the company. The results to the year ending March 2003 took the company once again into losses; sales were down £7.5m to £66.5m. Headcount had been reduced by 200 at a cost of £400K. The cost of the closure of the factory in Scotland and the restructuring at Bymacks had cost £1.5m. Nonetheless, with the sale of the Dursley property, the group retained cash balances of £1.3m. Also, the fillings business, Fitex had been sold off at book value.

June of the financial year 2003-4 saw the announcement of the chairman's retirement. In October, the group's financial director resigned. Also in October, Sprung Slumber, including the recently acquired Enchanted House, was sold for £5.4m in cash for a profit of £1.8m before expenses and after a £1m write-off of goodwill (Kidd, 2003). The bed manufacturing operation in Okehampton employed 175 people and had sales of £11m with profits of £900K. This was the first time in the decline phase that Airsprung had sold off a profitable subsidiary. The chief executive explained that the resources gained from the sale would be used to strengthen the core bed manufacturing plant in Trowbridge. The busy month of October also included a further profit warning. In December 2003, Airsprung was publicly discussing the possible sale of Bymacks but by January, with 2003 losses amounting to £1.4m, it was simply closed "to remove a significant loss making business from the group" and production was to go overseas. Closure costs were £500K and 50 employees were laid off. Also in January, the

Glasgow premises were sold off for a price of £475K. In February the group issued a trading statement forewarning a 5% shortfall in sales. The year end results in March announced that sales were down 26% to £49m and losses had increased from half a million pounds to £4.1m. In contrast, cash and short term deposits were up £2.8m to £4.2m. Once again, the chief executive announced that no significant further restructuring was required.

The new financial year starting in April 2004 ushered in £330K of capital investment in the Trowbridge plant with a corresponding reduction in lead times of up to 60%. In May, Airsprung's marketing director was nominated president of the National Bed Federation, the first time this had happened in the 133 year history of the company. At the same time Mr Lisanti became a member of the federation's governing council. The National Bed Federation, founded in 1912, represents UK manufacturers of beds and mattresses and their suppliers, its members account for approximately 75% of total UK bedding turnover (Key Note, 2008). First half results in September were significantly worse than the previous year, due to a drop in sales of over £7m to £19.4m and unbudgeted cost increases: operating losses almost doubled to £1.6m and pre-tax losses increased from less than a hundred thousand pounds to £1.5m. The company issued a profit warning in November due to an increase in steel prices and problems with its outsourcing programme at a wood mill in Poland. A further profit warning was issued in March: orders were below expectations but costs had been geared up for higher sales. Shares fell 35%. The full year results included a further drop in sales of almost £9m to just over £39m; pre-tax losses stood at £3m. But the bottom had been reached. The pre-tax result, although negative, was an improvement on the previous year and from now on sales would begin to rise.

By June of 2005 on-time deliveries from the main bed factory were at 100%. Luxury furniture maker Peter Guild, bought four years earlier to much fanfare for over £800K, was nominally sold for £400K. The company had never been profitable and the deal was aptly punned as "Airsprung's solution to suite sorrow" by Western Daily Press. Despite the low sales price and exceptional costs of £680K, mainly in asset write-offs and accelerated depreciation, investors appeared so "relieved to see the back of it" that shares rose 11% on the announcement (*Western Daily Press*, 2005). Peter Guild had one last surprise in store, however. Shortly afterwards, the new owners put Peter Guild into

voluntary liquidation and Airsprung would later write off £163K of bad debts for a loan made to help the new buyers finance the acquisition. In the meantime, Airsprung launched two new brands, Hush and Sleepflex, as the market became more buoyant. Year end results showed shrinking losses (-£3.6m to -£1.4m) and growing sales (£39.7m to £41m). In June 2006, Airsprung had its first profitable quarter for five years, hailed by its chief executive as a “Very significant landmark” (*Cabinet Maker*, 2006). By the end of the 2006/7 trading year, Airsprung was once again profitable. Of the nine subsidiary companies that had seen in the new millennium, only four survived.

Share prices fell constantly throughout the process from a pre-turnaround millennium peak of 130p per share to just over 14p at the beginning of 2006. They rallied for a while after that, but fell to their lowest point of 12.65p in August 2008, ironically at the end of the turnaround, for a total loss of value of over 90% (see Figure 12).



Source: Google Finance www.google.com/finance - Ticker symbol: APG

Note: Years on X-axis are placed at end June of respective year, around the time yearend results are announced

Figure 12. Airsprung’s share price January 2000 – December 2008

The shareholders reacted strongly to Airsprung’s crisis and, after over a century of being the majority owners of the group, the Yates family, still in possession of 42% of

shares, opened negotiations with an unnamed buyer to sell the company. One major shareholder, Redbird Holdings (Redbird), signalled its disaccord by selling a number of shares to reduce its stake to just under 20% (*Dow Jones Newswires*, 2002). The protracted talks ended unsuccessfully some five months later when the potential buyer, although willing to meet the target price of 100p per share, was unable to secure funding for the £23.9m price tag. Following the failed attempt to sell share prices fell sharply, reducing the value of the company to £16.6m. Industry commentators asked rhetorically, “Having seen one offer collapse, who else would want to buy Airsprung?” (Kidd, 2003). The answer, it turned out, was nobody. The Yates family progressively sold off its shares, while Redbird made successive acquisitions of shares, so much so that it fuelled speculation of a takeover as its stake reached 29.9%, making it the largest single shareholder. This brought the revelation that Redbird was an investor’s name for HSBC who had no interest in owning a bedding company (*Cabinet Maker*, 2005a). On the contrary, Redbird was interested in a long term investment and continued to be supportive of Airsprung; it knew the sector well and was also a major shareholder in Victoria Carpets (coincidentally a competitor of Gaskell PLC). In 2005, Cynthia Yates sold her entire 22.6% stake and no longer held an interest in the company. The shares were bought by chief executive Tony Lisanti (14.65%), chairman Stuart Lyons (4.65%) as well as four other directors (Airsprung, 2006; *Regulatory News Service*, 2005a; *The Express*, 2005). The company resumed payment of dividends on preference shares in 2008 and on ordinary shares in 2009.

5.3 Pre-turnaround experience of top management

This section briefly considers the experience and industry origins of Airsprung’s top managers prior to the turnaround attempt.

5.3.1 Airsprung’s chief executive: a company and industry outsider with turnaround experience

After a number of vain attempts to recruit a new chief executive from within the bedding and furniture industry, Airsprung’s board of directors engaged the services of

their fiscal advisors PricewaterhouseCoopers (PwC) to look for a new top manager. This resulted in a precise candidate profile, according to which PwC would search for an industry outsider with a retail consumer goods background, and, specifically, turnaround experience.

Interviewer: When you were headhunted for this, was it officially a turnaround position?

Lisanti: Yes it was. They had engaged Pricewaterhouse. At that time they had a headhunting division/department activity and they trolled around for people who had gone through a similar process and Spear & Jackson came up. It was a similar sort of size. This was a bit smaller but a similar sort of size. It was in retail. It was consumer goods. It was, it was, just different products, different distribution routes... but really in terms of a business model there wasn't a lot of differences between the two. And they had decided to go outside of the sector. That was a conscious policy decision. They tried a number of general managers from within the furniture and bedding industry. One way or another they had all fallen away. Pricewaterhouse did a study, quite a formal study, cause I read it afterwards. I saw the whole thing. They had a formal study of the sector, the business, what they should look for, the skill sets, the experience and all that sort of stuff.

Lisanti's turnaround experience was gained in his previous position as a managing director of one of Spear & Jackson's subsidiary companies, where he was able to observe firsthand the turnaround expertise of a top manager from the automotive sector who came in to effect the corporate turnaround, whom Lisanti eventually succeeded as chief executive.

And I was encouraged by him, as were all the other sort of managing directors of the subsidiary businesses... I came in when he came into the business. But to be fair it was he that cleared out a lot of old practices. To be fair he cleared out a lot of management, middle management and all sorts. And it was incredibly beneficial to sort of stand on the side lines of this and watch it all happening in a way. Naturally, I wasn't responsible for any of it, other than my little bit. I was responsible for some of the new group, under the big new group. I was able to watch all of this on the sidelines, from the guy who had to do all of this on quite a big scale, from the automotive sector. I watched how he went about it and I think I learned a great deal, well I know I learned a great deal from that.

So I'd never worked in a business prior to that, that had been in trouble. My previous employer was Rio Tinto Zinc, who were coining it. And the only other one I worked for before was Mars, who were also coining it. So neither of those two businesses had to worry about where the next dollar came from. Spear & Jackson was completely different. It was in a real mess and the private equity owners thought they could turn around, which they did, we did turn around and sell it off. I eventually went from being a subsidiary managing director and in the end I was CEO, group managing director. The guy who'd come in retired and I ran the group for about three or four years, something like that. But I suppose that's where my education came from, sort of turnaround perspective. It wasn't ... I never picked up a textbook, never, er, sort of a management book... (interview with Tony Lisanti).

5.3.2 Airsprung's top management team: company and industry outsiders

As a result of his turnaround experience, Lisanti placed great emphasis on the quality of his management team. He was, however, deeply dissatisfied with the incumbent management.

You know it's just such hard work because they'd never, ever, ever been trained or asked or whatever, to say, just do some desktop analysis. "Get your competitors accounts. Are they making any money? If they are, why aren't you? Do you believe it yourself and if you do believe it, why aren't you?" They just don't know how. So you had all of these people that were, by and large were in their 50s plus. By and large they were all male. There was not one ... no that's not true, there was one graduate amongst them. We had 800, 900 employees. There was one graduate, one graduate, who was the grandson of the founder, that was the sum total of the graduates, graduate level people. So they all knew what they knew, but they didn't know very much else... (interview with Tony Lisanti).

The chief executive described the sector as "a cottage industry" struggling to come to terms with the 21st century era of globalisation. His answer was to bring in "people who have met these challenges before" (*Cabinet Maker*, 2003d). These were managers that Lisanti already knew and trusted to get the job done, and were not from the furniture industry, but had much broader business experience from sectors as varied as electrical appliances, foodstuffs, security and metal manufacturing. This reduced the complexity that the chief executive had to deal with because he could now delegate with confidence to experts in their respective fields.

I actually brought in people, the other big factor here and ultimately there's no question it was the driver in terms of getting us back on to an even keel and starting to make a little bit of money was bringing in people that had sort of wider, had no history and nothing to protect. Because that's one of the problems when you come into a business like this. The incumbents, they have, whatever decisions they've made, they've got to protect those decisions (interview with Tony Lisanti).

One of the main contributors to the new retail strategy was the new sales and marketing director, who was not from the furniture or bedding industry, but had a consumer goods background with Reckitt and Coleman. This gave Airsprung a new insight into its target retail environment which was subsequently strengthened as the new director built a sales team capable of interacting with customers in that environment.

The sales and marketing director was FMCG so he understood how to go into a Tesco or an Argos or somebody like that and pitch for a section of the range... And it's a very different, very different type of sell. For a start you're selling to somebody who actually knows nothing

probably about your product, or about any of the product or the sector. They just say, “Well I was buying toys last week, I’m now buying beds.” Very different, very, very, highly, highly analytical. Very spreadsheet and the margins are very thin so you can’t afford to get anything wrong and it’s very, very analytical and it’s matching the gap, getting the gaps in the market (interview with Tony Lisanti).

Another key TMT member was the new managing director of Airsprung Beds, Paul Lamb. Lamb was hired by Lisanti, because he knew him from their time together at Spear & Jackson. Lisanti’s knowledge of Lamb’s abilities fit with his policy of hiring qualified managers with broad experience from outside the bed industry and his vision for the main bed factory. Lamb’s experience of outsourcing with Spear & Jackson led him immediately to the concept of outsourcing, even though the practicalities were obscure at that point. His experience enabled the organisation to find solutions and overcome initial problems as the company learned how to locate and work with reliable foreign suppliers.

So bringing in the guy who from IMI Metals and Spear & Jackson, he had no history with it... He said, “These are the issues I’ve got and my labour force have got 30% churn rate on direct labour,” which we had, 30%. “These are the pinch points. These are the areas that are giving the business problems for example and this is what I’m going to do about it. I’m going to take out, I’m going to reduce my installed capacity by 35% and I’m going to outsource 35% of my capacity - somewhere.” And that’s what he did. So he took out 35% of capacity. So we were off the treadmill after that. I’m simplifying it, but after a little while, after a while, we were off the treadmill of trying to replace people at the rate of 30% attrition, cause you couldn’t do it. So when you bring in people with that sort of expertise I don’t have to say to them, what you need to be looking at is: “Find where the pinch points are then breathe in, breathe out, breathe in.” They know what to do, they’ve done it before. They’ve seen it before. They’re intellectually capable of understanding it (interview with Tony Lisanti).

The only exceptions to this policy were the promotion of a new group financial director from within the company following the resignation of the incumbent to pursue a Christian ministry (*Regulatory News Service*, 2004b) and the appointment of a managing director from within the industry to the ill-fated Peter Guild (*Dow Jones Newswires*, 2004).

This completes the presentation of background material on the task environment, the organisation’s pre-decline performance and decline path, and the prior experience of Airsprung’s top management team. The next section examines in detail how the top management team tackled the problem of organisational decline in the firm’s environment through an analysis of strategic decisions.

5.4 Analysis of strategic decisions

The following analysis applies the conceptual framework developed in chapter three to strategic decisions. Strategic decisions are those taken directly by the chief executive, or whose nature would have required the sanction of the chief executive; they are defined as decisions which affect major allocations of resources or strategic direction and therefore impact cash flow and strategic fit. This class of decisions contains acquisitions and disposals of companies, major asset purchases or sales, corporate restructuring, large scale downsizing and significant shifts in product/market strategy. Each decision is examined according to the six propositions formulated in the framework for a successful turnaround in order to test the predictive strength of the model. The list of propositions is reproduced below for convenience.

*Proposition 1a: decisions which improve the net **cash position** of the firm are more likely to lead to a successful turnaround.*

*Proposition 2a: decisions which improve **strategic fit** are more likely to lead to a successful turnaround.*

*Proposition 3a: decisions which increase **slack-time** are more likely to lead to a successful turnaround.*

*Proposition 4a: decisions which weaken **financial stakeholder power** are more likely to lead to a successful turnaround.*

*Proposition 5a: decisions which improve viability according to the **cybernetic principles** of the VSM are more likely to lead to a successful turnaround.*

*Proposition 6a: more accurate **mental models** of top management decision makers are more likely to lead to a successful turnaround.*

Discussion is restricted to the period of the turnaround process which lasted six years from April 2002 to March 2008. The trigger establishing crisis was the resignation of the then chief executive, Peter Zimniak in August 2001. His successor, Tony Lisanti,

confirmed in interview that he was explicitly hired to effect a turnaround. Mr Lisanti took on the role of chief executive in April 2002. The accounts published for the year ending March 2008 show that Airsprung met all operational parameters of a viable company.

There were four strategic decisions involved in Airsprung's turnaround. These were:

1. Sell and close operations
2. Outsource
3. Improve performance in the main bed factory
4. Shift retail customer focus

These decisions will now be considered according to their contribution to cash flow; whether they played a role in moving the company towards strategic fit; if constraints of slack-time or financial stakeholders were operating on them; whether they helped create a cybernetically viable organisation; if they were the result of a mental model with a high level of strategic clarity; and if they were implemented with important success factors for implementation.

5.4.1 Sell and close operations

Within three months of taking office, the new chief executive struck at the heart of the enterprise when he took capacity out of the core bed business by shutting Airsprung Scotland, a decision which came like "a bolt from the blue" for Scottish employees (Dey, 2002). Closure costs amounted to £900,000. The closure of the Bymacks factory in January the following year cost the company £0.6m. The sale of the Glasgow property (delayed until January 2004) was made for a consideration of £475K compared to a book value of £445K, while Bymacks' Dursley premises were sold for £2.25m against a book value of £920K. In January 2003 a warehouse in Trowbridge was sold for £800K against a book value of £550K. The closure of Airsprung Beds' wood mill in fiscal year 2004/5 cost £1.9m but this was mainly for a write-down of fixed assets, acquired only some four years earlier, so had no cash impact. In this case the company chose to keep the premises, part of its Trowbridge facility, and sub-let them to the company which had bought its Fitex fillings business at book value. Sprung Slumber

was sold for £4.4 in cash and produced £1.3m in profit. The abortive sale of Peter Guild produced no money to offset expenses after the new owners sank rapidly into voluntary liquidation, saddling Airsprung not only with costs of £680K, but also £163K of unpaid loans.

Subsidiaries	Product	Sold/closed
Airsprung Scotland	Beds	July 2002
Bymacks	Upholstery	January 2003
Fitex	Fillings	March 2003
Sprung Slumber	Beds	October 2003
Airsprung Beds' wood mill	Beds	Early 2005
Peter Guild	Upholstery	May 2005

Table 43. Summary of Airsprung subsidiaries sold or closed during the turnaround

5.4.1.1 *Cash position*

A feature of Airsprung was its rich property portfolio. With site closures came a compensatory sale of premises or rent income which alleviated the cost impact of closing operations but, more importantly, provided cash injections in the loss making years and created a vital breathing space until the remaining businesses were self-sufficient cash generators. Just before the turnaround began, the sale of the Ducker's former property in Rotherham at its book value had already added £2.4m to the cash reserves when completion took place in March 2002. The decision to close Bymacks, a business whose losses amounted to £1.4m in 2003 and whose closure costs were £500K was clearly beneficial in terms of annual cash flow. In contrast, Airsprung Scotland was losing £400K per year, but closure costs were over twice that figure; Peter Guild was costing the group a quarter of a million pounds a year, but closure costs were, in the event, almost three times the amount. While the longer term value of such closures is evident, a firm with negative cash flow from operations must find the cash to cover the sudden hike in costs in order to gain those longer term benefits. For Airsprung, the sale of property was one answer to the short term cash issue. The other was the sale of one of its profitable core bed businesses, Sprung Slumber, the largest single asset to be disposed of.

The decision to sell and close operations therefore made a net improvement to the firm's cash position. This finding supports proposition 1a for a successful turnaround.

	2002	2003	2004	2005	2006	2007
Operating profit	546	-1,713	-5,949	-3,063	-1,201	991
Cash from asset sales	3,213	1,203	3,381	158	42	7
Cash from sale of Sprung Slumber			4,395			
Net cash flow	1,254	-268	816	-653	-1,480	1,960
Yearend cash & cash equivalents	1,611	1,343	2,159	1,506	26	1,986

Table 44. Selected profit and cash data from Airsprung's accounts 2002 – 2007

5.4.1.2 *Strategic fit*

The impact of the decision to sell and close operations is most evident in terms of intra-strategy fit. In his 2004 year end statement, the chief executive directly linked the two major changes in the environment, changes in the retail structure and growth of imports, to the sale and closure of operations. In particular, the closure of the wood processing facility in Trowbridge removed a loss-making process from the business and was an integral part of the strategy to outsource this activity which resulted in higher efficiency (internal fit) and better customer service (external fit). In addition, the sale of Sprung Slumber freed substantial resources for investment in process changes and capital equipment in the Trowbridge factory which, equally, led to increased efficiency and improved customer service. Airsprung Beds' Trowbridge factory was an essential element in the turnaround as it was the largest business in the group and housed its core competences. Thus the sale and closure of operations streamlined the organisation in order that managers had the time and financial resources to improve the performance of the main factory in Trowbridge. This supports proposition 2a.

5.4.1.1 *Slack-time*

A striking feature of Airsprung's capital structure before and during the turnaround was the absence of debt. In 2000, total assets of £25.5m were entirely financed by shareholder capital, thus the firm went into crisis with no third party financing. Table 44 above illustrates how Airsprung managed slack-time with its only its internal resources.

No capital injections were made by shareholders; indeed, the opposite is true (see section 5.4.1.2 *Financial stakeholder power* below). In the four year period from 2003 – 2006, Airsprung made total operating losses of £12m. The peak year was 2004, which accounted for almost half of total operating losses in the turnaround. The group was only able to finance that level of losses from asset sales and, in 2004, the sale of Sprung Slumber. In the circumstances, the £4.4m cash from Sprung Slumber extended the time available for the turnaround at a point when its cash reserves would have otherwise evaporated completely. In the years, 2002 – 2007, Airsprung reduced its fixed assets by over 50% from £17.9m to £8.7m. The result was that the company remained cash positive throughout the turnaround and had no need of recourse to debt financing, if, indeed, this were available. Despite this, slack-time still almost ran out in 2006 when cash reserves reached a low point of just £26K due to continuing operating losses; but timing is everything. Although the stock of cash was exhausted, the following year the positive trend in falling operating losses finally produced a profit from operations and this, together with some positive effects of working capital management, boosted cash levels up to almost £2m, at which time the crisis phase was over.

The decision to sell and close operations therefore converted a significant proportion of the fixed asset base into liquid assets in order to expand slack-time. Slack-time was also increased by the elimination of loss making businesses. The decision extended slack-time by just the required amount so that the company could exit the crisis stage and be cash positive, at which stage slack-time no longer operated as a pressing constraint. This finding constitutes strong support for proposition 3a.

5.4.1.2 *Financial stakeholder power*

From 2001 to 2004 the directors maintained a policy of paying dividends on ordinary equity despite the fact that the company was making losses (Table 45). This decision is open to interpretation and may have been due to direct pressure from shareholders, a tacit bow to shareholder power on the part of directors, or a combination of both. Either way, the effect was a partial transfer of liquidised fixed assets to the shareholders such that the company did not realise the full cash benefit from asset sales. The chairman's 2002 end of year statement had this to say:

The board is recommending... a total dividend for the year of 3.0p (2001: 8.0p). Although the dividend is uncovered, it was decided to pay a final dividend reflecting confidence in the future and a strong balance sheet (*Regulatory News Service* 2002).

	2001	2002	2003	2004	2005
Profit after tax (PAT)	-868	608	-190	-3,528	-2,432
Equity dividends paid	1,911	716	1,910	836	0

Table 45. After tax profits and losses and dividend payments 2001 – 2005

With shareholders rapidly losing value on their investment as share prices tumbled, Airsprung’s board saw fit to “return funds to shareholders from its strong balance sheet and focus on shareholder value” (*Cabinet Maker*, 2003a). After the failed attempt to sell the company, the board reacted smartly and in June 2003 “showed its confidence in Lisanti’s strategy by returning the £1.8m proceeds from the sale of Bymacks factory to shareholders as a special dividend” (*Cabinet Maker*, 2003b). Then in December it declared an interim dividend of 1.5p per ordinary share which “reflects the particularly strong cash position following the sale of Sprung Slumber” (*Regulatory News Service*, 2003a). However, by mid-2004, the board felt it “prudent not to pay an interim dividend until there is evidence of an upturn in the results” (*Regulatory News Service*, 2004a). There seems to be a correlation between the relative power of the Yates family and the board’s willingness to pay dividends in the face of ongoing losses. Once majority share ownership shifted from the Yates family to a combination of Redbird (*Cabinet Maker*, 2005a) and a group of directors, including the chairman and chief executive (Airsprung, 2006; *Regulatory News Service*, 2005a; *The Express*, 2005), no further dividends were paid until the company was in a sound financial and operational condition. Certainly, for the first three years of the turnaround from 2002 – 2004, the board approved dividend payments of almost £3.5m which were not covered by profits and thereby transferred cash from the sale of assets to shareholders. It seems that the original owners’ strategy was to milk the company while seeking an exit, firstly by attempting to sell the company, then by disposing of shares, until the policy of paying dividends became either politically or financially (or both) unsustainable. Management was able to strengthen its position by *becoming* shareholders. The increasingly powerful presence of a supportive financial investor seems to have been a stabilising factor: Redbird was interested in long term growth, not in selling the company. The precise impact of £3.5m

in cash extracted from the loss making enterprise is difficult to estimate but must surely have been considerable. Would it have been necessary to sell the profitable Sprung Slumber, for example? With hindsight, it is clear that, while shareholders did not affect the outcome of the turnaround, they probably altered its course and rendered it more difficult. On the other hand there is no evidence of any interference in the operational management of the turnaround by either the shareholders directly or through the board. To the contrary, the chief executive had a remarkably free hand.

The decision to sell and close operations precluded the need to seek debt financing and thence avoided creating a potentially powerful stakeholder with control over the turnaround process. An important portion of the cash generated by the decision was claimed by shareholders. However, in the event, shareholders did not intervene in operational decisions through the board. One interpretation of this is that the cash made available from asset sales satiated those shareholders not convinced that the turnaround would restore shareholder value by providing dividends to compensate for the loss of value and thereby forestalled a more substantial shareholder intervention. By that time the balance of power among shareholders had shifted to a mix of an institutional investor interested in long term growth and top managers themselves. In any case, management did not need shareholders to provide cash; indeed the opposite was the case. This decision therefore increased an already asymmetric power balance between management and shareholders in favour of management. This substantiates proposition 4a.

5.4.1.3 *Cybernetic principles*

According to the recursion principle of cybernetics, it is important to specify at which level of recursion the analysis is directed. Beer proposes three levels of recursion initially as follows:

- Level 0 – Wider system of which the System in Focus is a part
- Level 1 – System in Focus
- Level 2 – Viable subsystems which ‘produce’ the System in Focus

The boundaries of any system are a matter of choice and this choice depends on the purpose of the analysis. The analysis in this case is to determine if decisions taken were in accordance with cybernetic principles and if cybernetics can contribute to an explanation of the turnaround process. Therefore, the Airsprung group is the System in Focus at level 1. Its subsidiary companies are its sub-systems operating at level 2; together they form System 1 (S1) of the level 1 organisation. It operates in the UK furniture industry at level 0.

The decision to sell and close operations eliminated three loss making subsidiaries, i.e. three non-viable S1 elements. The cybernetics of the situation is quite clear: an S1 element, by definition, must be viable, i.e. capable of independent existence. Loss making S1 elements violate this principle, as any non-viable S1 element can only be maintained by other S1 components and is therefore a burden on them and the system. They must, therefore, be rendered viable or eliminated. The removal of these non-viable sub-systems from S1 improved the health of the entire system. This was clear to the chief executive:

We had a loss making, big loss making business in Scotland, in Glasgow. And they had just lost a contract with a big bed retailer up there and it plunged the business into – just on its own – would have plunged the business into a million pound loss. So for a business this size you can't contend with that. And I took the decision: we're just going to close it... "This thing's got to close otherwise it will kill us. We've got to stem ... the one thing we have got to do is stem these big unsupportable losses" (interview with Tony Lisanti).

However, this was Mr. Lisanti's only regret later on:

I have one regret, rather a little regret. The one business regret about it, and I don't think, frankly, I don't think I could have genuinely in hindsight done anything about it... And the regret that I have is that if we could have funded it and kept it going even with those losses, to have a business situated in Glasgow to cover the north of England and Scotland strategically would have been very useful. That's the one regret that... I suppose I didn't have the confidence to say it's all going to come good and we should just keep funding this.

No prescription for the time taken to restore or eliminate S1 elements is made by the VSM other than the necessity that it be within a timeframe that ensures viability. However, in crisis, which is understood as a cybernetic breakdown, Beer's exhortation is first and foremost to "ACT FAST!" He states, "Fast action works, in the crisis mode, and nothing else will" (Beer, 1981, pp. 350-351, original capitals). Despite his (small) regret, Mr Lisanti's instincts to act swiftly to close the Scottish subsidiary and shortly after to shut down the Bymacks factory were good cybernetics. The decision to dispose

of Peter Guild was equally valid; cybernetically, sooner would have been better. These subsidiaries, in particular the Scottish factory, were not only non-viable, but they were actively eroding the viability of other S1 elements by starving them of cash.

The policy decision to close the loss making operations adopted by System 5 at Level 1 of the system (discussed below in Section 5.4.1.4 *Mental model*) was based on the Black Box principle. In each case the chief executive did not delve into the Black Box, but rather took the decision based on the viability or non-viability of the S1 element.

The decision to sell and close operations therefore improved the viability of the group according to the principles of the VSM and increased the likelihood of a successful turnaround. This constitutes support for proposition 5b of the conceptual framework.

5.4.1.4 *Mental model*

Decisions regarding the sale or disposal of operations were taken exclusively by the chief executive. The decisions were based on a simple heuristic. Reviews were carried out at each of the operations but the outcome of those reviews was one of three categories: fix, close or sell. This decision heuristic was driven by Mr Lisanti's awareness of the limited time (slack-time) available.

I don't act on whim. That's not my character, I don't do very much on a whim but I looked at it closely with the time that I thought I had available and said, "Well, three things: I either fix it, close it or sell it. And they were the three things which I had picked up in some way, in sort of the terminology. You know, fix, close or sell⁵. And I did all of those things, frankly. We did fix some, I closed some and we sold some.

... I just didn't feel, we didn't feel, we just didn't have the time to spend analyzing the living daylights out of all these businesses that were losing a whole load of money... You pick the ones that you think are still breathing, I suppose, using the 'train wreck' thing and you say, "Well, give you a bit of CPR and we'll get moving (interview with Tony Lisanti).

The mental model of the chief executive accurately assessed the need to reduce losses and to reconfigure the enterprise by selling or closing even large operations in the group; it also took into account the limited time available and correctly relied on a

⁵ "Fix it, close it or sell it" is a phrase associated with Jack Welch as a decision heuristic for GE's mission under his leadership to be the number one or number two company in the world in every market in which the company operated. Welch, J. and Welch, S. 2005. *Winning*. New York: HarperCollins. pp. 15 & 39.

decision making heuristic which speeded up the process of asset disposal. This finding provides support for proposition 6a of the conceptual framework.

5.4.1.5 *Implementation factors*

The evidence provided above substantiates all six propositions 1a – 6a for the decision to sell and close operations. It is therefore to be expected that this decision was implemented with all 11 of the implementation factors identified in the basic turnaround model on page 123. Evidence for this is presented below.

The *action* orientation and *sense of urgency* are clearly present early on in the turnaround with the decision to close the Scottish factory, which came like a “bolt from the blue”. This combination of action and urgency is prevalent throughout the turnaround and is combined with effective *communication* protocols which were established early on that still provided *accountability*.

So when I came in my only stipulation, my only sort of requirement to the board at the time was I don't want to have to come back and keep reporting and getting approval for all the things I want to do. You either back this and I do it or you don't and I go find something else to do. And it was my only stipulation... It doesn't mean I won't report. It doesn't mean I won't explain but I don't intend to write twenty page reports every time I want to do something because we don't have the time, we just really don't have the time. And they gave, they gave their go ahead... Frankly, if I had said I want to change the company's name to Mickey Mouse Enterprises they would have let me, because they had *lost the plot*. They just wanted somebody to do something...

One of the top factors in turnaround success is *management credibility*. The appointment of the new chief executive at Airsprung was based on a formal study carried out by professional services firm PricewaterhouseCoopers (PwC) which considered the industry and the type of experience and skill sets necessary for the role, including responsibility for a similar sized, consumer goods business selling in retail with a similar business model and, significantly, turnaround experience. Evidently, Mr Lisanti inspired high levels of *confidence* in the board from the very beginning, since he asked for and obtained the right to inform the board of decisions already taken without prior approval. One of the most impactful decisions taken, the closure of the Scottish factory, was, in fact, taken directly on his own authority and the board was informed after the fact.

We had a loss making, big loss making business in Scotland, in Glasgow... And I took the decision: we're just going to close it, that's it, you know, no notion of going back to the board (interview with Tony Lisanti).

Not only did Mr Lisanti inspire confidence initially, this confidence grew to the point where he was able to condition the composition of the board itself (*Cabinet Maker*, 2005a). Again, the emphasis was on urgency and effective communication.

I said to the Chairman, "We need five directors on the board. I don't think ... We can't have a board where it takes an hour to discuss every minor, you know, bit. Not make a decision on it but to discuss it. So he did, on my behalf, get rid of half the board, two thirds of the board (interview with Tony Lisanti).

The decision to sell and close operations was a key *focus* of the chief executive, who balanced the urgency of the situation and the portent of the decisions with a *plan* to adopt a simple decision heuristic.

But the closures and the selling, I did all of that - all of it. I didn't get anybody else involved in any of that.

I looked at it closely with the time that I thought I had available and said, "Well, three things: I either fix it, close it or sell it."

The decision was carried out with *persistence* as the chief executive systematically purged the group of loss making companies over a three year period from July 2002 to May 2005. The decision was taken after a strategic review of each of the subsidiary business which required the full *participation* of the management teams of each subsidiary. The decision was therefore taken objectively, based on actual and potential performance parameters. Objectivity was rated as the *value* of highest importance by turnaround professionals (see Table 14 on page 73).

The first six months of this financial year have seen the Group commence a radical and far reaching restructuring and market repositioning programme. The management, under its new Chief Executive Tony Lisanti, has carried out a fundamental review of each of the operating units and has developed and initiated strategies that are planned, given an appropriate time scale, to either improve further the performance of the profitable trading businesses, turn around under-performing businesses, or remove non-profitable units completely (*Regulatory News Service*, 2002a).

So I looked at these businesses, bearing in mind there was nobody ... The only person that I valued in terms of objective, impartial advice or views about the business and the sector was the finance director, the group finance director at the time. Cause really in a sense he had almost nothing to lose (interview with Tony Lisanti).

In summary, all important success factors identified in the turnaround manager survey in chapter two facilitated the implementation of the decision to sell and close operations.

5.4.2 Outsource

The process of outsourcing took a considerable amount of time and management resource in order to identify and negotiate working relationships with reliable and competitive suppliers. During this time the surviving businesses struggled to compete and the group continued to make losses. Ultimately, Airsprung established supply arrangements with mills in Poland and Lithuania for wood products; its metal springs were sourced from Turkey and China. By 2006, Airsprung Beds had completed the reversal of the previous century's strategy of vertical integration and, sourcing most of its materials and components from external suppliers, it had been transformed into a just-in-time assembly plant. In that same year, the operation was the main contributor to the recovery and posted a 5% increase in sales, a 7% improvement in gross margins, a reduction in overheads of almost a million pounds and a £2.8m reduction in operating losses. Outsourcing kept those operations which had avoided the chief executive's axe in the game. For example, after the sale of Peter Guild, Airsprung's upholstered furniture interests became concentrated on the Cavendish brand and factory based in Lancashire, which was "supported by an increasing volume of products outsourced from overseas" (*Dow Jones Newswires*, 2005b).

5.4.2.1 Cash position

The cash principle behind outsourcing was to reduce cash outlay by lowering costs and converting largely fixed costs to variable. Airsprung could now buy the same products at a lower cost from more competitive suppliers. The decision to outsource wood products from the main factory reduced headcount by 50 so that, with proper working capital management, cash outflows could be tied more closely to cash inflows. A positive effect on cash flow was also realised by a reduction in capital expenditure.

Although difficult to quantify without more detailed financial data, the impact of outsourcing was claimed by top management to be positive in terms of cash flow.

This process of outsourcing was initiated some twelve months ago and will not only continue but will expand over the coming months and years, thus converting largely fixed costs to variable. This provides both flexibility and improved cash flow... (Airsprung, 2004, p. 3).

Overall, the reductions in headcount, capital expenditure and input costs together with management's declaration indicate a net improvement to the firm's cash position in terms of reduced spending. Thus proposition 1a receives support.

5.4.2.2 *Strategic fit*

Outsourcing directly addressed one of the two main trends in the environment, low cost imports, by co-opting the strength of foreign suppliers to provide competitive, quality products and harnessing it to Airsprung's local sales and distribution network. Reduced costs meant that Airsprung could be competitive on price and increase margins; greater manufacturing flexibility improved customer service: orders to external suppliers could be throttled back at no cost or increased without the delays of having to hire and train people or buy and install plant in the factory. Internal fit was improved by reducing the complexity of the manufacturing system and increasing productivity (see section 5.4.1.3 Cybernetic principles below).

Airsprung Furniture Group's management has concentrated on two main areas in order to compete successfully in this new order. First, the inclusion into our supply chains of outsourced, semi-finished and fully finished products from low cost base economies to improve sales and costs... whilst providing our customers with competitive products. Key outsourcing partnerships have been concluded with suppliers in the UK, Central Europe and China (Airsprung, 2004, p. 3).

Thus proposition 2a stipulating movement towards strategic fit as a necessary step for turnaround success is substantiated.

5.4.2.3 *Slack-time*

It is difficult to point unequivocally to the net effects of the decision to outsource on the slack-time, however, the positive contribution to cash flow discussed above, combined

with the elimination of losses of £0.25m per year from the closure of the wood mill, whose output the outsourced products replaced, provide mild support for proposition 3a.

5.4.2.4 *Financial stakeholder power*

There was no obvious effect on stakeholder power of the decision to outsource. Proposition 4a is not therefore supported in this case. As noted above, as a result of other decisions, in particular the decision to sell and close operations, financial stakeholder power did not operate as a constraint on the decision to outsource.

5.4.2.5 *Cybernetic organisation*

Outsourcing is a powerful variety engineering technique for reducing complexity. It converts part of the S1 transformation operation into a black box: the organisation no longer has to perform the operation which is outsourced; managers just determine inputs to (money, information) and monitor outputs from (costs, quality) suppliers. The cybernetics of the decision in this case were particularly effective as they were aimed at establishing control in an area where organisational variety had previously paralysed management:

And actually what we had was constipation of the business. *Nothing* actually was moving, nothing because there were so many... sort of mesmerized by the number of issues that the guy had to deal with... You'd bring people in, you'd train them; two weeks later they were gone. You bring *another* load in. I said to the incumbent at the time, "It's like a merry-go-round. It is a merry-go-round. You can't bring all these people in, train them and then throw them out"... He said, "Well, that's all we can do cause we need the capacity"...

And getting rid of that capacity, started to develop in people's mind, the ones who half wanted the job. To say, "Actually, we're not indispensable, they can get rid of us, we're not, you know, cause they don't need all these people anymore." And bit by bit that started to bite and hit home. So our churn right now is almost negligible (interview with Tony Lisanti).

Much of this outsourcing activity took part in, literally, unexplored territory. This was not without problems. Airsprung Beds' initial attempts to outsource its wood-processing foundered when suppliers in Poland pulled out of contracts at the last moment, leaving the company scrambling to reopen its loss-making facility in Trowbridge and find 50 new employees "overnight" (*Investors Chronicle*, 2006). However, since low cost

imports were one of two major trends conditioning the environment, Airsprung had to structure its organisation to be able to cope with this factor. The decision to outsource necessitated the development of an active S4 whose boundaries were now global, rather than domestic, in order to be able to source external manufacturing capacity effectively. This improved S4 had to strengthen its interface with S3 in order for it to manage its main S1 component. Thus in cybernetic terms, the decision to outsource reduced complexity at S1, broadened S4's scope and capabilities, and strengthened the S3/S4 interface. This analysis suggests strong support for proposition 5a that organisations which successfully turnaround will be restructured according to cybernetic principles.

5.4.2.6 *Mental model*

Prior to Airsprung, Tony Lisanti had been with Spear & Jackson. He joined Spear & Jackson at the same time as a new chief executive who had been recruited from a high level position in the automotive industry by its new venture capital owners to turn the company round. The ex-Spear and Jackson executive described how it had been “incredibly beneficial” to learn from the man he called his mentor and role model as he cleared out a lot of management and old practices, and introduced outsourcing. This was to be his schooling in turnaround management.

I was responsible for some; I was a new broom, under the big new broom... I was a small, new broom I suppose. I was able to watch all of this on the sidelines, from the guy, who had to do all of this on quite a big scale, from the automotive sector. I watched how he went about it and I think I learned a great deal, well I know I learned a great deal from that. 'Cos I'd never worked in a business prior to that, that had been in trouble... Spear & Jackson was completely different. It was in a real mess and the private equity owners thought they could turn around, which they did; we did turn around and sell it off. I eventually went from being a subsidiary managing director and in the end I was CEO, group managing director... But I suppose that's where my education came from, sort of, turnaround perspective. It wasn't ... I never picked up a textbook, never, er, sort of a management book (interview with Tony Lisanti).

From the time Lisanti spent at Spear & Jackson he understood the dynamics of the market place and had readymade solutions in mind.

And I did draw, I suppose, a picture of where the business had got itself to pretty quickly and I think I was able to do because the business that I had come from had been in a very similar situation eight or nine years previous to it... I have to say truthfully, this business was in such a terrible, terrible condition that there wasn't a great deal of time actually to spend weeks and months or whatever doing a mountain of analysis and decide what to do with it. And to be fair, rightly or wrongly, but anyway, I took the experience that I had from Spear & Jackson and accelerated what I'd done there probably two or three times (interview with Tony Lisanti).

This is a clear statement of the application of a mental model based on *expertise* gained through experience, rather than decision making based on assumptions of rational choice. One of the key lessons from the Spear & Jackson turnaround was to outsource.

And the guy, the guy, and I suppose we all have role models or mentors or how the hell you want to put that, but the guy who came in and headed up Spear & Jackson when it was in significant and certainly as *bad* a condition as Airsprung could be, had come from the automotive industry... to effect a turnaround and build and grow and all that good stuff. So this chap came in and he'd been involved very heavily in the automotive industry in all of the issues going back to the Leyland days and all the issues of the growth of manufacturing, car manufacturing in a place like Japan. Outsourcing big, big style... Moving UK manufacturing base to overseas manufacturing base.

Which is something I picked up from the guy that I worked for at Spear & Jackson ... you know when ... "Are we going to make this new product? ... Well, actually should you make it or should you buy it? Or should you make half of it, buy half of it?" And that was a culture that I think ... that was an activity that we got into very quickly when I joined. And we bought from China and we bought Eastern Europe... It happened quite quickly, that concept that you can buy in some things that you sell. You can't make everything competitively (interview with Tony Lisanti).

It is evident that, when taking on the position at Airsprung, the new chief executive had an accurate mental model of the culture of organisation and the issues facing it. The decision to outsource was the product of this mental model (and not the result of a rational analysis of all possible alternatives) which embraced the benefits of outsourcing in general and accurately recognised the specific benefits for Airsprung in terms of reduced costs and improved competitiveness. This constitutes support for proposition 6a that a successful turnaround is aided by an accurate mental model of top management.

5.4.2.7 ***Implementation factors***

The evidence provided above substantiates propositions 1a – 3a and 5a to 6a for the decision to outsource; no evidence is uncovered for the effect on financial stakeholder power (proposition 4a). It is therefore to be expected that this decision was implemented with all 11 of the implementation factors contained in Figure 5 (page 123). This is discussed next.

The decision to outsource was taken by a highly *credible manager* with extensive, successful prior experience in outsourcing. The chief executive rendered himself fully *accountable* for the decision by making press statements which described outsourcing

as one of only two main areas on which Airsprung's management would *focus* (the word used was "concentrate") in order to compete successfully. The decision was carried out with *persistence*, despite substantial difficulties, according to an explicit *plan* to build outsourcing partnerships in Eastern Europe and China as a solution to previously insurmountable labour problems in the main factory. Outsourcing is described as an activity that "we got into very quickly", highlighting the sense of *urgency* and the *action* orientation of management. *Communication* of the decision to outsource was not only both public and at face value in the press and in company reports, but was also subliminal and symbolic, as the removal of capacity in the main factory sent a strong message to production workers that they were "no longer indispensable" and that power balance had now shifted in favour of management. In this way the management was able to establish the *value* of reliability, something which had eluded previous incumbents. This, in turn, improved worker *participation* in the enterprise with a reduction of a 30% churn rate to almost zero, a clear indication of an increase in *confidence* among the workforce that Airsprung was becoming a worthwhile employer.

In short, all important success factors identified in the basic turnaround model were instrumental in the implementation of the decision to outsource.

5.4.3 Improve performance in the main bed factory

In the period before and just after the start of the turnaround, Airsprung's main subsidiary, Airsprung Beds, suffered substantially from labour shortages and an inability to satisfy orders. The chairman put it this way: "our ability to achieve output in our busiest periods at Airsprung Beds will once again restrict profits for this financial year... The business continues to suffer from this very significant problem" (*Bath Chronicle*, 2003). This was despite a £1m investment in new equipment which had taken out 25 heads from the production process and was intended to ease the problem (Berry, 2000). With 700 workers, a move of the Trowbridge factory was ruled out and the company had no option but to sort out its problems, which were many and deep-seated. The dysfunctional aspect comes out clearly from the following excerpt, as does the corollary that management had lost control of the organisation:

Absolute ... completely as God is my witness, this is a true example. I'd been in the business three or four weeks and I took ... I'd already made contact with the boss of a large competitor and said, "I'm new to the industry. I'd like to meet, if you don't mind, get together." So this guy came onto site and I personally took him – I said, "Come and look at what we do." So I took him round the factory. We walked into the manufacturing and literally, we're probably 50 yards in, look around there is a, one of the hourly paid guys sitting on one of the brand new mattresses, on the floor, having his lunch on it. So he said, and I ... and the guy said, "You've got a lot to do here, you know, you've got a lot to do here." And that was just like an example of a lack of discipline. I'm not talking about the regimented... I'm just talking about the belief that a lot of the workforce just felt they could do, and did do, almost what they wanted, with almost total impunity to acceptable behaviour, appropriate behaviour in the workplace, whatever part of the workplace that was. That they'd given up really. So people... it was a bit like the lunatics running the asylum. That's what it felt like (interview with Tony Lisanti).

A new culture, with new values and standards of behaviour, was articulated through a new structure, improved manufacturing techniques and increased involvement of the employees; the driving factors were productivity and product availability (*Wiltshire County Publications*, 2003b).

5.4.3.1 **Cash generation**

The effects of the decision to improve the performance of the main bed factory took some time to work their way through to cash generation. The 60% reduction in lead times did not slow down the fall in sales in 2004, but other cost efficiency improvements led to a reduction in pre-tax losses for the year. By June of 2005, however, the main factory was making 100% on-time deliveries. The operational improvements were an integral part of moves to achieve strategic fit with a new retail sector and helped push sales from £39.7m in 2004/5 to £41.2m in 2005/6, with a corresponding decrease in operating losses from £3.1m to £1.2. Operating losses turned to profits of £1.0m in 2006/7 on sales of £45.3m. Thus, the improved performance of the main bed factory contributed to increases in sales (through improved customer service) and productivity and, over time, led to the reversal of operating losses to produce and operating profit for the company. Proposition 1a therefore receives support.

5.4.3.2 **Strategic fit**

Inevitably, the intervention at Airsprung Beds was to increase internal fit. This meant improvements in customer service, measured as on time delivery, and productivity. In

the first half of 2004, Airsprung made £330,000 investments in its conveyor system and other machinery to reduce handling and increase productivity, with another £200,000 to come. Lead times were cut by 60% to five days (*Cabinet Maker*, 2004a). In 2005, the chief executive was able to announce that on-time deliveries had reached 100%. This, with better productivity and products, had led to a “significant improvement in trading”, despite a market which was “pretty quiet to say the least” (*Cabinet Maker*, 2005b). By 2006 the substantial restructuring phase in the Trowbridge factory was over and continuous improvement tactics were the order of the day. Subsequent announcements would speak of “continuous and systematic programmes” and “Continued focus on manufacturing and supply efficiencies” (Airsprung, 2006). Turnover per employee increased from £49.5K in 2002 to £73.9K in 2008, an improvement in productivity of almost 50%, while return on total assets (ROTA) improved from 1.9% in 2002 to 6.7% in 2008.

The decision to improve performance in the main bed factory therefore improved strategic fit in two ways: most importantly it increased internal fit, as measured by the proxy productivity; secondly, it improved delivery times and delivery reliability, and so enhanced the organisation’s external fit with its customers. Accordingly, proposition 2a receives support.

5.4.3.3 *Slack-time*

The improved performance of the main factory helped secure a return to £1.0m operating profits in the spring of 2007 which, together with equivalent reductions in working capital of management, increased the yearend cash balance to almost £2m, from a figure close to zero the previous year. With a fixed asset base at its lowest point (£8.7m) in the turnaround, the achievement of operating profits in 2007 extended slack-time in a moment when cash was perilously low, extensions to slack-time from fixed asset sales were at their most problematic and access to external sources of cash was by no means guaranteed. The increase in operating profit the following year to £1.5m sealed the success of the turnaround. Accordingly, proposition 3a is substantiated.

5.4.3.4 *Financial stakeholder power*

There was no obvious effect on stakeholder power of the decision to outsource. Proposition 4a is not therefore supported in this case. As noted above, as a result of other decisions, in particular the decision to sell and close operations, financial stakeholder power did not operate as a constraint on the decision to outsource.

5.4.3.5 *Cybernetic organisation*

The analysis is now at the subsidiary level, i.e. level 2 of the System in Focus (which is level 1) and looks inside the Black Box of Airsprung Beds. This S1 element was suffering from a cybernetic breakdown, with performance levels in terms of price and delivery outside of the parameters for viability. The root cause was that management was overwhelmed by the variety being produced by the organisation:

The business was in all so many... every area... was like a wreck, like a train wreck. In fact somebody likened it, like a train wreck and you're turning it over to see if anyone is still breathing. It was like a train wreck. Yeah ... can't really exaggerate that ... it really was. But there were so many problems in the business that when you said... when I sat with him [the manager responsible for Airsprung Beds] and said, "What about this and what about that?" His response was, "Well there's no point in starting trying to repair that because I've got all these other things that are broken." "Well repair that." "But all these other things need dealing with as well" (interview with Tony Lisanti).

After the new managing director, Paul Lamb, was appointed to Airsprung Beds in January 2003, the cybernetic intervention at this level began with the removal of a layer of middle managers. It is once again noteworthy how quickly this happened. In his first week, Lamb fired 15 middle managers, a move described as "too drastic" by the local branch chairman of the Transport and General Union (TGU), who said the men were "gutted" and the union would be trying to make changes to the decision (*Wiltshire County Publications*, 2003a). What this achieved in cybernetic terms was to build clear and direct communication channels between S3 and S1 (at the now lower level of recursion) through which S2 could set up coordination requirements and S3 could establish required performance levels. In the VSM, S1 performance levels and available resources are typically negotiated with S3, however, in this case both were imposed by S3 and communicated directly down the command channel, a further example of Beer's 'highly directed corrective'. In a dysfunctional organisation, the organisation is not

structured to understand the requirements for viability; as a consequence, neither are its members. Hence command, rather than negotiation was used. There are drawbacks to this approach which increases conflict, as evidenced in the quotation below. However, the near universal recommendation from the turnaround literature is to remove people obstructing the turnaround process from the organisation (Beer, 1987; Finkin, 1992a; Harker, 1996; Raina et al., 2003). Harris' (1994) review of organisational development literature suggests that participative approaches to transformational change work when people support change and there is sufficient time. When the need for change is urgent and as behavioural change objectives become more radical and emotional, the removal or replacement of incumbents becomes the preferred solution for turnaround management.

It was very brutal. It was quite hierarchical. He was the managing director. It went straight down to the production manager and front line and that was it. All these people went. Don't get me wrong. It did create problems. It was hardly problem free but it took this sort of layer right across that business out, contracts of employment, clocking out, clocking in, discipline, this is when you start work, that's when you finish work, housekeeping, cleanliness and you know. A lot of people left... We had a terrible turnover of people anyway before we came along. Some people left, weren't going to have it. *Lot* of people got fired, went through a disciplinary process. Lot of people got fired. But it was interesting... Our absenteeism which was running at in some departments at 25% plus and this is absolutely true, I'm not exaggerating, is about three, three and a half percent which isn't world class, but it's okay. We can live more or less with that. But there were so many things that had to change... (interview with Tony Lisanti).

Further changes came in short order: a restructuring of the operations, which included a virtual re-laying of the factory, the introduction of a night shift (*Cabinet Maker*, 2002b; *Dow Jones Newswires*, 2003a) and a "shake-up" which included changes from piece shifts to group working. According to Airsprung's management, this was a response to high levels of absenteeism and gave more responsibility to the groups and therefore more pride in their work (*Cabinet Maker*, 2003c). Formal training further reduced lead times, improved communication and helped staff to improve their understanding of manufacturing. The cybernetic impact here is threefold. Firstly, the reallocation of the piece shifts to group working is an important example of variety management. In doing this, S1 management transformed a process for which it was responsible into a number of smaller Black Boxes at a lower level of recursion. By transferring performance responsibility to these groups, management now only needed to monitor inputs and outputs. Secondly, training operators to improve their understanding of manufacturing improved communications through a shared language and allowed a meaningful resource/performance bargain to be established, strengthening each group's sense of

responsibility. Thirdly, the creation of a number of independent work groups increased the variety of the organisation by creating another level of recursion. By July the factory had reduced lead times and caught up with its backlog of orders.

Consequently, the decision to improve performance in the main bed factory was implemented according to cybernetic principles and is consistent with proposition 5a.

5.4.3.6 *Mental model*

The decision to tackle the efficiency question in the main factory was based on the chief executive's vision for the business rather than detailed analysis. In fact, a plan for the main factory only emerged after the subsidiary company had taken on a new managing director. Even then, fast action as described above in section 5.4.2.5, based on quick analysis and past experience (the new managing director also came from Spear and Jackson), was the preferred method.

I think to be fair. On the main business, the Airsprung Bed business, I would genuinely say that more or less I certainly had in my head a very clear view where it needed to go. And overall, I mean there were ups and downs and things went right and things went wrong, but what needed to be done was done and it gave very much, I think, the outcome we hoped it would do (interview with Tony Lisanti).

The statement by the chief executive bears out the accuracy of his mental model and constitutes confirmation of proposition 6a.

5.4.3.7 *Implementation factors*

The evidence provided above substantiates propositions 1a – 3a and 5a to 6a for the decision to outsource; no evidence is uncovered for the effect on financial stakeholder power (proposition 4a). It is therefore to be expected that this decision was implemented with all 11 important implementation factors in the basic turnaround model (see page 123). This is examined below.

The *urgency* and *action* orientation with which the new MD of Airsprung Beds implemented the decision to improve the main bed factory is remarkable: during his

first week on the job he took the “drastic” measure of firing 15 supervisors. This move improved *communication* with the factory workforce by removing an intermediate layer in the organisation between upper management and factory workers. A detailed *plan* to improve performance of the main bed factory was elaborated by the new MD which was executed with relentless *focus*. The MD tackled the problem of *values* head on by systematically removing people from the organisation who were not prepared to accept basic standards of behaviour and professional discipline in order to bring about the dramatic culture change that was required in the factory before it could become efficient. Communication was once more by oral and written declaration, and by symbolic actions, in this case of rewarding certain behaviours while punishing others. Important implementation factors in this culture change were *management credibility* and *confidence* (inspiring confidence in others).

I think we have management in the business, we have people in the business now who are role models. The work rate, the ethic, the intelligence, the intellect, the experience they are... they um, I like to think they inspire a level of confidence which is certainly something they just didn't have in the business. There was little or no confidence (interview with Tony Lisanti).

Beyond these qualities, the chief executive stressed one quality in particular: persistence. This is confirmation of the serendipitous finding of the survey that *persistence* is a key success factor.

It was relentless. People that can deliver whatever the game plan is and then just, you know, day in, day out, day in, day out. And that's just a real problem. The real problem is trying to find senior people who are so determined, so dogged with these things, so they'll do it right today, and they'll do it right tomorrow, come back and do it again, and then again, six months time do it again without either getting bored or losing interest or whatever. It's actually quite difficult... Really very difficult. Because none of it's very clever... Clearly, it's not very clever. It's very obvious. All you have to do are these things, but doing those things, actually delivering those things is really, really difficult. But it's not clever... It's not intellectually demanding, but to deliver them day after day after day after day and take no prisoners on the way is really, really very difficult. How can something so simple become so bloody hard? (interview with Tony Lisanti)

An important example of fostering a culture of *accountability* in the organisation was change in working practices which relocated factory employees operating individually on piece shifts into groups, transferring responsibility to the groups for their performance and thereby increasing their *participation* in the organisation.

In brief, all important implementation factors identified in the basic turnaround model contributed to the implementation of the decision to outsource.

5.4.4 Shift in retail customer focus

Asked what the most important factors in the turnaround outcome were, the chief executive highlighted only one other factor, apart from having the right people on board: clarity about the market position.

5.4.4.1 Cash position

There is no overall evidence that the decision to shift retail customer created a net cash inflow: although improvements in sales performance will have contributed cash inflow it is not clear what the costs of restructuring were. There is therefore no direct confirmation of proposition 1a for this decision.

5.4.4.2 Strategic fit

Having lost internal fit, causing problems with efficiency and customer service, the company had lost external fit with that portion of the environment it traditionally served, the independent retailers. The top management team judged that its performance levels had alienated it so much from the conventional customer base, that the latter had become irredeemably hostile. Moreover, the rapidly changing nature of the retail structure meant that the market was moving away from independent retailers. Forced out of its established arena, the retail revolution enabled Airsprung to make a new start and focus on new retail entrants from DIY stores, to supermarkets, to the Internet. The decision to concentrate on the new retail powerhouses required an efficient organisation, able to compete on price with foreign exports. The decision therefore was highly synergetic with the company's decisions to increase efficiency and customer service in the main bed factory and to outsource.

I've listened to people talking about strategy and I think ... I think this strategy emerged cause actually that's what dropped out at the end. I'm not sure entirely when you started that that's where you. ... But actually with the decision to move into that type of market... It was driven out of necessity. It was a necessity. It was a virtue out of necessity. We had screwed up. The business had screwed up so badly in its service and quality to the independent sector, to the high street sector, that frankly to try and recover all of that would have taken several years and probably, we probably couldn't have afforded to have done it. It had gone so badly wrong. We

were on 14 week deliveries and, oh all sorts, a bloody mess. So strategically that's what we decided to do. So the biggest part of the business, that's where we pushed it, so that's the area we're going to go for. *That's what we're going to do and we will gear the rest of the operations around it* (interview with Tony Lisanti, emphasis added).

The strategy was not without risk. Initially, the organisation was completely unprepared to engage the new retail challenge; it had no knowledge or understanding of how to deal with the new and powerful retail forces that were coming to dominate the environment.

They were trying to make everything the same as they'd always been made with the same skill set, selling them all the same way. They had a lot of difficulty trying to embrace the Internet and design web sites for the business and stuff like that which was very much then an ongoing, clearly an ongoing thing.

They were trying, really trying to be a supplier to all sectors of the marketplace but had none or few of the tools that allowed them to do it but didn't realise it. Because they only knew what they knew. They didn't know, actually, that if you want to sell to Argos or Tesco what you need is somebody who has the analytical skills, who is completely impartial, doesn't give a monkey's, actually, what the product is, but says, "I've now scoped out all the competitors' products on the pages, I've got a spreadsheet *this big* and these are what all the products are and these are the price points and I think you've got gap, gap, gap, gap, gap, gap, we're going to go after those gaps in that sector." But you need a modicum of intellect. You've got to have seen it somewhere before. Cause if you pitch up in front of the buyer at Argos or Tesco and say, "Here are some nice beds, would you like to buy some?" They'll say, "Well, why? What are they?" You know, almost, "What *are* they? I know it's a bed, but where do they fit with what I've got?" "Well, I don't know. Does it need to? It's a good price and they're very nice beds." And the buyer by this time has gone out the door... And there was no expertise. It wasn't that they wouldn't do it. They'd never even *heard* of it (interview with Tony Lisanti).

The chief executive is very clear that success in the industry requires a tight fit between the organisation and its environment. The management therefore restructured the sales department, bringing in sales people with the necessary skills and qualifications to deal with large retailers.

[The key success factor for the industry is] Knowing where your slot is in the marketplace and being good at delivering in that slot... You can be very expensive and you can make 20 beds a week and you can make money. You can make good money. You can make a thousand beds a day and if you're good at it you can make money ... You can make the same amount of money actually... I honestly think it's deciding where your slot is and what customer, which retailer you're trying to partner with... And you gear your business around it because there isn't a right and a wrong. But you've got to gear your business and your marketing and your support around where you think your slot is and not mess around with, not waver too much, not sort of mess around with the peripherals.

Strategically, once we decided what we were going to do over the next couple of years, we took all of our field salesmen out of the business. We have no field salesmen. We have national account managers now... One looks after Tesco. One looks after Argos. One looks after Sainsbury's... And we don't mess around. That's what you do. It's a 5 million pound account. It warrants its own account manager for example. And we don't mess around where we're not very good, like on the high street with a load of salesmen in cars, selling a product that we actually found a great deal of difficulty in servicing (interview with Tony Lisanti).

These statements furnish strong support for proposition 2a.

5.4.4.3 *Slack-time*

There are no directly identifiable effects on slack-time of the decision to shift retail customer focus. Proposition 3a therefore receives no support in this case. It should be noted however, as a result of other decisions, in particular the decision to sell and close operations, that slack-time did not operate as a constraint on the decision to shift retail customer focus.

5.4.4.4 *Financial stakeholder power*

There was no obvious effect on stakeholder power of the decision to shift retail customer focus. Proposition 4a is not therefore supported in this case. As noted above, as a result of other decisions, in particular the decision to sell and close operations, financial stakeholder power did not operate as a constraint on the decision to shift retail customer focus.

5.4.4.5 *Cybernetic organisation*

The syndrome of blindness to environmental change is well documented (e.g. Senge, 2006). The VSM's explanation for an unseeing organisational, despite sighted managers, is in the lack of a System 4. Indeed, prior to the turnaround, S4 was either missing from the organisation or too weak to pick up signals from the environment and communicate them to System 3. As described in chapter three, communication in cybernetics signifies action, not the mere transfer of information. In the light of the lack of fit with the traditional retail environment, it can reasonably be inferred that the S3/S4 interface was not working properly, if at all. The lack of a functioning S4 explains much of the reigning confusion in the organisation in the crisis.

So you talk to these people and you say "Well, you're not making any money, erm, why aren't you making any money?" "Well because the retailers won't pay the price that we need to get." "Well, is the competition? Well, the competition – Don't know how they're doing it, but they're

able to supply. We don't know if they're making any money." "Well, have you picked up their accounts?" "Well, no we haven't done that."

It was a little, it was very strange because they had, they were like rabbits in headlights by that point. All of them really, they were like rabbits in headlights and they really didn't know which way to turn (interview with Tony Lisanti).

As part of the turnaround, however, Airsprung made substantial efforts to build S4, led by the chief executive and a new sales and marketing director.

There's a trade body for this industry. My predecessors had pulled the company out of that trade body some years before... "You've all got your heads behind a parapet. You're sort of sitting here hoping you're going to survive. But nobody's got their head over the parapet looking where the bullets are flying". And I was trying to get some analogies that they might understand but that was one of them. Pulling the group out of the only trade body, the national trade body was a problem. Cause the people didn't come into contact with the competition. They didn't know what was going on in terms of the committees, the activities the trade body was getting itself involved in. So I put us straight back in. So I got to learn about the industry, the sector, a great deal of it from talking to my counterparts from all these other businesses at the trade fair.

The decision to shift retail customer focus was therefore implemented according to cybernetic principles and is consistent with proposition 5a.

5.4.4.6 *Mental model*

The change in the environment for Airsprung meant that for many managers their professional experience was no longer adequate to interpret trends and their mental models had been superseded by events. The chief executive describes a company that was still trying to run the business with a 20-year old business model based on narrow and obsolete experience.

You know, you talk to the operating management and you find without any exception they have been in the business, in the furniture business, for 20, 30 years. They were either here or with a competitor and it's been a bit like a sausage machine. They'd gone from one to the other then back again and it's the same people and really it's exactly the same people. So you ask them for their view and they can only give you the view of what they know. And I've used the term a thousand times probably, 'They only know what they know'. You know, and what they know is *this* and it's really tiny, very small in terms of experience (interview with Tony Lisanti).

Airsprung's chief executive recognised immediately that the company needed to modify its product/market approach and had a clear cognitive representation of what that approach might be: provide retail solutions to large retail multiples through a flexible and cost efficient organisation. The route to this new location was already present in his

mental model: reduced complexity, overseas outsourcing and new managers. The solutions he developed were cognitively distant from those of the existing management at Airsprung, but were familiar to him from his recent experience and he very quickly applied the analogy of Spear and Jackson to Airsprung.

It was a similar sort of size. This was a bit smaller but a similar sort of size. It was in retail. It was consumer goods. It was, it was, just different products, different distribution routes and this was the best they could produce, really all of this was more or less domestic. Spear & Jackson had a lot of overseas stuff but really in terms of a business model there wasn't a lot of differences between the two... And I suppose fundamentally, fundamentally, well they had, very similar to Spear & Jackson, a lot of and I suspect a lot of mature businesses and mature sectors... So with Spear & Jackson, they were still trying to run and manage the business as though every town had half a dozen iron mongers still in them. Well the ironmongers had gone and B&Q and come along, Tesco, Texas Homecare had come along and decimated the hardware stores... But all of their distribution, they were still trying to run the business as though the distribution routes and routes to market had not changed and the balance of power between manufacturing and retailing hadn't changed... But they were still trying to run the business as though the manufacturer produced and whatever the cost they produced, the retailer would have to take because that was the cost is and there it is and off we go (interview with Tony Lisanti).

Lisanti's successful use of analogy as a simplifying cognitive technique, derived from a broader experience base is explained by Gavetti (2012), who argues that strategic leaders need to possess a broad world view in order to pursue cognitively distant opportunities, but also an ability to persuade key stakeholders to change their worldview. To be able to do this, leaders must develop cognitive representations of cognitively distant opportunities and convince other stakeholders to adopt these representations. Superior opportunities are more likely to be cognitively distant because it is improbable that undervalued courses of action are to be found in populated areas. Cognitive representations simplify the strategist's task of searching out superior opportunities by vastly reducing the complexity of the landscape to a limited number of alternatives. Of these cognitive representations, analogies to prior strategic contexts are a vast reservoir of novel representations. Not only did Airsprung's turnaround leader pinpoint the destination, he also had a good idea of how to undertake the journey (the turnaround process) and, vitally, an acute awareness of the importance of time. Analogies give high-level guidance; detail must be worked out at the ground level of the industry (Gavetti et al., 2005). Consistent with this, Lisanti spread his vision through the organisation by hiring senior managers with similar mental models to his own. While he focused on the overarching corporate strategy and structure, his sales and production directors dealt with the difficult and detailed work of business strategy and implementation.

Thus, the chief executive's mental model, based on prior experience in similar context, accurately represented the reality of the situation at Airsprung. Because of this the chief executive was able correctly to understand the problems associated with the firm's longstanding product/market approach and formulate appropriate solutions with similarly-minded new managers. This confirms proposition 6a.

5.4.4.1 *Implementation factors*

The evidence provided above substantiates propositions 2a, 5a and 6a for the decision to outsource; no evidence is uncovered for the effect on the cash position (proposition 1a), slack-time (3a) and financial stakeholder power (4a). It is therefore to be expected that this decision was implemented with 10 of the 11 important implementation factors, but not necessarily with a sense of urgency (the eleventh factor, only present in propositions 1a and 3a). This is examined below.

The decision to *focus* on the new retail powerhouses involved not just management, but required the *participation* of the whole organisation, which was geared over time towards this new reality. The *plan* to address this new market was carried out with *persistence* over a period of at least two years.

Evidence of effective *communication* is apparent at a number of levels, but perhaps the two most notable areas are at the S4/environment interface and the S4/S3 interface. Firstly, with the hiring of an experienced sales director and a new sales force with FMCG backgrounds, the organisation was now able to communicate in the highly analytical language ("very spreadsheet") of major retailers. This language was spoken by people who did not "give a monkey's" what the product was to communicate with people who, if presented with beds ask, "What are they?" The ontological object of this new register of communication was *gaps*, not products. Secondly, gearing operations around the demands of the new retail sector entailed the creation of a strong S4/S3

communications interface in order for the organisation to react effectively in terms of product quality and service requirements.

Significantly enhanced *management credibility* was necessary in order to implement the decision, by replacing managers with limited professional experience who were “like rabbits in headlights” with people who possessed a necessary skill set, expertise in the new retail sector, and had “a modicum of intellect”.

The *action* orientation involved in the implementation of the decision comes across from the language of the chief executive: the company had withdrawn from its industry trade body, “So I put us straight back in”; the decision was taken to shift the organisation into a new retail sector: “that’s where we pushed it”; once the decision was taken, “we took all of our field salesmen out of the business... And we don’t mess around. That’s what you do.” Unlike the “load of salesmen in cars”, these new field salesmen were *accountable* for new accounts worth several million pounds in annual sales. New *values* of openness (to trade bodies, to the competition, to new customers) and objectivity (viewing the company from the outside-in), together with an appreciation of learning, of a broader world view and of modern expertise were embodied by the chief executive and promoted in the organisation by the new managers he and the top management team subsequently hired.

Finally, the decision to shift retail customer focus bristles with *confidence*. The chief executive was already confident it was the right decision a priori, based on analogy of his previous experience with Spear & Jackson. Having taken time to gather data from industry sources to confirm his instincts he and his management team formulated the strategy and set about implementing it. The management team inspired confidence that they could deliver, both in operations and in marketing:

The big driver, the big driver, is having good people. By miles. Because they take so much pressure off me. If you can rely on them, they know what they're doing. They do what they do better than I could do what they do. My operations guy, second to none. The guy is absolutely terrific. Could I do what he does? No... Do I know that he can do it? Yes, because he delivers it on a plate, every month, there's the numbers. Dead easy.

The sales and marketing director was FMCG so he understood how to go into a Tesco or an Argos or somebody like that and pitch for a section of the range... And he, they, the new people that were coming were very used to doing that because they had been doing it with Dettol, with Brasso and things like that. So they were very used to doing that sort of pitch to these type of buyers (interview with Tony Lisanti).

In line with the model, this decision is the only one of the four which evidences no sense of urgency. The chief executive explains how the strategy “emerged” and was only clear “at the end”. He also speaks of a two year period over which the strategy would unfold.

To sum up, 10 of 11 important implementation factors positively influenced the implementation of the decision to shift retail sector focus. The exception, as predicted, was the absence of a sense of urgency.

5.5 Summary of findings

This section has analysed four strategic decisions according to the conceptual framework developed in chapter three and has sought to determine if these decisions support six propositions which derive from the framework. Based on available evidence, the four decisions which led to a successful turnaround can largely be explained in terms of the combined factors. The relevance (or not) of each factor to each respective decision is summarised in Table 46.

Enabler, driver or constrainer	Propositions	Strategic decisions			
		Sell and close operations	Outsource	Improve performance in main factory	Shift in retail customer focus
Enabler	Proposition 1a - Cash position	C	C	C	NE
Drivers	Proposition 2a - Strategic fit	C	C	C	C
	Proposition 5a - Cybernetic principles	C	C	C	C
	Proposition 6a - Mental model	C	C	C	C
Constrainers	Proposition 3a - Slack-time	C	C	C	NE
	Proposition 4a - Financial stakeholder power	C	NE	NE	NE

Key: C = CONFIRMED; D = DISCONFIRMED; NE = NO EVIDENCE (neither confirmed nor disconfirmed)

Table 46. Strategic decisions in the Airsprung turnaround matched against propositions

5.6 Conclusions

This chapter has presented a chronology of the decline and recovery of a mid-sized UK manufacturing company operating in the household goods market. The industry in which it operated grew substantially throughout the period analysed, but was marked by turbulence in the supply chain at the retail level, growing retailer power and severe downward price pressure from qualified, low cost, overseas suppliers. In these circumstances the company's leadership made four strategic decisions which shaped its turnaround. The overarching strategy was the sale or closure of those businesses which were not financially viable. These moves were synergistic with other strategic decisions (i.e. contributed positively to intra-strategy fit) which involved outsourcing goods to low cost, overseas producers, and increasing efficiency in the main factory in order to make the whole company more price competitive vis-à-vis low cost foreign importers and at the same time secure adequate sales margins. The switch in retail focus was wholly coherent with the operating elements and moved the company away from a segment of the market which was shrinking and had become hostile to a challenging but flourishing retail sector.

Prior to the turnaround, top management had been unable to able to perceive and make sense of the organisation in its environment; absent this ability the organisation had fallen prey to inertia and become dysfunctional. The formulation and implementation of a meaningful strategy were only possible once sense making had been restored (Weick, 1988, 1993; Weick et al., 2005). The mechanism through which sense making was achieved was a sufficiently accurate mental model possessed by chief executive and the top management team of the company and its environment (Conant and Ashby, 1970). Analysis and decision making were based on expertise, analogy and heuristics, rather than rational choice.

Airsprung had no debt so the only external providers of finance were shareholders. Shareholders removed a substantial amount of cash from the business during the turnaround, but this was replenished by asset sales and altered the course, but not the outcome of the process. Shareholders had no influence on three out of four decisions. Slack-time was reduced to a critically low level at one point but this coincided with the end of the crisis phase after which the firm started to produce cash from operations.

Slack-time therefore did not constrain the decisions driving the change management and performance improvement tasks. Constraints of slack-time and financial stakeholders were alleviated by the decision to sell assets and did not therefore unduly influence decisions aimed at improving strategic fit.

All decisions involved restoring strategic fit and were according to cybernetic principles; all decisions were also fruit of top management's mental model. Only three out of four decisions were important for cash generation, but this is to be expected as those decisions are mostly relevant in the crisis phase; even one decision, as long as it produces enough cash for continued survival and restructuring, is sufficient. Important implementation factors for driving a successful turnaround were present in all of the decisions in the direction predicted by the basic turnaround model (Figure 5, page 123).

Overall, the turnaround model developed in chapter three displays a high level of predictive power for a successful turnaround. Its prognostic strength is tested in the next chapter which applies the same framework of analysis to a failed turnaround attempt. In this case it would be expected that the preponderance of decisions would not generate sufficient cash, would not lead to strategic fit or would not be in accordance with cybernetic principles and that this would be caused by either one or both of the constraints, and/or an inaccurate mental model.

Chapter 6. Gaskell PLC

A thinker sees his own actions as experiments and questions — as attempts to find out something. Success and failure are for him answers above all - Friedrich Nietzsche (1844 – 1900)

Gaskell PLC (Gaskell) was a proud bearer of the Royal Warrant⁶ to supply Her Majesty's household, Buckingham Palace, with traditional felt underlays and traced its history back over a hundred years of carpet manufacturing. Gaskell increased its annual turnover monotonically from £28.3m in 1992 to its historical high point of £75.8m in 2000. From 1995 – 1998 it had the fastest growth rate in the UK flooring industry (Key Note, 2000a); its growth rate then more than doubled in the years 1999 – 2000. Overall, in the six year period from 1995 – 2000, the carpet firm grew at a compound annual growth rate of over 12%. At that point it was one of the largest carpet manufacturers in the UK, ranking 4th in the industry with an 11% share of the sales of the top 10 manufacturers (see Table 48 on page 196). In 1997, Gaskell celebrated 50 years as a stock exchange quoted company with its best ever profit performance as pre-tax profits, which had increased from £0.25m in 1991, reached £3.7m. As a result, the PLC's share price increased by almost 200% and the company was featured in the 1997 Top Ten Share Performance League for the entire London Stock Exchange (Gaskell, 1997). Profits reached record levels again the following year to reach an all-time peak of £5.1m. But after 1998 it was clear that all was not well in paradise. Profits fell significantly to just over £0.5m in 2000 despite record sales figures. As the company entered the millennium both sales and profits went into freefall. By 2003 (the last year for which full year accounts are available) sales had fallen to £29.4m and losses reached £9 million.

This chapter presents a case study of a failed turnaround attempt and is divided into five sections which in turn examine the environment, detail a chronology of the process, discuss top management background prior to the turnaround and apply the turnaround framework developed in chapter three to strategic decisions. The final section discusses the findings and draws conclusions on the moves of the company and the explanatory power of the framework.

⁶ The Royal Warrant is issued for 10 years. Gaskell received the honour in 1977 which was renewed till 2007, *Carpet & Floorcoverings Review*. "Moving ahead of the rest - Company profile ", 24 October 1997

6.1 The Environment

6.1.1 Market description and drivers

Carpets and rugs are made from either natural or man-made fibres, but wool or wool blends dominate. These floor coverings are mostly woven, tufted or bonded. Woven carpets, known as Axminsters and Wiltons, are at the top end of the market; in woven carpets, the pile yarn and backing yarn are produced together. For tufted manufacture, yarns are tufted into a pre-woven backing cloth. Bonded carpets have individual yarns or a web of fibres which are bonded onto a pre-woven backing. Carpets and floor coverings are essential purchases for new homebuyers, but the market is mature with around 80% of sales from replacement purchases and a re-purchasing cycle which lasts from 10 – 20 years due to the life expectancy of the product (Key Note, 2009). The UK is Europe's largest carpet market; retail sales were worth an estimated £1.64bn in 1999 when just under 80% of all UK households had some fitted or loose carpeting (Key Note, 2000a). Towards the end of the last century, the carpet market was characterised by "fierce competition" among both manufacturers and retailers resulting in "drastic discounting" (Key Note, 2000a, p. 1). The majority of the sales value was in tufted carpets (see Table 47) and in volume terms sales were even higher due to their lower unit price compared to woven. Tufted carpets were also important in the contract market, especially for carpet tiles in commercial applications. In the woven sector, Axminsters (usually patterned) accounted for 70% and Wiltons (usually plain) 30%. The price of an Axminster was around twice the price of a Wilton. Fibre bonded products were important for the car industry. Other kinds of carpet include those made in special materials or hand-made product (Key Note, 2002).

	£m	
Tufted	1,416	59%
Woven	496	21%
Fibre bonded	236	10%
Other	240	10%
	<hr/> 2,388	<hr/> 100%

Source: *Carpet and Floorcoverings*, 2002, p. 10.

Table 47. Retail sales of carpets in 2001 by type of manufacture

The market for floor coverings is driven by macro-economic trends and demographics, and is positively associated with increases in population, disposable income, house prices, property transactions and falls in interest rates (Key Note, 2002). Figures for these variables were presented in chapter five, Table 42 on page 144. In addition to macro-factors, there were three important trends in the UK flooring market at that time. These were: an oscillating retail sector; competition from imports; and substitution from wooden flooring. Data on each of these three trends are presented and discussed below.

6.1.2 The carpet retail sector

Allied Carpets and Carpetright with respective turnovers of £358m and £305 in 2000 dominated the specialist carpet retail sector. Alders, John Lewis and House of Fraser were the largest multiple department store retailers. Furniture and furnishing multiples such as Courts and Habitat were also important retail outlets. Altogether the multiple retail outlets offering floor coverings numbered around 1,900 stores by 1998. However, the biggest force in the supply chain was Headlam Group PLC, a wholesaler and leading supplier to the UK independents, with sales of almost £450m in 2000. By contrast, even the largest carpet manufacturers at that time were significantly smaller (see Table 48). DIY multiples and mail order/catalogue stores were not important retail channels at that time. The impact of the Internet was also minimal, although both manufacturers and retailers developed informative websites (Key Note, 2000a). Although the trend was for multiple retailers to grow at the expense of independent retailers, carpet retailing remained quite segmented (*Investors Chronicle*, 1998). By 1998, Allied Carpets and Carpetright had around 15% market share each, but an estimated 7,000 or so independent retailers were battling resolutely to hold on to their 60% market share (Jones, 1998). This was in stark contrast to the overall retail situation at that time in which 70% of all retail sales were in the hands of fewer than 100 retailers (Barclays Bank, 1998). Large multiple retailers tended to sell a large portion of imported carpets (Davis, 1998) whereas independent retailers were more open to a 'Buy British' policy (*The Independent*, 2000).

	Turnover (£m)
Interface Europe Ltd.	142
Carpets International (UK) Ltd.	122
Brintons Ltd.	110
Gaskell PLC	76
Ulster Carpet Mills (Holdings) Ltd.	47
Greenwood & Coope Ltd.	40
Stoddard International PLC	36
Victoria PLC	36
Ryalux Carpets Ltd.	32
Tomkinsons PLC	28

Source: Carpet and Flooring Industry 2003

Table 48. Top 10 UK carpet manufacturers in 2000

The year 1998 began badly for carpet retailers leading to price slashing of up to a third by the biggest multiples at the May bank holiday to stimulate sales (*Carpet & Floorcoverings Review*, 1998). The price cuts had no effect on the multiples' sales and made little impact on the market share of the independents who were busy "beavering away" (Davis, 1998). Carpet retailers ended the year beaten, gloomy and depressed having "suffered dreadfully" (*Retail Weekly*, 1998) after registering the worst performance in the CBI's Distributive Trades Survey since it began in 1983 (*Cabinet Maker*, 1998). The spring of 1999 brought renewed confidence to the retail sector in general, although carpet sales lagged behind (Denny, 1999). However, from June onwards, they more than made up. This time the CBI's year end retail survey showed robust overall growth, with the strongest increases in sales from furniture and carpet retailers and durable household goods stores (Flood, 1999). Improved consumer confidence and a strong housing market saw carpet retailers record 14 continuous months of growth up until August 2000 according to monthly CBI surveys; after falls in September and October, growth resumed again in the final months of the year. Table 49 presents further evidence that consumer spending on carpets did indeed manifest strong fluctuations from year to year. After strong growth in 2000, sales increased markedly in 2001 only to fall sharply in 2002 then rebound to an even higher level in 2003 with 2004 essentially flat. The retail carpet sector therefore manifested a strongly oscillating tendency with cycles lasting from 12 – 24 months.

£ '000	2000-01 ⁷	2001-02	2002-03	2003-04	2004-05
Soft floor coverings	3,936,634	4,271,904	3,980,718	4,420,998	4,368,561
Annual change		9%	-7%	11%	-1%

Source: www.ons.gov.uk. Components of household expenditure-Furniture and furnishings, carpets and other floor coverings

Table 49. Annualised (total weekly expenditure x 52) expenditure of UK households on soft floor coverings 2000/01– 2004/05

6.1.3 Imports

There is clear evidence that UK manufacturers had difficulty competing against foreign competition. Over the period 1998 – 2004 the net UK supply of carpets and rugs declined slowly at a CAGR of 0.6%. However, this is the net result of a 36% decline in UK manufacturers' sales and a 42% increase in imports. Imports fell between 1998-9 only to resume a strong growth trend in the new millennium and by 2004 accounted for over 60% of the UK market, up from 40% in 1998 (see Table 50) compared to almost zero in 1970 (Miller, 2003).

£ '000	1998	1999	2000	2001	2002	2003	2004
UK manufacturers' sales	1,083	1,010	992	898	820	751	690
Exports	232	201	220	224	210	206	204
Imports	579	547	602	652	686	723	822
Net UK supply	1,430	1,355	1,374	1,326	1,296	1,268	1,308
% change UK mfg. sales		-7%	-2%	-10%	-9%	-9%	-8%
% change exports		-13%	9%	2%	-6%	-2%	-1%
% change imports		-6%	10%	8%	5%	6%	14%
% change net UK supply		-5%	1%	-3%	-2%	-2%	3%
Total % imports		40%	44%	49%	53%	57%	63%
Change 1998-2004							CAGR
UK manufacturers' sales	-36%	-5.9%					
Exports	-12%	-3.9%					
Imports	42%	5.2%					
Net UK supply	-9%	-0.6%					

Source: Office for National Statistics (ONS) PRODCOM reports - Carpets and Rugs 17510.

Table 50. Net UK supply of carpets and rugs (UK manufacturers' sales *minus* exports *plus* imports) 1998 – 2004

⁷ The ONS Family Spending report from which these figures are derived covers a financial year from April to March.

Imports from low cost countries were not an important factor; the portion of non-EU imports fell from 21% to 16% in the period 1998 – 2004 meaning that imports from outside Europe were flat. The biggest carpet exporters to the UK were the Low Countries, predominantly Belgium. Benelux accounted for over 60% of UK imports in 1998, growing to almost 70% by 2004, a CAGR of almost 9%, significantly outpacing the overall growth rate in imports (Table 51⁸). Retailers, especially the large multiples, were increasingly sourcing from abroad in order to protect their margins as the market tended to become more price driven. Tufted carpets were particularly affected by imports and UK manufacturers struggled with relatively high manufacturing costs. UK Axminsters fared well against foreign competition and were successful exports; Wiltons, on the other hand, were subject to strong competition from Belgian manufacturers (Key Note, 2000a).

£m	1998	1999	2000	2001	2002	2003	2004
Benelux	339	332	374	420	470	494	572
Other EU	125	111	118	108	102	116	124
Non-EU	123	118	122	132	125	118	129
Total imports	588	561	613	660	696	728	825
% Benelux	58%	59%	61%	64%	67%	68%	69%
% non-EU	21%	21%	20%	20%	18%	16%	16%

CAGR Benelux imports 1998 – 2004: 8.8%

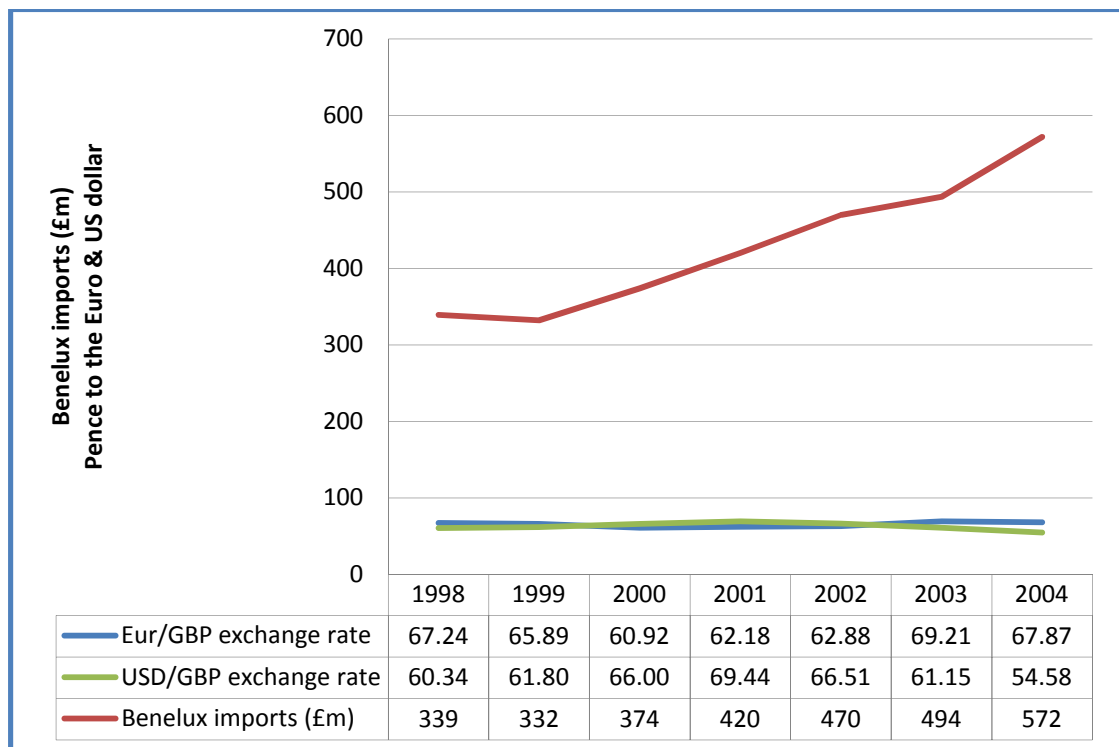
Source: HM Revenue and Customs www.uktradeinfo.com/Statistics

Table 51. Imports of Carpets and other textile floor coverings, 1996 – 2005 split by Benelux/other EU/non-EU.

There are a number of references in the press to the level of imports being caused by the strength of sterling (*Carpet & Floorcoverings Review*, 1999b; Pain, 2000; *The Sunday Times*, 1998). Exchange rates against the Euro (the currency of the main import region) are shown in Figure 13. Sterling averaged around 65p to the Euro in the period 1998 – 2004. The Euro initially weakened against the pound, buying only 61p in 2000, down from 67p in 1998, then stiffened to regain its initial value by 2004. A strong currency was therefore a fixed feature of the environment. Yet the pound was strong against the US dollar, too: Euro and dollar values against the pound were highly correlated ($r = .82$) and exports of low cost countries (in US dollars) did not increase to the UK across the

⁸ There is a slight difference in import totals between HM Treasury statistics and ONS figures. The definitions (given in the captions in Table 50 and Table 51) are not exactly identical.

period. In contrast, the correlation between imports from Benelux and sterling exchange rates was weak ($r = .33$); imports from the Low Countries continued to grow considerably against a relatively flat exchange rate. In fact, a complementary, and more robust, explanation is that the yarn developments of Belgian and Dutch producers enabled them to produce at much lower costs than was current in the UK. Coupled with the lower volumes of British carpet makers, the Continental firms were able exploit economies of scale to undercut UK prices by a significant margin (*Carpet and Flooring Retail*, 2003b).



Sources: 1/ <http://www.bankofengland.co.uk> Interactive Database > Interest & Exchange Rates. 2/ HM Revenue and Customs www.uktradeinfo.com/Statistics

Figure 13. EUR – GBP average annual spot exchange rates vs. carpet imports from Benelux 1998 – 2004

6.1.4 Wooden flooring

A key difference between beds and carpets is that carpet sales are significantly influenced by consumer preferences *within* the floor covering sector: carpets were increasingly subject to competition from smooths⁹. In particular, in the mid-to-late

⁹ Smooths include vinyl sheets or tiles, linoleum, cork, ceramics and wood.

1990s, UK consumer tastes began to shift towards wooden flooring, influenced by popular home improvement programmes such as *Changing Rooms* and *Home Front*, while carpet sales remained static (*Daily Mail*, 1999; Key Note, 2002). At least in the home, hard coverings (which include wood) gained a relatively higher portion of consumer spend, but sales of soft floor coverings (the main component of which is carpets), did not diminish over the period of the turnaround. Statistics for the period 2000 – 2004 on household expenditures (Table 52) confirm a much faster growth trend in hard compared to soft coverings, however, it is also clear that hard coverings start from a much smaller base; the *absolute* increase of £460m favours soft coverings over hard coverings which grew by £320m.

	2000-01	2001-02	2002-03	2003-04	2004-05
Soft floor coverings	3,937	4,272	3,981	4,421	4,369
Hard floor coverings	391	669	477	781	708
Total floor coverings	4,327	4,941	4,458	5,202	5,077
% Hard floor	9%	14%	11%	15%	14%

Source: www.ons.gov.uk. Components of household expenditure - carpets and other floor coverings

Table 52. Annualised (total weekly expenditure x 52) expenditure of UK households on soft vs. hard floor coverings 2000/01 – 2004/05 with year-on-year and total percentage changes

A similar picture emerges from the manufacturers’ side. The combined market for carpets and wood was relatively flat in the period from 1998, when Gaskell acquired Tomkinsons, to 2004, its last full year of operations. Within that context wood gained 5% in market share, due to a spectacular growth of over 120%; however, this was from a small base of just over £50m in a £1.5bn market. In absolute terms, increased carpet imports of over £240m dwarfed the £66m growth of wood. However, to UK manufacturers, operating in the dwindling portion of the UK market in which they could compete successfully against foreign competition (independent retailers and commercial contracting) the growth of wood had a much greater impact: the ratio of sales of foreign wood (the portion of UK wood manufacturing to net supply was between 0 - 5%) compared to British carpet fell from 1:16 pounds to 1: 4. From this perspective, it is not difficult to understand the perception that people were “ripping up carpet and putting down wooden floor” (interview with Richard Hopkin).

	£m	1998	1999	2000	2001	2002	2003	2004	% Δ
UK carpet manufacturers' sales		1,083	1,010	992	898	820	751	690	-36%
Exports of carpets		232	201	220	224	210	206	204	-12%
Imports of carpets		579	547	602	652	686	723	822	42%
Net UK supply of carpets		1,430	1,355	1,374	1,326	1,296	1,268	1,308	-9%
Net UK supply of wooden flooring ¹⁰		54	69	85	100	103	104	120	121%
		1,485	1,424	1,458	1,425	1,399	1,372	1,428	-4%
Wood/UK carpet & wood supply		4%	5%	6%	8%	8%	8%	9%	
UK manufacturers' sales in UK		851	808	772	674	611	545	486	
Net UK supply of wooden flooring		54	69	85	100	103	104	120	
Wood/UK carpet manufacturers		6%	9%	11%	15%	17%	19%	25%	
Ratio UK carpet to wood sales		16:1	12:1	9:1	7:1	6:1	5:1	4:1	

Source: Source: Office for National Statistics (ONS) PRODCOM reports - PRA 17510 Carpets and Rugs; PRA 17 Sawmilling, Panel Boards & Joinery Products; PRA 20300 Builders' Carpentry & Joinery; PRA 20100 Sawmilling and Planing of Wood, Impregnation of Wood.

Table 53. Net UK supply of carpets and wood (UK carpet manufacturers' sales *minus* exports *plus* imports *plus* net UK supply of wood) 1998 – 2004

In summary, the retail structure contained a handful of very powerful players, but was still largely in the hands of a profusion of independent retailers. While the structure was stable, retail sales were marked by strong cyclical upswings and downswings. The starkest feature of a slowly shrinking domestic carpet market was that imports took significant market share away from UK manufacturers; one factor in this was the strength of the British pound, but the main explanation is that British carpet manufacturers were out-competed by Continental producers. The shift in consumer tastes to wooden flooring had a far smaller effect on the overall market, but its importance was accentuated in relation to the diminishing market share of UK carpet makers. Gaskell's challenge was therefore to navigate a task environment which was structurally stable, but prone to market oscillations and to overcome competition from lower cost Continental producers and, to a lesser extent, substitutes. The next section will examine what Gaskell actually did.

¹⁰ Figures are based on the UK Standard Industrial Classification of Economic Activities 2007 (SIC 2007) which contains two classes that include the terms 'manufacturing', 'wood' and 'floor'. These are: 16.10 Sawmilling and planing of wood (this class includes: manufacture of unassembled wooden flooring) and 16.22 Manufacture of assembled parquet (this class includes: floors— manufacture of wooden parquet floor blocks, strips etc., assembled into panels; this class excludes: manufacture of unassembled wooden floors, see 16.10).

6.2 Chronology of decline and collapse

After another record breaking year in 1998, Gaskell was feeling the pressure to sustain its exceptional organic growth rate. As demands grew, management began to consider a major acquisition. The logic was to find an important player in the flooring industry with potential for synergy and a strong presence in the residential (and therefore retail) sector to complement Gaskell's position in the contract market (interview with Richard Hopkin). The year 1999 started well. At the April annual general meeting the chairman, always with the caveat that trading conditions were difficult, was able to reel off the customary list of investments in capital, personnel and new products which had been the driving force behind the group's success. Analysts from Investors' Chronicle Magazine and Sunday Express were making "BUY" recommendations (*Reuters News*, 1999b;d). Also in April, Gaskell publicly confirmed it was keen to make sizeable acquisitions, but denied it was involved in talks with Midland carpet maker, Tomkinsons (*Investors Chronicle*, 1999). The only black cloud in Gaskell's otherwise blue sky was the sudden resignation in June of its chief executive after 36 years with the company, caught up in an investigation into insider trading¹¹. On September 2 an announcement was made that Gaskell had, indeed, made an offer of 180p per share to acquire the whole issued share capital of Tomkinsons PLC (Tomkinsons), another top 10 UK carpet manufacturer (see Table 48 on page 196), which valued the latter at £12.2m. Gaskell directors believed that Tomkinsons was "an extremely good fit" (*Regulatory News Service*, 1999b); the deal would represent "an effective combination of each group's particular strengths: Gaskell's supply into the mainstream contract sector and Tomkinsons' prominent branding on the residential side" in addition to benefits of increased scale and improved purchasing power (*Carpet & Floorcoverings Review*, 1999a). Tomkinsons was a 130 year-old company which had been listed on the London Stock Exchange since 1959. It operated from three sites in the UK and had around 470 employees. Its turnover and pre-tax profits had grown from £19.5m and £0.7m in 1994 to £30.5m and £2.0m in 1998, although in the ten month period to 31 July 1999 (Tomkinsons' year end was 30 September), sales were down almost 7% on the previous year and there was "little evidence of improvement in the retail sector during recent months" (*Regulatory News*

¹¹ Former Gaskell chief executive, Gerard Cahill, was convicted of insider share dealing at Hyndburn magistrates' court in August 2000. Sayed, V. "Ex-boss guilty of insider dealing," *Lancaster County Publications*, 11 August 2000.

Service, 1999b). While the directors enthused about the industrial logic of the proposition, investors were less excited. Tomkinsons' share price fell almost 5% as hopes of a better deal evaporated; Gaskell's shares fell 6% as the reality of this deal solidified (*Reuters News*, 1999c). Nonetheless, by the first closing date on the offer acceptances from shareholders with 92% of Tomkinsons' share capital had been received. The offer was declared unconditional in all respects and Tomkinsons was removed from the FTSE All-Small index on 28 September 1999. In light of the gap at the top in Gaskell's management, Michael Hield, chief executive of Tomkinsons, took over as the new chief executive of the combined company. Tomkinsons' finance director stepped up to become managing director of the new subsidiary company, Tomkinsons Limited. The £12.2m acquisition was financed through a £4.6m share issue, a £1.0m issue of loan notes and a £6.6m bank loan. Gaskell moved quickly to implement its rationalisation plan which included the closure of Carlton Mill near Skipton, the transfer of Wilton weaving operations from Bloxham to Rishton in Lancashire and the consolidation of warehousing in Kidderminster, leading to the shedding of a total of 130 jobs at Carlton and Bloxham. Shares slipped a further 3% (*Reuters News*, 1999a). The year ended in tragedy as Jerry Daw, a main board director and managing director of subsidiary company Gaskell Carpets died in a car accident. The loss of Daw would have repercussions as Gaskell lost not only a talented manager who had brought Gaskell Carpets back into profit after a shaky start to 1996 under another MD, he also had significant experience in the retail sector. In his year end review the chairman stated that the rationalisation of Gaskell and Tomkinsons was on track and would be completed by the middle of the following year; he anticipated that expectations of the synergies and benefits would be comfortably exceeded. Excluding Tomkinsons' sales for the final few months of the year, group sales were flat compared to 1998; with restructuring costs of £2.6m, pre-tax profits fell from £5.1m to £2.1m. Gearing¹² increased from 23% to 68%.

At the time of the announcement of the takeover, Michael Hield revealed his ambitions to build a £100m industry giant (*The Birmingham Post*, 1999) and in the heady early days of the new millennium, Gaskell's new chief executive was already looking forward to more acquisitions. He claimed that Gaskell was by now the third largest carpet

¹² Gearing is measured here as the debt-to-equity ratio. Mathematically this is (short term loans + bank overdraft + long term loans + hire purchase + leases) / shareholders' equity.

manufacturer in the UK (but see Table 48 on page 196) and was ready to play an active part in further consolidation of a fragmented industry (Palmer, 2000). According to the chairman's September review of the first half of the year the rationalisation of the merged companies had proceeded well and had been completed on schedule in June 2000. But something was amiss: although turnover in Gaskell rose, Tomkinsons' sales fell by 7% due to disruptions in its operations from the merger and a difficult retail sector such that like-for-like sales across the group were unchanged compared to the previous year; profits fell by £400K. The resultant profit warning for the full year caused share prices to drop by 16% (*Reuters News*, 2000a). The ex-Tomkinsons chief executive did not quite complete a year at Gaskell and his resignation as head of the newly merged group was announced on 1 September 2000 (*Regulatory News Service*, 2000b). He was replaced by the managing director of Bamber Carpets, Gerry Wheeler. A second profit warning in November sent share prices tumbling a further 35%. The problems were in the household goods and textile sector due to a softening in the retail economy, cheap imports in the residential sector and a "disappointing" performance from Tomkinsons (*Reuters News*, 2000c). Peter Webb, fund manager to Eaglet Investment Trust, the company's major shareholder, railed against the performance, "It has been a nightmare of integration, it just hasn't happened. There was not enough leadership and we've ended up with a fudged deal" (*The Birmingham Post*, 2000a). Webb claimed that the original plan had been for Gaskell management to take charge of the running of the company, but the loss of two key Gaskell executives, former chief executive Gerard Cahill and head of Gaskell Carpets Jerry Daw, had meant that Gaskell's business had been "left to drift." The newly invested chief executive, Gerry Wheeler, admitted that the integration had been only partly successful and there was "an element of indigestion" (*The Birmingham Post*, 2000a). Wheeler immediately announced a restructuring of the group into three operating divisions. The resignation of Tomkinsons MD, Gary Stokes, was announced on 27 December. The full year turnover for Gaskell was unchanged compared to 1999 and Tomkinsons brought the total group sales up to £75.8m, but this meant that over £7m was missing from Tomkinsons' 1998 turnover. Gross margins fell by 3%; interest charges increased by £0.9m; pre-tax profits fell to £0.5m (Feddy, 2001). It was the last time Gaskell would make a profit.

The new divisional structure with which Gaskell entered 2001 did not cut the mustard. While Tiles remained strong, continuing difficulties in the Carpet and Non-wovens

divisions and deterioration in the independent retail sector combined to produce a first half pre-tax loss of £236K. Management attempted further restructuring which took effect from 1 August; the whole operation would cost another £3m in exceptional restructuring charges in the second half of the year and reduce headcount by 12%. In December, major shareholder Eaglet Investment Trust sold around 24% of the ordinary share capital to Granwood Holdings Limited (Granwood) whose 100% owner was Michael Pass. The move was described as a strategic investment; Granwood had no interest in making a bid for the company. The core contract tile and contract broadloom businesses continued to remain strong but the retail and non-wovens operations performed so badly that, with £1.2m interest charges, the company reported the first ever pre-tax losses in its history of £0.6m before restructuring costs and £6.6m after exceptional items (Gaskell, 2001). It became a priority of the board to reduce the high level of gearing which now stood at 102%.

By March 2002 it was clear that the latest restructuring was not working. Chief executive Gerry Wheeler said, “We have come to the end of our patience with our retail business. It has been problematic since the point of acquisition and in the last two years we have taken some dramatic actions in order to turn it around. They have not come to fruit and we are in discussions with a small number of interested parties to sell it.” Shares fell 15% on the news (*The Birmingham Post*, 2002). The new plan was to concentrate solely on the core contract division. Management explicitly recognised the impact of the speed at which events moved was a crucial factor; cash and speed were linked: “Given the Group's cash constraints, the extent to which the refocusing on these divisions can be progressed will depend upon the speed with which the loss making activities can be exited” (Gaskell, 2001, p. 2). In June, Gaskell sold Tomkinsons’ Crucial Trading to a division of wholesaling giant Headlam Group PLC for £1.8m, then in August it disposed of its vacant Rhoden Mill site for its book value of £0.5m. In the same month it unburdened itself of Tomkinsons’ Mid-Wales Yarns, debt-free, for the sum of one pound. Minimum net assets were guaranteed at £1.7m; minimum net current assets at £0.3m. In addition, Gaskell agreed an interest free loan of £0.25m repayable in instalments up to December 2003. It was worth it. In the six months to 30 June 2002 the Welsh company had made an operating loss of £0.35m on a turnover of £2.03 million. Giving it away avoided the closure costs associated with making 100 people redundant. Other surplus plant and equipment was sold off for £400K. Exiting the remaining loss-

making businesses proved impossible, however: none of the 10 or so parties in talks to buy Tomkinsons would agree a price. The chairman's half year statement spoke of operating losses (£2.1m), pre-tax losses (£2.3m) and revealed that the company was by now in breach of the covenants attached to the loan facility. Although the bank had waived breaches during the period, overdraft facilities were now being negotiated on a short term basis and were only in place up until 31 December. There would be no shareholder dividends; restructuring would have to be more radical; the overriding objective was to achieve a sustainable business with a supportable level of debt. Share prices dropped 20% to an all time low of 18p within hours of the news (*Newsquest Media Group Newspapers*, 2002). On 30 September, group chairman Ted Andrews retired after 20 years in office. In October the cuts proceeded inexorably and 30 of the total workforce of 150 in Kidderminster were laid off. Just before Christmas the board was able to announce that Barclays Bank had extended the current loan facilities till the end of January. Gaskell was making new records: record operating losses (£4.7m), biggest ever pre-tax losses (£9m) and highest ever gearing ratio (148%).

As 2003 began, Gaskell was running out of options and management decided its only move was to sacrifice its queen: they sold the Tile Division. The intention had been to sell to the management team of the division in a management buy-out (MBO) with the financial support of a venture capitalist, however at the eleventh hour the venture capital team tried to drive the price down. Gaskell had been talking to other companies and Low and Bonar PLC stepped in to make an offer at a price Gaskell could live with. Low and Bonar had just appointed a new chief executive who was keen to grow the business through acquisition. The drama was not over, though. Having secured an offer from a reliable buyer, Gaskell's management team then found themselves scrambling to get enough shareholder votes to push the decision through as the major shareholder, Granwood Holdings, now with a 29.9% stake, announced it would vote down the decision at the extraordinary general meeting (EGM) of the shareholders on 14 February. Granwood Holdings had itself made a number of offers for the Tile Division, but at a much lower price than the offer from Low and Bonar. In the event, the management team was not sure if the deal would be approved until the votes were cast on the actual day of the EGM, described as "crunch day" (*Newsquest Media Group Newspapers*, 2003b). To their relief, they succeeded in getting a majority (*Newsquest Media Group Newspapers*, 2003a). The deal was worth £18m in cash to Gaskell and

netted £5.4m in profits. On top of this the company disposed of the Kidderminster property occupied by Tomkinsons for a cash consideration of £3.1m. Both disposals were described as essential as the group's bankers had not indicated that additional funding would be available (*Dow Jones Newswires*, 2003b). In the aftermath of the sale of the "crown jewels" (interview with Richard Hopkin) the group consisted of Gaskell Carpets, a supplier and distributor of contract and retail Axminster and tufted carpets and Gaskell Textiles, a manufacturer and distributor of felt underlays and non-woven floor covering products. The two companies employed 400 people on two sites in Rishton and Clayton-le-Moors, with 35 staff in a new logistics centre set up with rival manufacturer Stoddard International PLC in Kidderminster. The new group was able to clear its debts, invest in working capital for the remaining businesses and fund its pension scheme. Analysts at house broker Teather & Greenwood expected Gaskell would have the reserves to pay a final dividend at the end of the year and to return to profitability the following year (Thomas, 2003). This was wildly optimistic. Without the £4m profit-generating engine that was the Tile Division (Gaskell, 2001), the new group languished. In a "shock announcement" at the end of the year, management warned that operating losses would be higher than expected and further major restructuring would result in a consolidation of operations in Clayton-le-Moors to free up the Rishton site for disposal with the loss of 80 jobs. The new strategy would involve the sourcing of low cost Axminster ranges from Continental Europe, instead of manufacturing them in-house (*Newsquest Media Group Newspapers*, 2003c). This strategy evolved to include the relocation of manufacturing of narrow width Axminster products to Poland. All cash in 2003 came from net disposals of £16.5m (including the Tile Division); cash flow from operations was a record low of -£7.2m while cash outflow from financing was £7.3m. Operating losses on continuing operations before exceptional items, a measure of the strength of the business going forward, were an ominous £3.2m. There was no dividend.

In such a state, Gaskell prolonged its existence throughout 2004, continuing to make losses, with minor asset sales along the way to ease the suffering. On 16 March 2005 the Financial Services Authority suspended Gaskell's securities from the Official List at the request of the company pending clarification of its financial position (*Regulatory News Service*, 2005c). The board announced that it was seeking to re-finance the company but that this was by no means certain. It was also considering the partial or

total sale of the company (*Dow Jones Newswires*, 2005d). Shareholders were warned that the disposals would leave them with no value. Two days later Gaskell went into administration (*Dow Jones Newswires*, 2005c). In April, administrators Kroll sold off the businesses. On 18 August 2005 Gaskell's shares, valued at 0p, were deleted from the London Stock Exchange (*Regulatory News Service*, 2005b). Gaskell PLC ceased to exist.

6.3 Pre-turnaround experience of top management

This section briefly considers the experience and industry origins of Gaskell's top managers prior to the turnaround attempt.

6.3.1 Gaskell's chief executive: a company and industry insider with no turnaround experience

When Michael Hield, former chief executive of Tomkinsons, stepped down in September 2000, after just one year in office as the head of post-acquisition Gaskell, he was immediately replaced by a company insider, Gerry Wheeler. Wheeler had joined Gaskell as group sales and marketing director of Gaskell Carpets Limited (a subsidiary company) in May 1993 and was appointed to the position of managing director of another subsidiary, Bamber Carpets Limited, in August 1996 (*Regulatory News Service*, 1996). He was subsequently nominated a group board member in October 1998, having "made significant contributions to the Group's recent success," and "major roles to play in its future development" (*Regulatory News Service*, 1999a). Demonstrably a rising star within the group, the announcement of Wheeler's promotion, timed to coincide with the release of the interim results for 2000, passed uncommented in the press. Wheeler had no turnaround experience according to an interview comment by the financial director (below). This can be confirmed by retracing his employment history. His move from Union Carbide to STC presumably happened when STC bought Union Carbide's capacitor operations in Aycliffe in 1984 (*Financial Times*, 1983). His last listed employer before joining Gaskell in 1993 was STC. STC was, by then, owned by Northern Telecom Limited (Nortel) and, despite major post-acquisition restructuring

and layoffs (*Electronics Times*, 1991; *Financial Times*, 1991a;b), was not a loss making enterprise when it was bought in early 1991: its pre-tax profits for 1990 were £240m (Burrows, 1990); it was therefore not subject to a turnaround. Similarly, Nortel's £1.3 billion bid for STC made it the third largest telecommunications group in the world at that time; it was not in a crisis situation (*New York Times*, 1990).

6.3.2 Gaskell's top management team: company or industry insiders

The logic in Gaskell seems to have been to promote from within the company or recruit managers with experience in the textile industry, as evidenced by a significant round of top management changes at the beginning of 2001, shortly after Wheeler's inauguration. These were: a new director for the Tile Division with "extensive senior management experience in the European textile industry with the Coats Viyella and Lantor Groups" (*Regulatory News Service*, 2001g); the Gaskell Textiles sales and marketing director's promotion to managing director of Gaskell Carpet Tiles (*Carpet & Floor Coverings Review*, 2001), along with two other company managers promoted to positions of subsidiary managing directors (*Regulatory News Service*, 2001e); a new managing director of the newly formed Carpet Division with "extensive senior management experience in the textile industry, latterly with the Interface group (*Regulatory News Service*, 2001d); and a new managing director of the Non-Wovens Division "bringing significant commercial experience of the floorcoverings industry, latterly as Managing Director of Pilkington Tiles Limited" (*Regulatory News Service*, 2001f).

None of the main board directors at the start of the turnaround process had turnaround experience and the board relied on external advisors PwC.

we began to come under pressure from the bank... it got passed to what they wonderfully call their Business Support Team, their restructuring, monitoring sort of area. And obviously when that happened, that was clearly a signal that things needed to be done differently and of course we then were into it. My experience, and it was true of the board as whole, was our first experience in that sort of team. Now we also, PwC were our long standing board members and tax advisors but we did, around the same time, bring PwC restructuring people, to advise us and I suppose to hold our hand through the process and I think that was partly to help our relationship with Barclays whom they obviously knew very well but also, to give us some advice in the circumstances (interview with Richard Hopkin).

The lack of turnaround experience or knowledge is reflected in a key aspect of the company's approach to the process. A widely acknowledged feature of turnaround is that incremental moves are futile and wholesale restructuring is necessary to reverse decline (Chen and Hambrick, 2012; Heany, 1985; Khandwalla, 1983; Reisner, 2002; Schendel and Patton, 1976; Stopford and Baden-Fuller, 1990). However, Gaskell's reaction was indicative of a lack of understanding of this notion:

We were hopeful I think that by piecemeal disposals, the cost reductions and the improvements we were making in theory to product and marketing would turn that around. We were clearly, perhaps you recognised earlier, we clearly knew we were in a turnaround situation from that point. I don't think we recognised how big a job it was and actually, how much cash we'd need to fill this hole that was being created by Tomkinsons and the other businesses.

However, new subsidiary managing directors and board members were brought in early on in the process who did, indeed, have turnaround experience:

As previously announced, the executive Board has been strengthened during the first half of 2001 by the appointment of Gordon Donald and Nigel Roberts as Managing Directors of the Tile and Carpet Divisions respectively. Both individuals bring to the Group substantial and highly successful turnaround experience, gained largely in a textile manufacturing environment (*Regulatory News Service*, 2001f).

Despite this, there is no evidence that these managers brought new insight or altered the turnaround strategy in any way towards the achievement of strategic fit or in line with cybernetic principles. This incongruity is explored in more detail in section 6.4.2.4 *Mental model* on p. 231. In any event, turnaround experience was not necessary for the thriving Tile Division, while the managing director of the Carpet Division only remained in the position for a year before he resigned (*Regulatory News Service*, 2002b).

This completes the presentation of background material on the task environment, the organisation's pre-decline performance and decline path, and the prior experience of Airsprung's top management team. The next section examines in detail how the top management team attempted to tackle the problem of organisational decline in the firm's environment through an analysis of strategic decisions.

6.4 Analysis of strategic decisions

The following analysis applies the conceptual framework developed in chapter three to strategic decisions. Strategic decisions are those taken directly by the chief executive, or whose nature would have required the sanction of the chief executive; they are defined as decisions which affect major allocations of resources or strategic direction and therefore impact cash flow and strategic fit. This class of decisions contains acquisitions and disposals of companies, major asset purchases or sales, corporate restructuring, large scale downsizing and significant shifts in product/market strategy. Each decision is examined according to the six propositions formulated in the framework for a successful turnaround in order to test the predictive strength of the model. The list of propositions is reproduced below for convenience.

*Proposition 1b: decisions which do not improve the **net cash position** of the firm are less likely to lead to a successful turnaround.*

*Proposition 2b: decisions which do not improve **strategic fit** are less likely to lead to a successful turnaround.*

*Proposition 3b: decisions which reduce **slack-time** are less likely to lead to a successful turnaround.*

*Proposition 4b: decisions which strengthen **financial stakeholder power** are less likely to lead to a successful turnaround.*

*Proposition 5b: decisions which do not increase viability according to the **cybernetic principles** of the VSM are less likely to lead to a successful turnaround.*

*Proposition 6b: less accurate **mental models** of top management decision makers are less likely to lead to a successful turnaround.*

Discussion is restricted to the period of the turnaround attempt which lasted four and a half years from September 2000 to March 2005. The trigger establishing crisis was the

intervention of a Barclays Bank team specialised in risk management and companies in financial difficulty:

I can't precisely remember the timing, but I think within certainly 12 months of the Tomkinson acquisition, we began to come under pressure from the bank because clearly the acquisition team in Barclays that handled the deal... It then got passed back to the normal relationship team in Manchester, but then after they got concerned it got passed to what they wonderfully call their Business Support Team, their restructuring, monitoring sort of area. And obviously when that happened, that was clearly a signal that things needed to be done differently and, of course, then we were into it (interview with Richard Hopkin).

A second trigger was the resignation of the then chief executive, Michael Hield, and his replacement by Gerry Wheeler, also in September 2000. The turnaround attempt ended when the company was placed in administration in March 2005.

There were three strategic decisions involved in Gaskell's turnaround attempt. These were, in chronological order:

1. Restructure and downsize
2. Sell non-core operations
3. Sell the Tile Division

These decisions will now be considered according to their contribution to cash flow; whether they played a role in moving the company towards strategic fit and creating a cybernetically viable organisation; if constraints of slack-time or financial stakeholders were operating on them; if they were the result of a mental model with a high level of strategic clarity; and whether important implementation factors were absent.

6.4.1 Restructure and downsize

The first decision the new chief executive took in the turnaround process was to restructure the group into three divisions: a Tile Division comprised of Gaskell Carpet Tiles (a new company), Bamber Carpets and Modulus Flooring Systems; a Carpet Division, consisting of Gaskell Carpets, Tomkinsons and Mid-Wales Yarns, largely focused on the retail market; and a Non-wovens unit incorporating Gaskell Textiles to exploit capital investment in underlay and fibre-bonded carpet (see Figure 14 on page 218). The new structure came into force on 1 January 2001 (Gaskell, 2001). Within this

overall structure, further reorganisation took place around September 2001 as a result of which all retail sales were transferred to Tomkinsons in Kidderminster (in Figure 14, the arrows from Gaskell Carpets to Retail fall away). Axminster manufacturing activity was concentrated on the Rishton site with investment in high speed Axminster loom technology at Gaskell Carpets; similar plant at Kidderminster was closed; headcount was reduced by 12%. Redundancies were also made at the Clayton-le-Moors site.

6.4.1.1 *Cash generation*

As a result of a total reduction in headcount of around 160 employees (15%), overhead costs after exceptional items fell by over £1.1m, although this was also partially explained by lower activity levels due to a reduction in sales of £6.9m (9%). The cash impact of the redundancies and other exceptional costs associated with the restructuring was £2.8m. This meant that, net of depreciation and impairment charges, operating profits produced only £0.8m in cash compared to £2.2m in 2000. Total cash from operations remained unchanged year on year at £2.5m: the difference in operating profits was made up from superior working capital management as reductions in stocks and debtors outweighed decreases in creditors to produce £1.7m in cash. In operational terms, the cash impact of the decision to restructure the business was neutral: one-off cash outflows of £2.8m were matched by one-off inflows from working capital and a reduction in fixed costs of £1.1m. The decision to restructure and downsize was therefore self-financing in cash terms. The same cannot be claimed for the company's cash position taken as a whole: net cash outflow for the year was £1.7m, partially due to an increase of £2m in financing costs as a result of the company's increased debt. However, the cash position could have been ameliorated had management decided to forego discretionary cash outflow of £1.3m in capital expenditure and dividends. Cash was therefore not generated by the decision and proposition 1b is supported accordingly.

6.4.1.2 *Strategic fit*

The new structure slightly improved the underlying efficiency of the organisation. Stripping out exceptional costs, gross margins remained substantially unchanged at just

below 33%; however, productivity (sales per employee) increased by 7% from £70.5 to £75.5. There was therefore an improvement in internal fit in terms of operating efficiency, but this could not compensate for the costs of its new financial burden.

The Tile Division maintained the high level of strategic fit that it already had prior to the acquisition of Tomkinsons. A stated objective of the restructuring was to 'ring fence' the Tile Division in order to 'maximise opportunities for the division' (*The Birmingham Post*, 2000b). This was a business which was not as exposed to low cost imports and which could be defended by the higher service levels that a home-based organisation could offer. The office sector in particular showed no propensity to substitute wooden flooring for broadloom carpets or tiles.

However, the new divisional structure did not tackle deficiencies in strategic fit in the retail sector. Specifically, the structure *per se* did not address the three forces in the sector: roller coaster demand, low cost imports and wooden substitutes. The underlying strategy remained unaltered and relied on relatively minor initiatives to increase sales through traditional sales and marketing methods as Gaskell waited for the synergies promised at the time of the acquisition to manifest themselves (*Regulatory News Service*, 2000b).

Clearly there was an element that was continuing to do what we were doing but doing it better in terms of introducing new product particularly and obviously trying to grow the business through that route...

And essentially the action plan was around a combination of clearly trying to do what we could do to stop this falling top line and wrap it around trying to introduce new products, change the marketing, etc., etc... But that was always going to be difficult in the, given the market conditions...

I think we felt that with a bit of tweaking, of the sales and marketing, and the model, then that these business that were struggling could be turned around in conjunction with the cost reductions that could be achieved. So I think you'd say that through the first 12 months of this period we felt it was a tweaking job rather than a fundamental dismantling of the group which ultimately took place (interview with Richard Hopkin).

Overall, the decision did not produce progress towards strategic fit and therefore proposition 2b is upheld.

6.4.1.1 *Slack-time*

In 2001, Gaskell managed to pay down £2.1m of its six year term loan of £9.0m from Barclays Bank. However, it was clear to Gaskell's management that the company would not receive any more loan funds from Barclays.

I suspect we were unable to meet our loan repayments under the deal and that was probably part of the reason, maybe principally the reason why Barclay's business support got involved. So there was obviously some leeway there, they clearly weren't going to advance any more funds and I don't think there was any question of that (interview with Richard Hopkin).

Important issues for slack-time were therefore cash flow and the remaining headroom in Gaskell's bank overdraft facility (the total overdraft facility amounted to £9.0m). Net cash flow was negative for the year 2001 and the amount borrowed on overdraft increased by £2.4m to £6.2m. Working capital was reduced by £1.7m. A significant amount of slack-time was therefore consumed as a result of the decision to restructure and downsize and its influence as a constraint grew accordingly, thus confirming proposition 3b.

6.4.1.2 *Financial stakeholder power*

When Gaskell was handed over to Barclays' Business Support Team the relationship with the bank moved to a new footing. The new power balance meant that Gaskell would now be closely monitored would be required to focus its actions on cash generation. This meant cost reductions and asset disposals; Barclays were not interested in anything else. The logic of the acquisition was based on cost reduction and some asset sales, so Barclays' focus merely reinforced the direction management was already taking. Nonetheless, Gaskell's performance in 2001 served to increase Barclays' power over the company: the £6.6m pre-tax losses caused Gaskell to breach the covenants attached to the loan agreement. The bank chose not to exercise that power by revoking the loan and waived the breaches (Gaskell, 2001), but clearly it renegotiated from a position of increased power.

I remember having discussions around cost reduction in the relatively early stages and I do remember also, that they did recommend that we speak to, and indeed we did, a consultant who specialized in cost reduction and management structure etc., organisational structure. So I know

he came in, primarily dealing at the time with Wheeler as chief executive, talking about reorganising the board structure etc. I know there were cost reductions issues. So yes they did try and influence in that area as well. I don't think you'd say they had much influence in terms of anything beyond that. It was around cost reduction initiatives. It was around, mostly, disposal processes etc...

... and clearly, from the bank point of view, they were more interested in the stuff that was controllable i.e. getting the cost down and generating cash... And clearly the pressure was on to generate cash, certainly not ... we couldn't afford to lose cash because it wasn't going to be funded from anywhere. So it was a combination of cost reduction and the realisation of surplus assets really (interview with Richard Hopkin).

In December 2001 Granwood Holdings Limited (Granwood) became the major shareholder when it acquired a 24.2% stake (Tyler, 2001). The entire issued share capital of Granwood was beneficially owned by Mr Michael Pass. There is no indication that Granwood placed pressure on Gaskell either to pay dividends or to alter the course of the turnaround. The policy of increasing short term bank debt to pay £0.7m dividends in 2001 seems to be due to management bravado: "As a demonstration of confidence in its strategy the Board has decided to maintain the level of interim dividend" (*Regulatory News Service*, 2001f). However, as early as December 2001, prescient analysts were forecasting, "The danger is if Pass does not bid [for a controlling share], management cannot sort the business out, and the debt gets the better of Gaskell" (*Citywire*, 2001).

The decision to restructure and downsize did not improve financial performance as a result of which the company breached its bank covenants. This automatically shifted power to the bank. In addition, Gaskell chose to finance losses, capital investment and dividend payments from short term debt, increasing its dependence on Barclays. The decision to restructure and downsize therefore strengthened the power of the bank. This substantiates proposition 4b.

6.4.1.3 *Cybernetic organisation*

This section will apply the Viable System Model (VSM) in diagnostic mode as described earlier in chapter three. This entails firstly a definition of the system in focus in relationship to its super-system and sub-systems.

- Level 0 – Wider system of which the System in Focus is a part
- Level 1 – System in Focus
- Level 2 – Viable subsystems which ‘produce’ the System in Focus

The boundaries of any system are a matter of choice and this choice depends on the purpose of the analysis. The analysis in this case is to determine if cybernetic principles can explain the performance of Gaskell. Therefore, Gaskell PLC is the System in Focus at level one. Gaskell PLC was a sub-system in the UK flooring industry (which included all foreign and domestic suppliers of flooring solutions to the UK market), which was level 0. Level 2 consisted of Gaskell’s three divisions which either manufactured or procured products to sell to customers.

The new, downsized structure achieved nothing in cybernetic terms, other than to make it very clear what the cybernetic problem was. Figure 14 shows a verdict in the bottom right corner of each box of the viability of each division and the group as a whole. Both before and after the restructuring the group was not viable. This is because S1 is composed of three divisions, two of which are not viable. The single viable element, the Tile Division, was not strong enough to carry the non-viable components; the Carpet Division alone was larger than the Tile Division in terms of turnover. For both the Carpet Division and Non-wovens the issue was the unmatched complexity in the retail environment (Non-wovens performed well in other sectors). Restructuring at corporate level (level 1) did not address this problem, which was at divisional level (level 2). The cybernetic question is: can an organisational structure to deal with that complexity be built with the available resources in the available time? This leads to a simple binary decision:

- ⇒ Yes: build the structure
- ⇒ No: eliminate the non-viable component

The decision to restructure and downsize did neither and addressed no cybernetic issue. Proposition 5b is therefore supported.

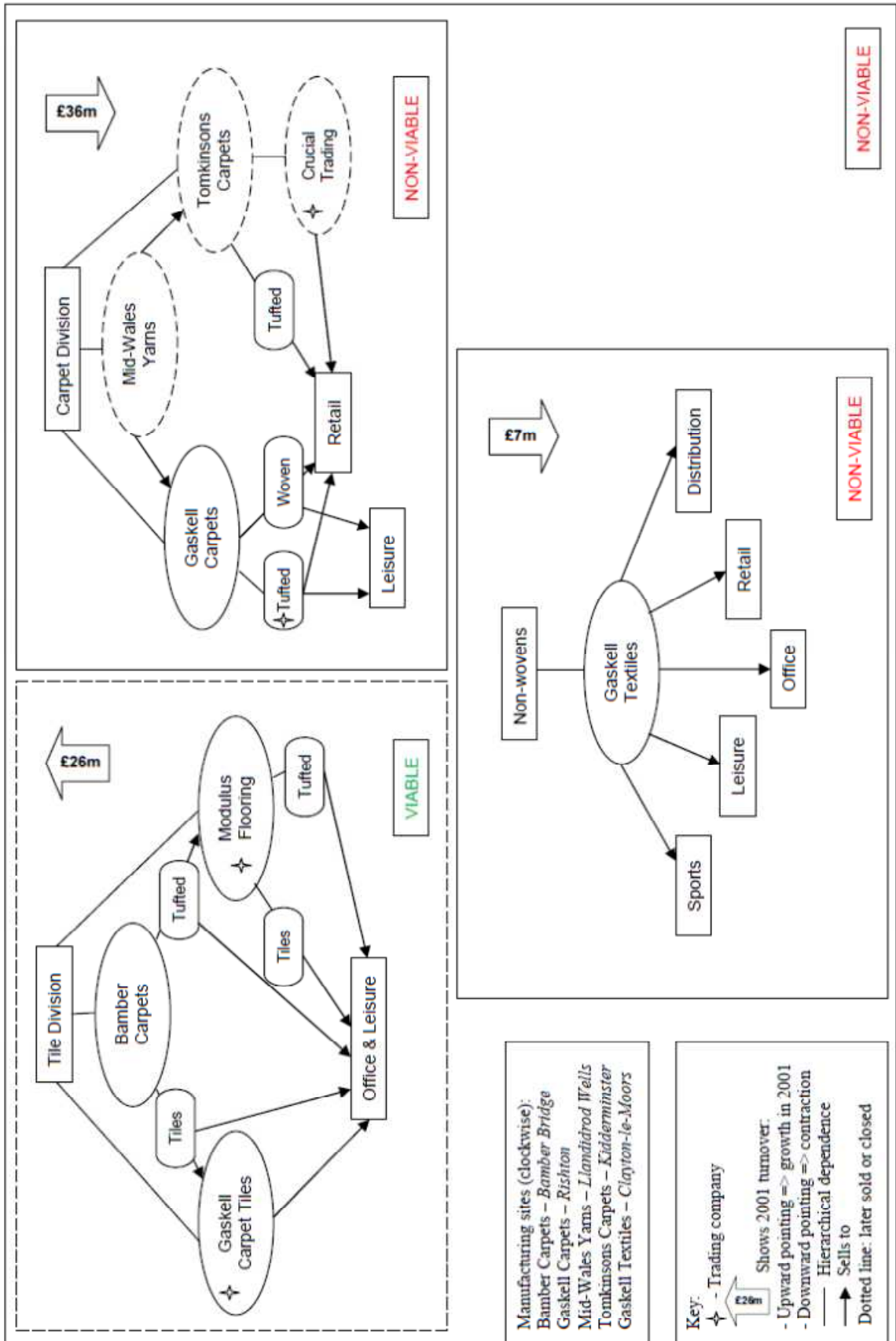


Figure 14. Gaskell PLC corporate structure 2001

6.4.1.4 *Mental model*

Both the chief executive and the finance director remained convinced of the logic of the acquisition even after the failed integration in 2000. In 2001, Gerry Wheeler described the acquisition of Tomkinsons as, “almost a marriage you would design from the outset”:

Mr Wheeler, appointed chief executive last September to clear up the mess, acknowledges there has been a foul up, but he defends the rationale behind the Tomkinsons deal. 'What we created was an impression, at least, that we could be more profitable than apart, through synergistic benefits, closing plants doing things differently, sharing facilities. That is as true today as it was then,' he says (*The Birmingham Post*, 2001b).

Finance director Richard Hopkin had this to say in interview:

And we looked at a number and did a scour of the market. We knew it pretty well to be fair and finally came up with Tomkinsons PLC, a long established business, had a good name in the residential market. Management were well regarded and obviously ultimately and presented opportunities for significant synergy savings because while we operated in different markets and there wasn't duplication of sales, there was potential for savings in manufacturing, warehousing and distribution. So, you know, we put together a rationale which was around cost reduction such that you could maintain a significant talent to the top line but actually take a fair bit of cost out of the combined business and obviously therefore grow the subsequent profits. That was the rationale. I don't think in principle there was anything wrong with a lot of that.

This conviction of the rationale of synergies and cost saving was so powerful that the top management did not review the underlying strategy even though, with £6.5m pre-tax losses, it was unsuccessful.

Despite the current lack of profitability, the Board remains confident that its current strategy will ultimately return the Group to previous levels of earnings and increase shareholder value. As a further demonstration of this confidence, the Board has concluded that it should maintain the dividend at 1.4p (2000: 1.4p) (*Regulatory News Service*, 2001f).

This is problematic for three reasons. Firstly, both top executives also acknowledge that the deal was based on a misunderstanding of Tomkinsons' operational capabilities, market position, financial status and culture; hence the logic was inherently faulty.

Mr Wheeler says Gaskell was led to believe Tomkinsons had the facilities and the people to handle the increase in volumes. It soon realised this was not the case. “We were asking Kidderminster to change its style, overnight, without much prior warning. What we had, quite frankly, was a disaster on our hands. An already overstretched management team was drawn further into the ensuing crisis, distracting them from the day to day running of the rest of the business, compounding the problems” (*The Birmingham Post*, 2001b).

In the end the companies turned out to be completely unsuited and as the new side of its business became unprofitable, Gaskell's debts started to pile up... "We found the culture of their company (Tomkinsons) was fundamentally different," said Mr Wheeler, who admits some hard lessons were learned from the debacle (*Newsquest Media Group Newspapers*, 2005).

I don't think that our due diligence on Tomkinson was as good as it should be. I think the product was in decline and the brand was in decline and there were other players in that residential market that were beginning to catch up and take over...

We did have a bit of black hole in Tomkinsons that appeared at one point in that ... to do with costings and stuff, evaluation which meant that about a million quid that suddenly hit the bottom line which we hadn't anticipated...

There was obviously a cultural issue to a degree there. You were bringing together two fairly long established businesses from different parts of the country and also with different backgrounds, one being contract and one being residential. And there are different mentality I think that serves in those two markets. So all those things, you might say, with hindsight, that we perhaps should have anticipated (interview with Richard Hopkin).

Evidence that Tomkinsons' turnover performance was in decline was available in 1999 as its sales fell by 7% in the ten month period to 31 July 1999 from the previous year's peak performance. It is not clear from the record exactly what the problems with Tomkinsons were, although some elements of the puzzle can be pieced together. For example, Tomkinsons seemed to be suffering from undifferentiated products (*The Birmingham Post*, 2001a) and a waning main brand, or at least uncertain brand management: the *Mr Tomkinson* brand accounted for almost two thirds of sales in 1998 (Tomkinsons, 1998), yet was killed off after attempts to sell the company failed in October 2002 (*Carpet & Floorcoverings Review*, 2002), only to be exhumed two years later in the autumn of 2004 (*Carpet & Floorcoverings Review*, 2004). Tomkinsons was also being outperformed by close rival (literally: it was also based in the small Midlands town of Kidderminster), Victoria PLC. Victoria, a similar-sized, stock exchange listed, UK carpet manufacturer, increased its sales through independent retailers from 38% in 1996 to 61% in 2003 with investment in efficient manufacturing facilities and a tight focus on upper middle class consumers; it was voted Carpet and Flooring Review's Best Carpet Supplier of the Year by independent retailers in 2003, the same year in which it announced record profits (Cole, 2003; Miller, 2003; *The Birmingham Post*, 2001b). Victoria grew through organic growth and its chief executive was critical of acquisitions made "just to keep the stock market happy" (*The Birmingham Post*, 2001b), stating, "We can win more customers in the UK without taking on basket cases" (Cole, 2003), presumably an allusion to Tomkinsons.

Concrete expressions of cultural differences between retail and contract sectors can be found in the differing strategies, capabilities and organisational configurations that the companies had developed. These were not compatible and vitiated much of the synergy argument. For example, in the contract sector, Gaskell was providing tailored solutions to particular sectors and bespoke products for specific customers through close collaboration with integrated groups of professionals, including the customers themselves, interior designers and architects. This was tied back to its operations through short-run weaving programmes on its high speed Axminster loom with rapid changeover from one design to the next and just-in-time systems in which the order came in, yarn was spun and carpets were made and delivered within two weeks (*Carpet and Flooring Retail*, 2003a; *The Birmingham Post*, 2001b): Gaskell was tightly coupled with its contract customer base. In contrast, manufacturing for retailers involves a longer cycle of new product designs geared to launches at major exhibitions during the year and a much slower production process, suited to a stock-driven supply chain: Tomkinsons was loosely coupled to its retailer customer base, with inventory acting as a buffer. Evidently, the importance of new product launches was not fully grasped by the Gaskell side of the business: as management capacity became overwhelmed by the burgeoning crisis, Tomkinsons' design team came up with no new products in the year 2000 (*The Birmingham Post*, 2001b).

Secondly, there is no evidence of risk assessment, particularly in light of the fact that the scale of the acquisition was an order of magnitude greater than anything the company had ever undertaken and it was mainly financed through debt such that, if anything went wrong, it would go very wrong and very quickly, which it did.

Would we have done a major acquisition in a market that we didn't really have experience of or fully understood, that was potentially, although I don't think we appreciated it at the time, so high risk because of the size of it, etc, etc.? You'd have to say with hindsight, no you wouldn't...

It was funded primarily, from memory, through borrowings as opposed to through additional equity. So obviously we were more highly geared as a result of the acquisition and hence, obviously that was ultimately, I suppose, what caused the pressures really... We found that the turnover decline was steeper than we anticipated and the cash level, the cash requirement was much greater (interview with Richard Hopkin).

Thirdly, while the synergy rationale may have been logical in abstract, Gaskell had no experience of large scale acquisitions and it was manifestly beyond its capability to manage this one in reality: it did not just go wrong; it was, in a statement from the chief

executive, “a disaster”, and in a ‘rant’ by the major shareholder, “a nightmare” (*The Birmingham Post*, 2001b).

A rational explanation for this could be management’s (false) belief that they were pioneers in a wave of consolidation that was about to take place among UK carpet manufacturers (Jowit, 1999). However, the attachment to the synergy rationale, despite its obvious inconsistencies, is suggestive of the effects of cognitive dissonance: two elements are in a dissonant relationship if the obverse of one follows from the other (Festinger, 1962, p. 13). When two rationally contradictory cognitive elements are held contemporaneously by a person, that person will experience psychological discomfort caused by dissonance. Cognitive dissonance theory posits that in such circumstances, individuals will act to reduce dissonance by avoiding situations or information likely to increase the dissonance: this is a basic human process (Festinger, 1962). In the case of the decision to acquire Tomkinsons, the prediction of cognitive dissonance theory is quite clear: decision makers will attempt to reduce dissonance by denying information that indicates it was a bad decision, or by interpreting information to mean that it was, in fact, a good decision. This is consistent with what happened: the decision (made by top management), or at least the logic behind it, was good; the implementation (carried out by everyone else) was bad. Therefore, it was right to persist with an unchanged product/market strategy while insisting on cost reductions and waiting for the benefits of cost synergies to kick in. If this is so, cognitive dissonance may be the cause of one or more cognitive biases. *Prior hypothesis bias* is a simplification process based on erroneous hypotheses which cause decision makers to discount or misinterpret information and leads to a state of denial: individuals hold on to false assumptions despite abundant evidence to the contrary (Schwenk, 1984). *Single outcome calculation* induces decision makers to infer favourable outcomes for preferred solutions and unfavourable outcomes for non-preferred options that the decision maker intends to reject, prematurely limiting search or, at the limit, undertaking no search at all for alternatives (Steinbruner, 2002). This is closely related to McKinley and Scherer’s (2000) concept of *cognitive order*, a state of reduced uncertainty resulting from the adoption of a single alternative to the exclusion of other possible meanings and actions. Cognitive order is a temporary psychological state that provides respite from the need to consider options and make choices not just about future meanings, but also future actions. McKinley and Scherer suggest that cognitive order is not dependent on

financial performance as it is experienced before the performance consequences of decisions can be known. When experienced it is attractive, therefore it reinforces the decisions which reduced the uncertainty. Choosing from a single alternative is a powerful simplification process. Its drawback in Gaskell's case, however, was that the solution did not have the requisite variety to cope with the unfolding events in the environment.

Ford (1985) suggests that, when unable to attain important goals or when forced to endure outcomes that are not chosen voluntarily, decision makers become motivationally aroused to restore perceptions of control, which they will do through cognitive restructuring. The level of arousal is a direct function, inter alia, of initial expectations of control, the magnitude of the threat and the importance of performance, all of which were especially high in the case of the decision to acquire Tomkinsons, and consequently the degree of arousal would have been intense. Used to an orderly world in which success was produced according to plan, Gaskell's managers found themselves in the middle of a "nightmare" with the company drifting in "turmoil". It would seem that, under pressure from Barclays' Business Support Team, Gaskell's management very quickly adopted a strategy whose process could restore a sense of control in which success was measured in cutting cost and generating cash. Musteen et al. (2011) provide empirical support for this hypothesis: the authors found that if top managers perceive the situation as especially severe they are more likely to engage in retrenchment, as retrenchment restores a sense of control. The persistence with the restructuring and downsizing strategy can therefore also be explained in terms of a bias known as the *illusion of control*, whereby decision makers overestimate their ability to influence the outcomes of a strategy and assume that, should setbacks arise, they can ensure success through increased effort (Schwenk, 1984). Schwenk (1988) and Ford (1985) suggest that the illusion of control is more likely to occur in decision makers who have experienced recent success and who define new problems in terms of those situations where they were successful and felt in control. In constructing their mental models, decision makers will overvalue the causal role of their actions and will underrate the role of environmental variables which are difficult to control. This describes Gaskell's top managers quite accurately: they had contributed to an exceptional period of growth; they addressed the post-merger situation with pre-merger solutions and underrated (or

rather ignored) environmental variables; they did indeed feel they were in control of the turnaround process:

It was a challenging sort of environment but I think we felt in control of the process. Not to say it wasn't fairly high pressured and there was a lot going on and trying to keep what was effectively a number of different balls in the air with the various strands of this plan, but I think we felt we were in control of the plan. You weren't always in control of the events that would knock things off the path but I do think we felt we had a process of producing a plan and revising that plan as necessary. I don't think we felt out of control in that process but we clearly needed to respond as things changed as time went on (interview with Richard Hopkin).

The feeling of control is paradoxical considering that (a) control of the process did not lead to improved performance and (b) strategy was increasingly driven by the need to pay down bank debt, so real control was in the hands of the bankers.

The strategy was largely kept out of those meetings [with the executive management team] and I think was dealt with, I know it was dealt with, through a combination of the meetings with the bank and PwC and then obviously ratified by the PLC Board. We were certainly having meetings with the bank and PwC once a month and we were having PLC Board meetings once a month and it was that, I think, that really steered the actions.

The decision to restructure and downsize has a number of contradictory features that can be explained by cognitive biases. If these biases are correct, then the decision lacked strategic clarity and was the product of an inaccurate mental model. Proposition 6b consequently receives support.

6.4.1.5 *Implementation factors*

The decision to restructure and downsize substantiates all propositions 1b to 6b. The degree of implementation of the decision is therefore not material to its effect on the outcome of the turnaround as the decision, per se, is predicted not to lead to viability. Nonetheless, important implementation factors are predicted to be missing from the implementation of decisions in organisations which fail to achieve turnaround. This section examines the data available for missing implementation factors. Care is taken not to confuse absence of evidence with evidence of absence and only instances of actual contravention of the implementation factors for a successful turnaround are presented.

Paradoxically, *communication* with the bank was reinforced as predicted by the turnaround prescription for a successful turnaround. However, this is more likely due to the insistence of the bank, rather than a deliberate policy of Gaskell to use close communications to manage Barclays.

On the communication with the bank, obviously I had very good communications. Equally we had these formal meetings which were generally pretty friendly. Yes, I mean, the head guy from the bank was a pretty forceful character and he had his own thoughts on things but generally and obviously PwC, the partner and manager would attend these meetings. The manager who was coming in to see us on a regular basis would feed things into the bank in the meantime anyway. So there was a very close and regular dialogue with the bank.

Notably, a sense of urgency was lacking. Interview references to time from Gaskell's finance director have a particular quality about them which speaks not of urgency, but of emerging understanding, of unfolding events: "That only evolved over time..." "It all geared around... as time went on, more around cash generation"; "...we clearly needed to respond as things changed as time went on..."; "Clearly you're having to spend a lot more time convincing customers..."

Gaskell made an 'unprecedented' number of changes to its top management team early in the turnaround (*Regulatory News Service*, 2001e). However, there is no evidence that a significantly renewed top management team brought new insight or altered strategic direction. It seems that the executive team controlling the turnaround first expanded to include these new managers, along with other managers representing the wider organisation, but that this structure proved unwieldy. Responsibility for corporate strategy decisions was then taken away from the new executives to be concentrated in the hands of just two top managers, the chief executive and the finance director:

But when Jerry Wheeler took over as chief executive, twelve months down the line, rightly or wrongly at that time, I think he sort of put it in place initially, we had quite a big management board with representation from pretty well every part of the business on that board, rightly or wrongly. And it was big because there were a lot of different strands to this business and a lot of different locations. It was a big management board and I know when the bank first got involved they made that observation that it was a large board and frankly it was... Probably about a dozen people... and that did, as time went on, get rationalized... I would have to say that was primarily probably me and the chief executive, Gerry Wheeler and I, after the first 12 months, with a bit of input as necessary from other members of the executive team... (interview with Richard Hopkin).

Thus, although new managers joined the company, enhanced teamwork does not seem to have resulted. *Participation*, briefly increased only to be systematically converted to

its opposite, exclusion. The decision to restructure and downsize ultimately led to less participation.

In summary, the decision to restructure and downsize kept the organisation very busy in 2001, but did not generate cash, did not address the underlying problem of strategic fit in the retail sector and was irrelevant in cybernetic terms. Analysis of the mental model of the top managers is consistent with cognitive biases which induced a lack of search for alternatives and an insistence on the original logic of cost-based synergies and traditional marketing to pull the group out of crisis. This was unsuccessful. The composition of the top management team changed extensively, but there are no signs that the new managers offered any important alternative viewpoints and their contribution to strategic decision making was increasingly sidelined. The overall approach suggests a lack of a sense of urgency and slack-time was consumed unproductively, thus augmenting its significance as a constraint. The decision led to pre-tax losses due to £5.9m exceptional costs which breached the company's bank covenant, thereby weakening the company's balance sheet and strengthening the bank's power.

Gaskell has spent the last year trying to stop the business from unravelling. It launched new products, cut its manufacturing base, supported its marketing activities to the hilt and reduced its work force by 15 per cent to 850 staff. Mr Wheeler said despite some 'sometimes extreme and painful' cost cutting measures, Gaskell would see no significant improvement in the full year to December 31 (*The Birmingham Post*, 2002).

Overall, the decision to restructure and downsize produced no benefit for the company: while operationally ineffective the financial position deteriorated. Of particular detriment was the reduction in slack-time. The lack of incisiveness of this decision led directly to the second strategic decision discussed in the next section.

6.4.2 Sell non-core operations

The first significant change in strategy for the group occurred early in 2002, when the chief executive finally admitted that the turnaround strategy of downsizing and traditional marketing was not working. The decision was to exit all non-core activities and concentrate on the core contract tile and broadloom business; in effect, for Gaskell to revert to a pure form of its former, pre-acquisition self.

Chief executive Gerry Wheeler said: “We have come to the end of our patience with our retail business. It has been problematic since the point of acquisition and in the last two years we have taken some dramatic actions in order to turn it around. They have not come to fruit and we are in discussions with a small number of interested parties to sell it.” The shares fell over 15 per cent to 32p on the news, valuing the struggling group at pounds 7.85 million. (*The Birmingham Post*, 2002).

In the event, no buyer was interested in carpet manufacturing capacity in the UK (Cole, 2002), belying management’s belief in the trend of consolidation in UK carpet manufacturing.

6.4.2.1 *Cash generation*

Having lost a year, cash generation became even more of a priority. By the end of 2001, Gaskell had over £17m in bank debt compared to less than £3m in pre-acquisition 1998, costing £1m more in interest rates with over £2m in capital repayments.

It all geared around, obviously, particularly at that point, as time went on, more around cash generation and obviously avoiding any need for additional borrowed funds really and more than that reducing the bank’s exposure. So that was becoming the main driver and to a degree was less around profit performance even at that stage... But I think to answer your question, I think it was relatively short term planning (interview with Richard Hopkin).

The decision to sell non-core business only resulted in the sale of Crucial Trading and Mid-Wales Yarns. In June 2002, Gaskell sold Tomkinsons’ Crucial Trading to a division of wholesaling giant Headlam Group PLC for £1.7m, then in August it got rid of Tomkinsons’ Mid-Wales Yarns for the sum of one pound to avoid closure costs. Unable to sell the Tomkinsons business, Gaskell simply closed it down: manufacturing operations finished in March 2003 which accounted for the lion’s share of cash costs of £3.45m in 2003. A number of site and asset sales were also made in that year, the most important of which was the Tomkinsons site in a deal worth £3.1m (*Carpet and Flooring Retail*, 2003b). The decision produced no net cash from the sale of businesses and assets (see Table 54), but the difficulty in selling Tomkinsons and the subsequent delay in closing down the operations meant that the group carried the problem company for a further twelve months which therefore led to cash outflow from operating losses. Overall, therefore, the decision to sell non-core operations generated no cash and proposition 1b is substantiated.

	Cash flow (£m)
Sale of businesses and assets	<u>2002</u>
Crucial Trading	1,540
Mid-Wales Yarns	-44
Fixed assets	<u>1,128</u>
Total cash from disposals	2,624
Costs associated with restructuring	
Redundancy costs	673
Other rationalisation costs	<u>1,999</u>
Total rationalisation costs	<u>2,672</u>
Net cash from decision	-48

Table 54. Cash flow from business disposals, asset sales, redundancy costs and relocation expenses in 2002

6.4.2.2 *Strategic fit*

Gaskell's difficulties in the retail sector were that, "Despite launching several new ranges in 2001 for the domestic retail market the profit and cash flow of the company continued to worsen in what was a very difficult market" (Gaskell, 2002, p. 6). The response to retail difficulties was new product development. At no point does the company seem to have taken on board the major trends in the retail market; it seems it simply did not understand it (see section 6.4.2.4 Mental model). Top managers' decision to exit the retail sector attempted to solve the problem of fit by eliminating those parts of the business where they could not achieve it and revert to a business which they did understand and which had a high level of strategic fit. In principle, therefore, the decision would have led to improved strategic fit. In practice, it did not because it was only partially implemented. By the time the Tomkinsons business was closed down, more than a year after the decision was announced, it had already been superseded by the next strategic decision to sell the Tile Division. After which the decision was perforce rescinded: all that was left of the group were non-core elements which did not have the required level of strategic fit. Proposition 2b is subsequently upheld.

6.4.2.1 *Slack-time*

The focus on the decision to sell non-core operations and the failure to implement it forced the company through another year of strain. It was now clear that no further

slack-time could be bought from the sale of non-viable companies. Operating losses, net of depreciation, of £3.1m were covered by extraordinary efforts to wring £5.6m cash from working capital. However, while Gaskell had managed to squeeze enough cash out of a downward spiralling organisation by the end of 2002, the prospects of continuing to do so were slim. There was no cause to believe that performance would be any better the following year, since no progress had been made to establish a cybernetically viable organisation or towards an improved strategic fit. Meanwhile, combined interest and capital payments on bank debt and leasing commitments amounted to £3.5m. Short term bank debt stood at £7.3m, just under the looming ceiling of £9.0m. Slack-time had almost run out. This supports proposition 3b.

6.4.2.2 *Financial stakeholders*

Gaskell was increasingly “at the beck and call of the bank” (interview with Richard Hopkin). The power of Barclays Bank over the turnaround process became almost total as a result of the failed attempt to sell Tomkinsons and the delay in closing it. The performance of the company during 2002 with record pre-tax losses of £9m and, after wiping £8m of shareholder equity off the balance sheet, record gearing levels of 148% caused Gaskell once again to breach its bank covenants. Although the bank waived the breaches, overdraft facilities were now being negotiated on a short term basis and were only in place up until 31 December. Gaskell was on a short leash: just before Christmas the board was able to announce that Barclays Bank had extended the current loan facilities, but only until the end of January. Any long term strategic decisions were now out of the question. Barclays agreed to defer an £850,000 medium term loan repayment due on Dec. 31, 2002, until Jan. 31, 2003, but this was because the bank already knew of the decision to sell the Tile Division. The sole driving force was now debt and Barclays was in the driving seat, hence proposition 4b is fully supported.

6.4.2.3 *Cybernetic organisation*

The decision to sell non-core operations was fully in line with cybernetic principles; it would have significantly reduced complexity and resolved the problems of the two non-viable divisions by eliminating them, leaving a smaller, viable organisation. However,

in cybernetic terms, decisions which are not implemented are not decisions: they belong to an 'informational domain' in which conversations about possibilities help realise new, possible futures. This is not at all to be confused with the operational domain in which things *happen* (Espejo and Reyes, 2011). In the event, only two subsidiaries were sold, one of which, Mid-Wales Yarns, was not viable; the other, Crucial Trading, was viable. The net impact was therefore not significant. By the time Tomkinsons was closed, the Tile Division had also been sold and the whole cybernetic edifice had moved down a level of recursion which requires a new analysis (see section 6.4.3.3).

The issue of unmatched environmental variety distressed the organisation throughout the year 2002 as the organisation continued not to provide what its environment demanded of it (Hoverstadt, 2008). The cybernetic reason for this and for Gaskell's inability to tame its errant retail business, is to be found in the lack of a System 4, certainly at the group (level 1) recursion, and almost certainly at the subsidiary level (level 2) inside Tomkinsons. In the absence of S4, System 5 collapses into System 3. This is a recognised pathological archetype which causes the broken down metasystem to respond reactively from automatic command centres in S3; it is incapable of the planning and foresight provided by S4 and the will and judgement provided by S5 (Beer, 1984). Beer suggests that the possibility of this archetype occurring is increased when System 5 people are promoted from S3. This was, in fact, the case for Gaskell's chief executive. The prognosis for an organisation with a missing S4 is that, when something goes wrong in S3, System 5 members will become embroiled in the S3 problem, at which stage the metasystem is composed of just S3 and lacks effective leadership. This closely resembles what actually happened in Gaskell. When the acquisition presented implementation problems the organisation concentrated wholly on resolving issues in manufacturing and sales in S3. As the state of crisis was recognised and the turnaround process began, the focus of the organisation remained fixed on cost reductions and traditional marketing efforts in S3. No account was taken of events and trends in the environment because the organisation had no structure (no S4) with which to perceive or interpret them. This is because what an organisation 'sees' is structurally determined (Maturana, 2002). For example, Lettvin et al.'s (1959) famous frog only sees food which moves; surrounded by stationary insects, he would starve to death because his optical system only perceives movement. Similarly, deficient in a System 4, Gaskell not only did not, it *could not* see the retail environment. Indeed, for Espejo and

Reyes (2011) this is an ontological question: only the external observer, who stands outside Gaskell, can claim that the company did not ‘see’ the environment; from *inside* Gaskell, those trends were not invisible; they *did not exist*. Or, for Lettvin and colleagues’ frog, food is only food if it moves.

The decision to sell non-viable, non-core businesses was a year too late; the closure of Tomkinsons, two years too late. The decision was a cybernetic non-event. This substantiates proposition 5b.

6.4.2.4 *Mental model*

This section will consider why Gaskell’s managers did not intervene more aggressively in the retail sector from a cognitive point of view. It has been claimed that they did not understand the retail market. It is time to examine this claim. First of all, who in Gaskell did not understand? It will be proposed here that, ultimately, it was a failure of understanding of the top management, in particular the chief executive, but not only: no signals arrive through company reports and announcements of any initiative undertaken at the subsidiary level which suggest anything other than cost reductions and new product development. The discussion will now focus on what Gaskell’s top managers believed about the retail market and suggest cognitive reasons why they did not take steps to improve the company’s strategic fit in its retail business.

Gaskell’s management believed the retail market was difficult throughout the turnover attempt.

- 2000: “Retail turnover suffered from depressed demand” (Gaskell, 2000)
- 2001: “At the present time the residential carpet market is extremely difficult” (Corlett, 2001)
- 2002: “The UK retail sector is not faring very well” (Cole, 2002)
- 2003: “certain markets in which the Group operates, particularly retail, continued to be difficult (Regulatory News Service, 2003d)
- 2004: “Retail and export markets have remained difficult” (Regulatory News Service, 2004c)

The comments about a depressed retail market in 2000 are contrary to the evidence presented in section 6.1.2 and in Table 49 on page 197. There was strong growth from mid-1999 throughout 2000. Sales increased still further in 2001. In 2002 the market did drop, but in 2003 it recovered to an even higher level, with 2004 essentially flat at that

higher level. In only one out of four years of the turnaround attempt was the market actually in decline, yet Gaskell's retail experience was consistently negative. This experience was then projected onto the market indicating either a state of ignorance or denial of this important market trend. This would account for why it made no moves, for example, to render its operations more flexible and convert fixed to variable costs in order to ride the market's roller coaster tendency better. One explanation for this is suggested by Kiesler and Sproull (1982), who propose that managers will operate on mental representations of the world based on historical environments rather than of current ones. Actions based on historical behaviour were not likely to have any great impact on Gaskell's performance because its experiential wisdom from the contract sector was ineffectual in the new (to it) retail environment (Gavetti and Levinthal, 2000).

Yet, the new managing director of the Carpet Division, Nigel Roberts, only joined Gaskell in 2001 so, in theory, would have been less influenced by past corporate behaviour. Moreover, Roberts came to Gaskell with "substantial and highly successful turnaround experience, gained largely in a textile manufacturing environment (*Regulatory News Service*, 2001f)". However, no signals arrive through company reports and announcements of any initiative undertaken, even at the level of the problem subsidiary, which suggest anything other than the strategy of cost reductions, asset disposals, and minor sales and marketing initiatives favoured by the top two executives. The complete lack of impact of a new top manager in charge of the division representing the greatest single problem facing the firm, an organisational outsider with turnaround experience, is puzzling. One possible explanation is that even this person was conditioned by his deep experience of the textile sector. Gavetti et al. (2005) find that depth of experience is valuable only if managers have a valid system for categorising environments and classifying lessons learned, and that beyond a modest level of depth, performance is not sensitive to depth of experience. This absence of a valid method of codifying the environment would explain the blindness to the generally strong retail sector. An alternative explanation involves cognitive factors at the group level. In a hierarchical organisational setting, while many managers may offer advice, the final decision on strategic matters lies in the hands of the chief executive. This fits into a schema known as 'judge-advisor systems' (JAS). Research findings on JAS indicate that judges feel more responsible for and have higher confidence in the

decisions reached than other group members, and that participation and consensus seeking is reduced (Savadori et al., 2001). The centrality of the role of chief executive is also likely to render the incumbent the most *cognitively central* group member. Cognitively central group members exert more influence on consensus than other members, even when they hold a minority view (Kameda et al., 1997). Moreover, groups under stress exhibit a stronger desire for uniformity of opinion. Uniformity results either from a greater willingness to yield to others, or increased attempts by group members to influence opinion deviates. Both of these processes tend to centralise power and communication patterns in the group leaders (Kerr and Tindale, 2004). Once a clear group position has been reached, an elevated need for closure leads to pressure among group members to accept that position and to reject members who deviate from the position (Kruglanski and Webster, 1991). Groups with a high need for closure exhibit greater conformity pressures and a less egalitarian participation; the need for closure affects both the content of member responses and the process of group interaction (De Grada et al., 1999). Once formed, group members do not like to change their positions (Greitemeyer and Schulz-Hardt, 2003). Thus, research on small group decision making suggests that, once the decision was taken by Gaskell's chief executive to restructure and downsize at the end of 2000, the power and influence of the 'cognitively central judge' would have exerted pressure to conform to the decision, even if it was not shared by the majority. Moreover, under stress, internal group pressure would have induced new group members to display uniformity and close around a decision already taken and not open to new positions. This is possibly the situation that Roberts encountered when he joined the company in April 2001 and, if so, would explain why the decision to restructure and downsize remained unchallenged and was carried out to exhaustion, despite its evident inefficacy, resulting in the decision to sell non-core activities.

On an organisational level, Gaskell's behaviour is consistent with Daft and Weick's (1984, p. 288) description of 'passive organisations', which accept whatever information the environment gives them, do not engage in trial and error and do not actively search for answers in the environment. Daft and Weick characterise passive organisations which assume the environment is analysable as 'conditioned viewing' (1984, p. 289): they are conditioned to data which were once perceived as important and maintain the same data collection procedures; environmental interpretation remains

within traditional boundaries. In the event of a crisis, conditioned viewing organisations will perform a local search through their immediate memory banks and only adopt a new response after exhausting traditional responses. This is exactly what Gaskell's managers did. Having adopted traditional cost cutting and marketing efforts for a year, they decided on the more radical move of disposing of the retail business.

The growth of wooden flooring took Gaskell by surprise, although sales grew strongly throughout the period of the turnaround attempt, so the trend was there to be seen. More significantly, Gaskell's management believed that wooden flooring was a temporary phenomenon, yet there was no basis for this. Gaskell was not only competing with wood in the retail sector, it was also losing contract business in the leisure industry to this usurper. Its managers were confronted with its advocates in their very living rooms in the form of home improvement television programmes such as *Changing Rooms*, *Home Front* and *House Beautiful*.

The other thing that happened fairly quickly, close to this period was that there was a fairly rapid change in the market. It was at the time that you probably just about recall, when programmes like *Changing Rooms* hit the televisions. People were ripping wallpaper off the walls and ripping up carpet and putting down laminate flooring, wood flooring, and anything but carpet textile flooring...

But in the hospitality trade, in the pub and hotel where again, in restaurants and bars, they were ripping up carpet and putting down wooden flooring... And that was obviously something I don't think anybody really anticipated. Again whether we should have been questioning and whether we responded quickly enough to that, I don't know... I think in that time, we were hopeful it would be a relatively short term thing and in a couple of years people would realize the error of their ways and put carpet back down. That's one of the things I think you'd have to say at the time. We didn't realise it was a long term phenomenon really (interview with Richard Hopkin).

The image of people "ripping up carpet and putting down wooden flooring" is quite dramatic. Indeed, the (negative) correlation of sales of wooden flooring to UK manufactured carpet sales was very strong ($r = -.95$). The psychological dismissal of this agent of chaos as temporary, and therefore not relevant, is consistent with Kiesler and Sproull's (1982) proposal that managers best integrate information that is mildly discrepant with their existing mental model, hence major environmental changes are unlikely to be encompassed; only if managers develop a schema for extreme environmental change will they be able to incorporate extreme events. In the case of wood, Gaskell's managers seemed unable to incorporate a new and disruptive trend into their mental model. It is noteworthy that the irrationality of the method of addressing it, 'hope' was transferred to customers who were acting in "error". Dismissing

uncontrollable phenomena as temporary is a typical symptom of the illusion of control (Ford and Baucus, 1987) discussed in section 6.4.1.4. Once the issue was categorised as ‘temporary’, it is likely that new information was perceived selectively: cognitive biases tend to cause decision makers to attend to information which confirms the categorisation and discard incongruent information (Staw et al., 1981). When the top managers at Gaskell categorised wooden flooring as a temporary phenomenon, this way of conceptualising the issue would have become a dominant general management logic (Prahalad and Bettis, 1986) which influenced the attitudes and beliefs of others in the organisation through communication and networking (Lyles and Schwenk, 1992): top managers’ beliefs would have achieved a social dimension as they selectively transmitted information and opinions to others in the organisation as part of a process of translating events, and developing shared understanding and conceptual schemes among members of upper management (Daft and Weick, 1984). Empirical support for this argument is provided by cognition studies which demonstrate how differences in executives’ mental models predict whether or not the firm retaliates to competitive moves; specifically, if competitive action is not labelled as strategically important, retaliation will be slow (Marcel et al., 2011).

The evidence strongly indicates that Gaskell’s managers were unaware of and misinterpreted major trends in the retail environment. The decision to sell non-core businesses was motivated by a lack of strategic clarity which can be explained by inaccuracies in top management’s mental model and cognitive biases. Group level cognitive processes prevented any serious challenge to the reigning mental model. Thus proposition 6b receives support.

6.4.2.5 *Implementation factors*

Gaskell’s management recognised the need for urgency in implementing the decision to sell non-core businesses: “Given the Group’s cash constraints, the extent to which the refocusing on these divisions can be progressed will depend upon the speed with which the loss making activities can be exited” (Gaskell, 2001, p. 2). However, this did not translate into quick action. In particular, the closure of Tomkinsons took over a year.

There is therefore strong indication of a *lack of urgency* in dealing with the group's core problem company.

The management team began to disintegrate as the company struggled through another year of turmoil. Nigel Roberts, the recently appointed managing director of the Carpet Division resigned in July 2002 and other managers started to leave, some of their own volition, some not. This finding is a confirmation of Hambrick and D'Aveni's (1992) conclusions that top management teams unravel during corporate decline as the firm's resources are depleted to the point where it cannot afford to maintain its management team and the best managers leave voluntarily. Firms in decline are therefore susceptible to two pathologies: compositional flaws in the top management team and judgemental errors caused by great stress. This is part of the "compelling momentum" of a downward spiral (1992, p. 1464).

I guess, what happened, however during this period inevitably we did lose one or two members of the management team. Partly because we were deliberately needing to reduce cost and therefore we said cheerio to one or two people. But I think it's probably also true to say that we lost one or two good people who decided it's time to get out. So I think that perhaps didn't help in some ways. Constantly, I suppose, the team was diminishing... (interview with Richard Hopkin).

Chief executive Gerry Wheeler and Finance Director Richard Hopkin refined their tasks as control of the process was consolidated in the two-man team at the top.

In terms of the rest of the strategic stuff, obviously I was involved in all the disposal processes, very closely and necessary, Gerry and other members of the Board would get involved. But I supposed I was spearheading, pretty well, all the negotiations in terms of working with advisors, solicitors and ... on the various disposal programmes. At that stage, obviously the integration stuff had largely finished. It was more a matter of what more can we do to get costs out of the business. It was Gerry driving more of that stuff with the individual MDs of the businesses at that stage. So I suppose there was a split in that I was dealing with the cash generation of the disposal strategy, and he was tending to drive the remaining cost reductions.

The inefficacy of the decision to sell non-core businesses contributed to the continuing decline of the business and a spiral of decay in the management team. *Participation*, therefore declined as a result of the decision to sell non-core businesses.

In summary, the decision to sell the non-core businesses was only partially implemented as the market for UK carpet manufacturing capacity in the retail sector was virtually non-existent. The decision was self-financing in terms of cash, but did not improve

strategic fit. It was a non-decision in cybernetic terms: it did not happen. The motivation behind the decision was a deficient metasystem, caused by the lack of System 4 which caused System 5 to collapse into System 3, and the mental model of the top managers such that the organisation structurally, and managers cognitively, were unable to see or process events and trends in the retail sector or exercise judgement. For this reason the company was unable to remedy its retail woes. The management team began to disintegrate. The execution of the decision spread over a year, indicating a lack of sense of urgency, during which slack-time was almost entirely exhausted. The power of the bank increased to the point where it dominated decision making in the process. The outcomes of this decision in terms of fit, cybernetics, slack-time and financial stakeholder power led directly and, according to Gaskell's management, inevitably, to the next decision which was to sell the Tile Division.

[The chairman] paid tribute to Gaskell's staff for their efforts during a torrid 2002. "The pressure that all employees in the group have been under over the last 12 months has been considerable," he said. "The group has been in breach of its banking covenants and many of our normal, day-to-day activities have been curtailed due to the funding problems of the group. It is a testimony to the innovation, determination and sheer hard work of all our employees that the group has survived at all" (Feddy, 2003).

6.4.3 Sell the Tile Division

Unable to sell its main non-core business, in early 2003 Gaskell's management saw no alternative but to turn the strategy upside down and sell the core. The attractive tile business, with operating profits of £2.7m on a turnover of £22.1m, had a number of suitors. It proved much easier to sell and was disposed of within the month of January 2003. Then Gaskell simply closed down the Tomkinsons factory.

6.4.3.1 Cash generation

With the sale of the Tile Division at a net cash value of £16.6m, Gaskell was able to clear its debts and build up its depleted working capital for the remaining two businesses, Gaskell Carpets and Gaskell Textiles (*Newsquest Media Group Newspapers*, 2003a). Proposition 1b is disconfirmed for this decision.

6.4.3.2 *Strategic fit*

Sometime after the decision to sell the Tile Division, no longer overwhelmed by complexity, the top management incorporated for the first time the notion of low priced Continental products into its thinking: Gaskell decided it would source key products, including certain Axminster ranges, from low cost manufacturers in Continental Europe. Then, in early 2004, the group announced it would relocate manufacturing of narrow width Axminster products into Poland. These moves would allow Gaskell not only to compete effectively on price, but also to become more flexible: to eliminate overhead costs and invest in working capital rather than fixed capital, a much better organisational fit with an oscillating retail market. However, the initiative came too late in the process to alter materially the course of the turnaround. In fact, asked if he believed Gaskell was in a better competitive position after the sale of the Tile Division, in its reduced state with no debt, the former finance director had this to say:

I have to say, I didn't particularly see any evidence of that. I think clearly partly - I was in the market - it was still very difficult and therefore it was by nature, everybody was scrambling, reducing volume. Yes, our cost base was lower, so you might argue that we could, at least in theory, reduce pricing. In reality, I suspect the market was moving away from us even at that point faster than we could manage that process really. So I can't honestly say to you that I felt we were any more competitive in this smaller situation (interview with Richard Hopkin).

The Tile Division was the only division of the group with good strategic fit. With the sale of this division, the fit of the group was considerably diminished. In terms of fit, the decision to sell the Tile Division was deeply flawed, thus proposition 2b is upheld.

6.4.3.1 *Slack-time*

The principal effect of the decision to sell the Tile Division in January 2003 was to extend slack-time. Gaskell paid off £7.3m in loans and leases but, by the end of the year, operating losses of £6.4m combined with an increase in working capital of £1.7m to reduce net cash flow to just £5m. The interim (six months) results for 2004 show a net cash outflow of £2.7m, due to operating losses, and cash costs of restructuring of £1.1m; net debt mounted by £2.3m. By early 2005 slack-time had once again run out due to operating losses and mounting debt. Although it was not used to good effect, the

sale of the Tile Division bought two years of slack-time. Proposition 3b is therefore rejected for this decision.

6.4.3.2 *Financial stakeholders*

Barclays extended banking facilities till 7 March 2003 in order to allow the sale of the Tile Division to go through. The bank had not indicated that it would continue to provide facilities beyond that date. Gaskell's management made the decision "under pressure to reduce and eliminate bank debt" and believed that the company would have been liquidated if the deal had not gone ahead (*Newsquest Media Group Newspapers*, 2003a). This decision was therefore taken because powerful financial stakeholders had taken over the turnaround process. It was highly detrimental to the organisation, but Barclays achieved their objectives. Barclays found themselves back in the driving seat just over a year later and in early 2005 slack-time ran out again. Overdraft facilities were left in place, but were payable on demand. This time the only remaining solution was to liquidate the company. For Barclays it was a case of all's well that ends well.

Putting something into Administration is not a very pleasant thought and obviously creditors suffered through the process, but I can honestly say we did all that we could realistically to minimise the impact of that and certainly the view of the bank and the advisors was very positive at the end of it which ... and Barclays got all their money back, so it would be (interview with Richard Hopkin).

The decision to sell the Tile Division was forced by Barclays Bank and ultimately delivered Gaskell straight back into Barclay's hands, but in a fatally weakened position. Proposition 4b is therefore upheld.

6.4.3.3 *Cybernetic organisation*

The cybernetic contradiction of this decision was that the only way to prolong the survival of the organisation as a whole was to sacrifice the only part of the organisation that was viable. Inevitably the contradiction was resolved by the collapse of the whole system. Beer (1981) claims that the dominant emotion in any crisis is simply a

compulsion to get out of it, by any means, and calls it the ‘heyday of arational¹³ management’ (1981, p. 234). Paradoxically, he argues, it is a characteristic of crisis mode that attempts to escape it usually involve re-entry rather than escape. This is due to a positive feedback mechanism: the craving to escape from crisis becomes more powerful as remedies increasingly fail. Gaskell was finally caught up in this positive, and cybernetically deadly, loop. Top management had been so overwhelmed by the complexity of the organisation that, once complexity was reduced by taking out the Tile Division and the business was finally debt-free, it had no strategy:

Without the distraction of severe cash constraints, your Board now has some breathing space but is even more determined to resolve how shareholder value can be satisfactorily restored in a reasonable timescale...

As to the future strategy of the Group, there now needs to be a period of stability to enable your Board to reassess the options available to it (*Regulatory News Service*, 2003b).

Only by September 2003 had the board “started to make progress in developing the future strategy of the group” (*Regulatory News Service*, 2003c). However, confirmation of the continued collapse of System 5 into System 3, even with much reduced organisational complexity, is provided explicitly by Gaskell’s chairman in his interim statement for 2003: “Gerry Wheeler, in addition to his duties as Group Chief Executive, has become increasingly involved in the running of Gaskell Textiles on a day to day basis” (*Regulatory News Service*, 2003c). Without the cash and profit generating machine that was the Tile Division, and no improvement to the metasytem for the remaining organisation, the cybernetic breakdown was complete and Gaskell’s demise inexorable. Thus proposition 5b is well supported.

6.4.3.4 *Mental model*

Top managers’ dedication to the retrenchment strategy to the point of disposing of the business’ core operation strongly indicates another cognitive bias, *escalating commitment*. Staw (1981) theorises that cognitive dissonance and self-justification (both from the decision to acquire Tomkinsons) combine with the need to demonstrate competence to external agencies. Paradoxically, the norms for rationality in business

¹³ Not based on or governed by logical reason: www.oxforddictionaries.com

communities are so powerful that they induce decision makers to maintain a semblance of coherence by continuing with previous decisions, even in the face of substantial contradictory evidence. Staw identifies resource allocation and investment decisions that can be measured by entry and exit values as prime candidates for escalating commitment. The Tomkinsons acquisition was the biggest investment decision in Gaskell's history and could be very precisely measured in terms of entry value (the acquisition price of £12.2m) and exit value (sale price to a new buyer). This is therefore a plausible explanation why Gaskell's management waited two years to close down the Tomkinsons factory (finally realising a net exit value of around zero), despite insurmountable difficulties. In 2002, Gaskell's management believed that the cash closure costs for Tomkinsons were unaffordable, but this was not so. In the event, *total* redundancy and rationalisation costs for 2003 were £3.45m; most of this was covered by the sale of the Tomkinsons site for £3.1m. If, "The overriding single problem for the Group throughout 2002 was that of Tomkinsons Carpets Limited" (Gaskell, 2002, p. 6), much of the £2.1m operating losses (before exceptional items) can be ascribed to Tomkinsons and would have been eliminated with closure early in 2002. Moreover, the group produced a net cash *inflow* of £1m in 2002: it could have afforded it. The cognitive dissonance caused by the Tomkinsons decision led to an escalating commitment first to try to rescue the acquired company, then to extract some value from a sale. This in turn led to an escalating commitment to a single preferred alternative of retrenchment, to the exclusion of other possibilities, culminating in the disposal of the Tile Division.

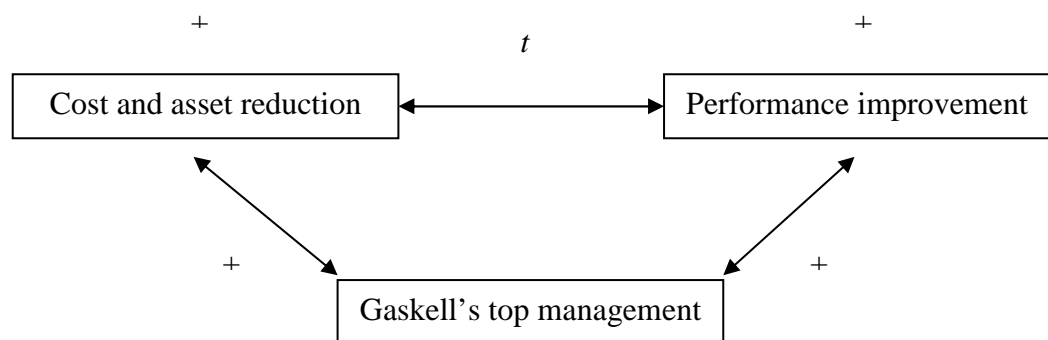
It is possible that another aspect of cognitive dissonance was also operating on Gaskell's leaders. This cognitive bias is dubbed by Rosenberg and Abelson (1960) as their principle of *consistency*: Gaskell's top management assigned positive values to both retrenchment and performance improvement and both of these goals were positively related to the managers themselves. In Figure 15, if t is ≥ 0 , the triangular relationship is stable, i.e. if there is a positive relationship between retrenchment and performance or there is no relationship between the two (they are independent), then there is no trade-off which is psychologically comfortable for decision makers. This seems to be an accurate depiction of Gaskell's top managers' perception of the relationship between retrenchment and performance and was possibly a realistic assessment of the situation initially. At some point however, quite early on in the

process, t became negative, i.e. there *was* a trade-off between retrenchment and performance: retrenchment worsened performance.

So there may have been times where you took decisions that actually were around cash generation even though they might not be necessarily the best in terms of the longer term benefit to the business or indeed the P&L benefit to the business because of it, as to disposals, you might have to take a hit for. But it was a way of generating another half a million or a million cash or whatever (interview with Richard Hopkin).

When $t < 0$, the triangular structure becomes unstable and decision makers are motivated to avoid the psychological discomfort of trading off one valued proposition for another. The prediction of Rosenberg and Abelson's principle of consistency in such circumstances is straightforward: decision makers will move to eliminate the inconsistency by denying the relationship between the two decision issues ($t = 0$) or to see them as reinforcing one another ($t > 0$). Thus when t changed sign in reality, for Gaskell's managers the answer was, firstly, to deny the trade-off, i.e. that performance did not matter in the short term; and secondly, to convince themselves that cost and asset reductions would lead to improved performance. Thus, after the sale of the Tile Division:

Your Board believes that with the activities that remain in the Group, there are opportunities to develop additional profit streams without significant capital expenditure. With a much stronger balance sheet and no significant debt, the Group has a much more secure platform from which to move forward (Regulatory News Service, 2003b).



Adapted from Rosenberg and Abelson (1960)

Figure 15. Gaskell management's cognitive representation of the relationship between retrenchment and performance

Van de Ven and Sun (2011) argue that while much attention is focused on correcting breakdowns in implementation, in some situations change agents could more usefully reflect on and revise their mental models to fit the change journey. Of pertinence to the case of Gaskell is the suggestion that teleological change processes, such as that

undertaken by Gaskell, can fail due to biases in judgement, errors in critical thinking and decision making, inability to deal with complexity and escalating commitments to a failing course of action. Van de Ven and Sun suggest that after reasonable attempts have been made to implement a teleological process, a strategy for dealing with breakdowns could be to shift to a dialectic process. Dialectic theories explain change in terms of the relative balance of power of opposing entities. Change is affected through conflict and conflict resolution is strongly conditioned by power through mechanisms which involve accepted or enforceable rights, arbitration or negotiation. There is no sign that, at any stage, Gaskell's top managers considered shifting from a self-absorbed, and ultimately self-destructive, teleological process of downsizing through asset disposal to a dialectic process with Barclays Bank. Clearly Barclays was the dominant power holder once Gaskell had breached the terms of the loan covenant, with legitimate power based on legal rights, yet there is no evidence that Gaskell attempted to renegotiate its financial position (for an interesting example of how this can be achieved see Brenneman (1998, p. 7)), for example by freezing capital repayments for a year or two. If this is so, it is a further example of *single preferred alternative bias*.

Cognitive dissonance explains a number of biases consistent with Gaskell's management's actions, such as escalating commitment, consistency and lack of consideration of alternative financial strategies. If this is so, the decision to sell the Tile Division was the product of an impaired mental model and proposition 6b is supported.

6.4.3.5 *Implementation factors*

There is no evidence of the adoption, or lack of adoption, of important implementation factors in the implementation of the decision to sell the tile Division.

6.5 **Summary of findings**

This section has analysed three strategic decisions according to the conceptual framework developed in chapter three and has sought to determine if these decisions support six propositions which derive from the framework. Based on available

evidence, the three decisions which led to an unsuccessful turnaround can largely be explained in terms of the combined factors. This is summarised in Table 55. In particular, results for decisions to restructure and downsize, and sell non-core operations are all in the direction predicted. With regard to the decision to sell the Tile Division, results for propositions 1b and 3b are in the opposite direction to that predicted. However, the increase in cash and slack-time brought only a temporary reprieve until the growing lack of strategic fit and worsening cybernetics of the organisation reached their inevitable conclusion.

Enabler, driver or constrainer	Explanatory factors	Strategic decisions		
		Restructure and downsize	Sell non-core operations	Sell the Tile Division
Enabler	Proposition 1b - Cash position	C	C	D
Drivers	Proposition 2b - Strategic fit	C	C	C
	Proposition 5b - Cybernetic principles	C	C	C
	Proposition 6b - Mental model	C	C	C
Constrainers	Proposition 3b - Slack-time	C	C	D
	Proposition 4b - Financial stakeholder power	C	C	C

Key: C = CONFIRMED; D = DISCONFIRMED; NE = NO EVIDENCE (neither confirmed nor disconfirmed)

Table 55. Strategic decisions in the Gaskell turnaround attempt matched against propositions

6.6 Conclusions

This chapter has presented a chronology of the decline and collapse of a mid-sized UK manufacturing company operating in the household goods market. The industry in which it operated was essentially flat throughout the period analysed, but was marked by substantial shifts in its composition, with significantly increased import penetration and the growing presence of a competitive substitute to the detriment of UK manufacturers in the retail and contract leisure sectors. Retail sales oscillated strongly but grew through most of the period under examination. Retail structure was essentially stable. In these circumstances the company's leadership made three strategic decisions in the attempted turnaround of Gaskell PLC which were taken in sequence and not as part of a coherent turnaround strategy. Thus, intra-strategy fit was weak to non-existent. Each decision was a consequence, although not an unavoidable consequence, of the previous one. Of the three decisions, only one, the decision to sell the Tile Division, generated net cash. None led to an increase in strategic fit or improved the cybernetic

structure of the organisation. The cybernetic breakdown of the metasystem meant that a turnaround strategy which moved towards better fit with obvious retail trends, formulated through the S3/S4 interface with S5 oversight, was impossible since, in the absence of a System 4, S5 collapsed into, and remained embroiled in, S3. The decisions are readily explainable in terms of cognitive dissonance and resulting cognitive biases; these biases impaired strategic clarity and excluded consideration of alternative strategies until too late in the process. None of the key success factors likely to be found in the implementation of successful turnaround was evident. The management team was increasingly excluded from strategic decision making and degraded over time. In particular, a sense of urgency was noticeably absent. In all decisions the two constraints of slack-time and financial stakeholder power were operating, weakly at first and then more strongly until they eventually removed management autonomy and dictated the outcome. To those people involved in the process, the decline seemed steep and narrow; they felt that they had no alternative but to fall down the chute:

But I think they felt that we'd done all that we could, reasonably could, and we were just working against ... and they said it to me since, the guy at Barclays ... just don't think we could have done anything differently to have stopped it... That's their view, but nevertheless it was all pretty disappointing (interview with Richard Hopkin).

This phenomenon was described by Austrian public lawyer Georg Jellinek (Jellinek, 1892, pp 8-17, 21-8) as 'the normative power of the factual': a human propensity to ascribe normative values to established realities which propels human beings to consider what actually is as normal and, by extension, necessary. Further evidence of this effect can be gleaned from a post-liquidation interview in which the chief executive claimed that Gaskell had an excellent reputation and clients, and that its downfall was not due to quality of products or market support, but to its complexity, overhead costs and financial model (*Newsquest Media Group Newspapers*, 2005). However, there was no inevitability to this conclusion. While its cost structure and financial model were contributory factors, it was management's inability to deal with the complexity of the process and its blindness to strategic fit that eventually led to the outcome. This could have been managed through variety engineering to create a cybernetically viable organisation, but its top managers lacked an accurate mental model.

Chapter 7. Discussion

A scientist's aim in a discussion with his colleagues is not to persuade, but to clarify. Leo Szilard (1898 – 1964)

This chapter summarises the turnaround model and briefly compares and contrasts the experiences of Airsprung and Gaskell in terms of its six propositions. It then presents a framework of thought and some advice for turnaround managers.

The unit of analysis of this thesis, strategic decisions, has allowed inquiry to expand from strategy, through implementation to the environmental forces operating on, and the environmental consequences of, those decisions; it has also permitted examination down through the organisation as a social context and performative entity to the individual manager and the mental model driving decisions. In looking at strategic decisions, however, it becomes clear that not all of the elements of the model must apply to all decisions for it to be an effective tool for understanding and prediction as illustrated in Table 56.

Propositions	Airsprung Furniture PLC				Gaskell PLC		
	Sell and close ops	Outsource	Improve performance in main factory	Shift in retail focus	Restructure and down-size	Sell non-core ops	Sell the Tile Division
Proposition 1a - Cash position	C	C	NE	NE	C	C	D
Proposition 2a - Strategic fit	C	C	C	C	C	C	C
Proposition 3a - Slack-time	C	C	NE	NE	C	C	D
Proposition 4a - Financial stakeholder power	C	NE	NE	NE	C	C	C
Proposition 5a - Cybernetic principles	C	C	C	C	C	C	C
Proposition 6a - Mental model	C	C	C	C	C	C	C

Key: C = CONFIRMED; D = DISCONFIRMED; NE = NO EVIDENCE (neither confirmed nor disconfirmed)

Table 56. Strategic decisions in the Airsprung and Gaskell cases matched against propositions

7.1.1 Cash position

Even a single strategic decision which produces sufficient cash for the organisation to survive and finance its restructuring is adequate. This was effectively the case for

Airsprung with its decision to fix, sell or close a number of problematic operations. Based on the description of management activities over time in the turnaround process (featured in Figure 2 on page 79) the model predicts that cash generation will be undertaken in the early stages of the process. This was certainly the case for Airsprung whose cash generating cost reductions and asset disposals began almost immediately and took place entirely in the first half of the turnaround. The only decision which produced surplus cash for Gaskell, the sale of the Tile Division, was taken two and a half years into a four and a half year process; too late. By that time the cash generated was mostly used to pay off debt and restore working capital; it was insufficient to fund ongoing losses and moves towards strategic fit.

7.1.2 Strategic fit

The issue of strategic fit featured in all decisions. Each of Airsprung's decisions moved the organisation towards improved structural fit internally, with its environment or fostered the fit between strategy and structure; the ensemble of decisions improved intra-strategy fit. Airsprung identified early on that its future would be in a new, growing retail sector and, by the end of the process, had successfully geared its strategy and structure to it. Despite losing almost a third of its turnover, it became profitable, cash positive and viable. Conversely, none of Gaskell's decisions improved fit and the sale of the Tile Division destroyed it definitively. Gaskell's decisions were taken seriatim as a reaction to the situation caused, or not resolved, by the previous decision. Thus, strategic fit is a necessary feature of the turnaround process and is the driving force behind performance outcome.

7.1.3 Slack-time

The growing influence of slack-time is observable in Gaskell's progress. As slack-time began to run short, Gaskell's management felt compelled to sell the Tile Division in order to extend it. As predicted, however, extending slack-time is ultimately pointless unless it is used to improve strategic fit. This did not happen and slack-time was simply exhausted in a downward spiral of increasing losses and growing debt. By contrast,

Airsprung moved ably to extend slack-time with major asset disposals early on in the procedure. This loosened the slack-time constraint which did not operate on other decisions. At one point, cash almost ran out for Airsprung, which would have caused the slack-time constraint to engage, requiring further cost cuts and asset sales or forcing recourse to external finance providers, thereby increasing their power (if, indeed, such finance were available). However, shortly afterwards, cash from operations turned positive and relaxed the slack-time constraint definitively. Thus, even a single decision which removes the slack-time constraint by extending it beyond the time period necessary for the turnaround process (i.e. beyond the point when the firm is reliably generating cash from operations) is sufficient. Other decisions then contribute to the process by moving the organisation towards strategic fit; improved strategic fit draws the point at which the firm is reliably generating cash from operations nearer.

7.1.4 Financial stakeholder power

Airsprung was at an advantage compared to Gaskell in this respect as it had no external debt and therefore one less potentially powerful stakeholder of concern. Airsprung's shareholders shaped, but ultimately did not constrain, its successful turnaround. The company's decision to sell off the profitable Sprung Slumber and a number of properties provided cash for dividends which satiated shareholder interests sufficiently for the managers to carry the process to a successful conclusion. In the end, the managers themselves became shareholders and, together with a stable, long term financial investor, eliminated any potential for conflict between management objectives and those of financial stakeholders. Gaskell's process, on the other hand, was subject to influence by Barclays Bank throughout. Initially, this was limited to forceful encouragement to cut costs and create cash from minor asset sales; Gaskell was unhindered with regard to other initiatives. This was the company's best opportunity to shift the organisation in the direction of strategic fit. It did not take it. By the end of the first year of the process, the bank's power vis-à-vis Gaskell increased considerably once the company was in violation of its loan covenants. Deteriorating performance, caused by diminishing fit, activated a spiral of increasing bank power and ballooning asset disposals. The fact that the bank complimented Gaskell on its performance and viewed

the outcome of the process positively is a grim warning to turnaround managers of the effects of ceding too much power to financial stakeholders.

7.1.5 Cybernetic principles

Restructuring according to cybernetic principles was a feature in all decisions. Once again, in the direction predicted, all of Airsprung's decisions were consistent with cybernetic principles either in terms of eliminating non-viable System 1 components, creating the necessary elements of the metasytem of the VSM (in particular System 4) or in managing complexity (mostly by reducing the complexity of the organisation vis-à-vis management). Gaskell, on the other hand, attempted the futile task of maintaining a largely unviable organisation and downsizing without due consideration for complexity. No decision was consistent with cybernetic principles and the sale of the Tile Division flaunted cybernetic tenets of viability. In particular, no efforts were made to construct a proper metasytem and, in the absence of a System 4, System 5 collapsed into System 3. This prevented the organisation from responding with awareness to its environment; instead, it was only capable of knee-jerk reactions to external stimuli. Through much of the period, managers at several levels were simply overwhelmed by the complexity of the task. By the time its top managers had reduced the complexity of the organisation enough that management could match it (and for the first time develop a strategy which took account of environmental trends), the complexity of the environment hopelessly outmatched that of the organisation which simply floundered until its slack-time ran out.

There is further cybernetic elucidation of Gaskell's fate. As Beer (2002) famously said, the purpose of a system is what it does. Prior to the acquisition of Tomkinsons, Gaskell's management's desired purpose and the company's actual purpose were closely aligned and could reasonably be expressed as: *to provide UK corporate customers with tailored textile floor covering solutions by offering quality, custom designed tiles and Axminster carpets, and high service levels through tightly integrated operations, and thereby deliver a satisfactory financial return to shareholders*. Its identity was therefore a UK textile flooring contract house. As expectations of what constituted a reasonable return grew among shareholders, Gaskell changed identity; it

became a UK textile flooring contract house *and retail supplier*. This change in identity entailed an immediate revision of the organisation's purpose; however, it is not clear that its management was able to devise one as it was overwhelmed by a massive increase in variety. Order, at least in terms of purpose, was restored when Barclays' Business Support Team stepped in and Gaskell's managers recognised they were in a turnaround situation. At that stage, the Business Support Team, itself a sub-component of a larger system, Barclays' Manchester branch, gradually subverted Gaskell's actual purpose. This then became *to provide sufficient cash to Barclays Bank by cutting costs and liquidating assets so that it (Barclays) can achieve its performance goals (full repayment of loan capital and interest)*. Although this may not have been their stated purpose, it was nonetheless determinedly and successfully espoused by Gaskell's management. For example the, in cybernetic terms catastrophic, sale of the Tile Division was deemed thus:

It was good and there was certainly a sense of ... to get to that stage of the selling off the Tile Division... at the time we thought was a great achievement. We'd done a good job (interview with Richard Hopkin).

A coherent formulation of desired purpose is not obvious from public statements. As it lost its System 1 components, Gaskell's apparent identity changed complexion from a contract house and retail supplier to favour the retail side when it sold the Tile Division. However, given its new purpose, its actual identity was that of a self-liquidating vessel of Barclays Bank.

7.1.6 Mental model

The final element of the model which is common to all decisions is that of top managers' mental models and this is perhaps unsurprising given that decisions are, by definition, the product of managerial cognition. In fact, the constant theme in all the decisions of Mr Lisanti and his team is the rapidity and efficacy of their decision making, the coherence across decisions, and the aversion to lengthy analysis. This is most evidently the result of an accurate appraisal of the organisation and its environment based on previous experience, together with expert knowledge of the exigencies of the turnaround process. In contrast, Gaskell's original decision of limited

restructuring and mild downsizing responded to management perceptions of order and control but only reshuffled the single largest problem, Tomkinsons, back into the deck. The decision to close Tomkinsons was, eventually, taken and was correct given the organisation's chronic inability to understand its retail environment. The most compelling explanation that this decision was not taken one or two years earlier is cognitive dissonance: the inability of top managers to perceive or admit that the decision to acquire Tomkinsons was a bad decision based on faulty logic and incorrect information.

Thus the explanatory power of the model derives from a firm's progress towards strategic fit with organisational restructuring according to cybernetic principles, implemented using a number of important implementation techniques. When considering strategic decisions, the mental model of top managers is a fundamental explanatory variable. Cash generation is a vital enabler and is the principal means to weaken or remove constraints of slack-time and financial stakeholder power. The virtuous cycle of cash generation to fund organisational restructuring according to cybernetic principles in the direction of strategic fit which leads to improved performance and thereby generates more cash is the dynamo at the core of the process.

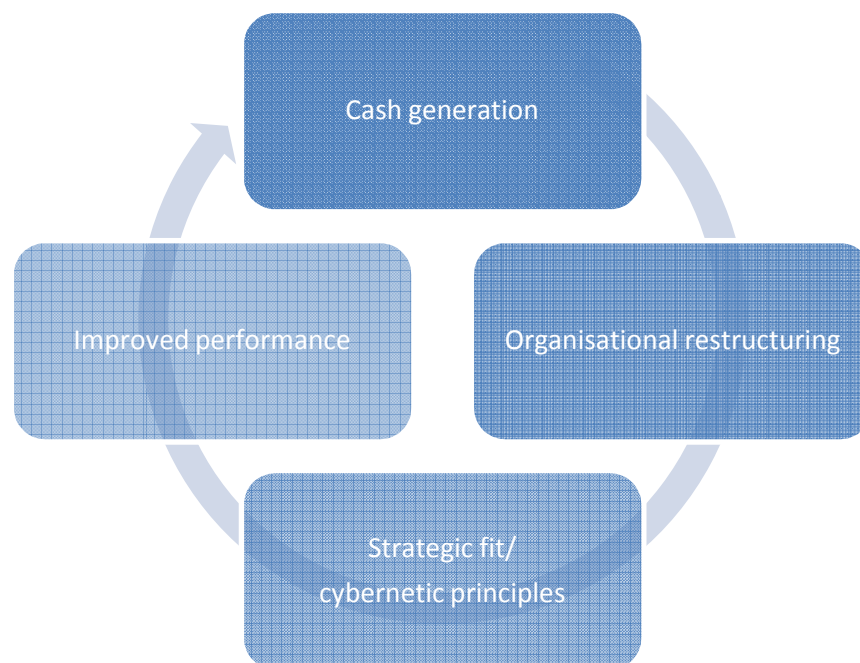


Figure 16. Virtuous cycle at core of turnaround process

7.2 Framework of thought and advice for managers

One of the motivations given for this study in the introduction was to provide a helpful framework of thought and some practical advice for managers who are interested in turnaround or who are immersed in the process of one. It is now time to present this framework and offer some practical recommendations emerging from the research.

7.2.1 Framework of thought

Turnaround management is an entrepreneurial process which takes place in a high stakes context and requires, critically, the protean ability to shift between core tasks of crisis management, change management and performance management. It is subject to two important constraints: slack-time and financial stakeholder power. This can be captured in a three dimensional conceptual space. The start of the turnaround process is 'triggered' by altered perceptions of decision makers who then establish the situation as a crisis which has no immediately obvious solutions and presents a limited amount of time to find and implement them (Hermann, 1963). Let the X-axis represent time (see Figure 17). At the beginning of the time period the company is in what economists describe as a state of disequilibrium and this is appropriate, for the company *must* move towards a point of equilibrium, either a successful turnaround or, the ultimate equilibrium, dissolution. This is the end point in time. The amount of time available for completion of the process is governed by slack, hence the concept of slack-time. Slack-time is materially determined by four factors: the value of liquid resources, the value of assets which can be liquidated, available credit and cash flow. Slack-time is influenced by the other two dimensions of the conceptual space, all three of which are interactive.

The second dimension is that of strategic fit, shown as the Y-axis in Figure 17. As posited by punctuated equilibrium theory and confirmed by empirical turnaround studies, the initiatives undertaken to re-establish internal fit and improve external fit are likely to involve wholesale upheaval of the organisation, rather than incremental moves. Naturally, managers must first understand the organisation's current state of fit (analysis); correctly determine a trajectory to increase the degree of fit (strategy); study the road map (planning); make the trek (implementation); and read the compass at

regular intervals (control). The organisation must attain at least a minimum level of fit within the available time, but, while this is finite, it is not inflexible, as time is a function of slack. For example, cost cuts slow down the consumption of liquid resources and disposal of assets increases cash in-flow, however, cost cuts may cause a reduction quality and asset disposal may reduce operational performance; it is the net result that will affect slack-time. Therefore, the speed and quality of movement towards the new fitness level become determinant factors, as does the vertical distance between the current locus and the target level.

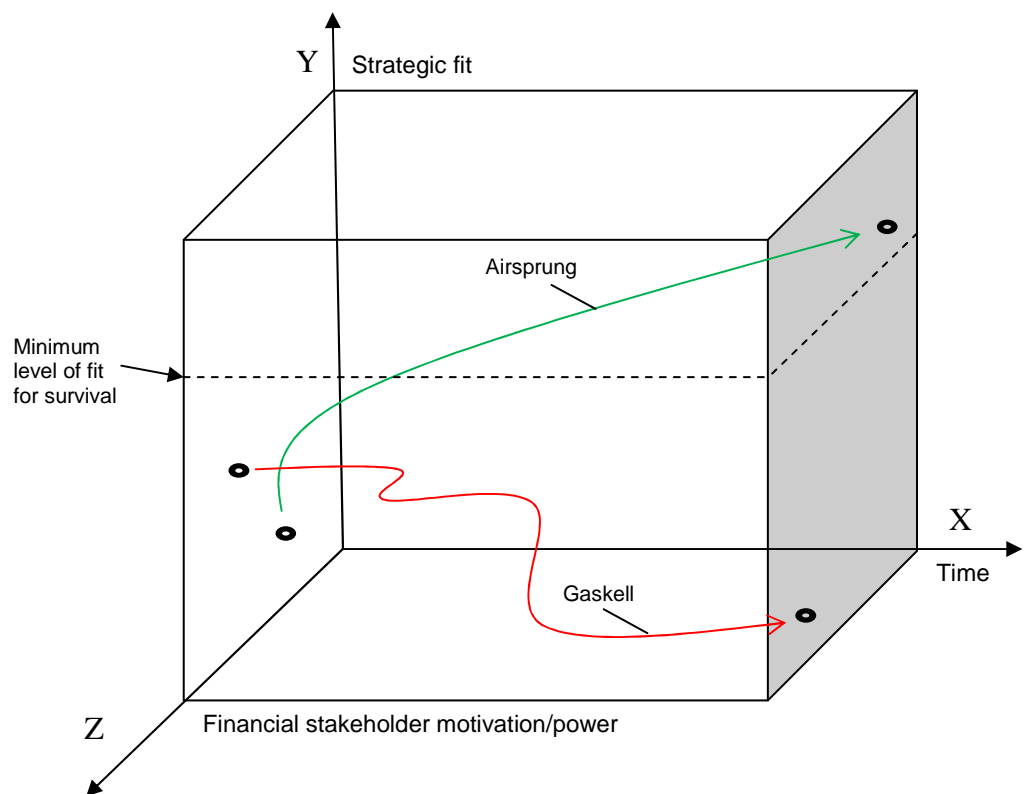


Figure 17. Three dimensional space in which the turnaround process unfolds

On the third axis stand external financial stakeholders; more specifically their power vis-à-vis turnaround managers and their motivation. There will be a minimum level of reward/maximum level of risk that these stakeholders are prepared to accept in order for the turnaround attempt to begin and to continue. The combination of risk and reward decides motivation: higher reward and lower risk will increase motivation and vice-versa. Stakeholder power (relative to managers) will depend on the amount of organisational slack and the financial gearing ratio: higher slack and lower gearing will decrease power and vice-versa. Motivation and power levels will lead to different

outcomes as dichotomised in Table 57. An enterprise with financial stakeholders who have low power and who are highly motivated for a turnaround attempt to proceed will find itself in a position close to the origin of the Z-axis. As financial stakeholder power increases and/or motivation to proceed with the turnaround diminishes, the enterprise will move along the Z-axis.

Power	Motivation to continue with turnaround	
	High	Low
High	Will not intervene	Can and will intervene
Low	Cannot and will not intervene	Cannot intervene

Table 57. Outcomes of motivational and power levels of financial stakeholders

If stakeholders are highly motivated for the turnaround attempt to proceed, it is assumed the management team has sufficient credibility and can carry on unhindered with its plan. If, for whatever reason, powerful stakeholders are no longer motivated by the turnaround attempt they will intervene either to influence its course (this may include replacement of the turnaround team) or, at the limit, will halt the process by presenting legitimate claims to extract cash from the organisation. These claims will either reduce or exhaust available slack-time and thereby curtail or eliminate management autonomy. Over time, stakeholder power/motivation may vary. For example, as the organisation moves towards a better fit stakeholders may reduce their perception of risk or, in view of potentially increased rewards, may increase their desired level of risk; even belief in the *ability* to achieve a better fit might have this effect, for example due to a highly credible new chief executive, or to concerted communication efforts, or even manipulation, on the part of management. This might even lead to the provision of more finance which would increase slack-time and enhance management's options. Within the extremes of total management autonomy (towards to origin of the Z-axis) and all-powerful, unmotivated stakeholders, movement along the Z-axis away from the origin can be envisaged in terms of an increase in the strength of the gravitational field within the conceptual space. Thus, as the organisation's trajectory veers along the Z-axis the stronger gravitational pull will render the management task of driving a vertical trajectory towards greater fit increasingly difficult. Therefore, stakeholder management becomes an important factor. This is a theoretical explanation of the findings in the survey in chapter two that banks are the principal object of the most highly ranked success factor in turnaround implementation (communication).

The trajectories of Airsprung and Gaskell are shown in Figure 17 to illustrate this way of viewing the process. Airsprung began the process with a low level of strategic fit due to, among other things, chronic manufacturing problems, a dysfunctional culture and a hostile, declining customer base. It improved its strategic fit almost immediately after the start of the process with the closure of its Scottish factory and pursued a fairly linear trajectory after that towards fit with a thriving new retail customer base. Along the way managers decreased stakeholder power and increased stakeholder motivation by replacing a powerful, unmotivated shareholder block with themselves. The process ended when the minimum fit level was superseded and only minor adjustments to the organisation were required to maintain that level. By contrast, Gaskell started the process with an arguably higher level of fit, as the contract business, a significant portion of the enterprise, was tightly coupled to its customer base. Initial strategic decisions did not increase fit but did augment the power of Barclays Bank. The final decision to sell the Tile division caused a dramatic fall in the level of strategic fit. At that stage, the company was unable to muster the force for the vertical climb towards the minimum level of fit from its low position on the Y-axis at the far reaches of the Z-axis. Finally, time ran out when an all-powerful financial stakeholder pressed its claim for cash and Gaskell was forced to liquidate itself.

Within this conceptual, three dimensional space there are two forces acting for change, one evolutionary and one teleological (Van de Ven and Poole, 1995). The evolutionary impulsion derives from a radical shift in strategic fit which has rendered the organisation's strategy and structure combination obsolete and creates performance pressures. The teleological propulsion is provided by turnaround managers. This is consistent with Tushman and Romanelli's (1985) model of punctuated equilibrium. According to Van de Ven and Poole (1995), change in teleological theory has no prefigured rule, direction or sequence of stages. Instead, it posits that progress towards an envisioned end state (in this case a requisite level of fit) is an appropriate means of assessment. It is based on the purposiveness of protagonists and allows for constraints on action. This accords well with the process described above.

The role of management in the turnaround process is, therefore, to move the organisation vertically through the three dimensional space along the time axis in order

to reach or surpass the minimum fitness level, within the constraints of external finance providers, before slack-time runs out. Turnaround practitioners need to take into account all three dimensions, but the true challenge is that they can really only act in one dimension. That is to say that they can, for the most part, only operate on the organisational shift towards the fitness level so they must do this in a way which alleviates the limits imposed by slack-time and financial stakeholders in order to maximise the probability of success. Therefore, decisions taken by turnaround managers and translated into actions (implemented) through the organisation are focused on two main objectives: fit and cash. With sufficient cash resources to see the organisation through to the end the crisis management phase, the influence of financial stakeholders and slack-time on decision making will wane. Increases in cash can finance organisational restructuring to improve fit. Since performance is an emergent property of the organisation (Rumelt, 2011, p. 55), only those changes which improve strategic fit will lead to higher performance.

7.2.2 Advice for turnaround managers

There are a number of implications for turnaround managers which result from this study. An appropriate place to start, particularly for the neophyte, might be before the process even begins. Newcomers to turnaround are likely to find the sheer scale of change required, compared to the more common performance management task, unfamiliar or surprising. Managers would be well advised to incorporate in their mental models from very outset that the process they are about to undertake is not one of structured improvement of a flagging enterprise, but will require them to effect wholesale change.

On a practical level, when considering improvements the turnaround manager should be mentally shifting up and down a scale of change. For example, if there is a problem with industrial productivity, should the intervention be at the level of personnel, the machines, the department, the factory, the business unit or the division? Standard performance management might indicate that such a problem could be tackled with a Lean manufacturing programme or some combination of personnel training, better machine maintenance and higher quality inputs. Instead, the turnaround manager thinks

in terms of closing the factory and leasing the building, selling the business or outsourcing supply. It seems that successful turnaround managers choose the scale of intervention that simultaneously solves the problem quickly and reduces complexity in order that they can manage the rest of the organisation more effectively.

This reduction in complexity is important because of a second aspect of turnaround that novice managers are likely to find disconcerting: the highly dysfunctional nature of the organisation in which they find themselves. A dysfunctional organisation is a bewildering place in which to be and often apparently common sense actions have little, no or even contradictory reactions. Piecemeal interventions against individual manifestations of dysfunctionality can, at best, lead to some localised improvement. The problem with this approach is the time and management effort required to hunt down these behaviours seriatim and develop tailored solutions in the hope that this will add up to an overall solution. Unfortunately, discrete interventions are liable to ignore the interactions between connecting parts of the organisation and can quite easily lead to deterioration in overall performance. Dysfunctionality is a leading symptom of unmanaged complexity (unmatched variety) in the organisation: management is overwhelmed by the complexity of the organisation and, in all likelihood, the organisation is under-resourced for its current tasks. Therefore a further, fundamental component of the mental model of the turnaround manager is the notion of complexity management: how to increase the range of control of management over the organisation and how to reduce its complexity.

Once again, standard performance management techniques, such as revised procedures, improved reporting or new incentives, while potentially useful, miss the point. The point is that sweeping changes are required to manage uncontrolled complexity. Cybernetics teaches us that control must be a property of the system itself, not an imposition from a higher level. Thus, the answer lies in opening communication channels between components of the system in order that the requirements of, say, one department become the standards of its supplier department and so on throughout the organisation. The way for turnaround managers to achieve this is to think in terms of a *communication network*. This is created by simplifying the structure, de-layering, taking out middlemen and sundry impediments to the direct exchange of information. The role of upper management (or of the meta-system in cybernetic terms) is then to engage in a

meaningful resource bargain with those parts of the organisation responsible for producing results. Once the bargain has been struck, upper management deals with complexity by relying on a universally recognised feature of turnaround management: a culture of accountability. This culture of accountability can only be created by building a team of capable managers who take responsibility for their area of operation. It seems that this is the reason why building strong management teams is one of the most important tasks of the turnaround manager and that the activity of teambuilding is constant throughout the process.

Beyond questions of scale and complexity, the *direction* of restructuring is guided by the notion of strategic fit. Fit induces the turnaround manager to look beyond immediate causes of decline, for example a failed R&D project, excessive leverage or a poor acquisition, to the deeper source of these problems in the structure and capabilities of the organisation, in its strategy and in its relationship with its environment. The search for the reasons behind defective fit and, more importantly, for ways to establish fit anew is the very essence of the analysis taken early on in the process and is a clear guiding principle for this analysis.

Practical difficulties will arise because, almost by definition, the organisation has lost fit due in part to the fact it has no structure to assess it, much less achieve it. Thus, an immediate task of the turnaround manager is to initiate activities aimed at analysing the internal capabilities of the organisation, its task environment and how these interact with its strategy through some, at least initially, rudimentary structure. In a dysfunctional organisation, a feature of the culture is likely to be that many of the underlying assumptions will be far removed from reality (Krantz, 1985). Practical techniques such as strategic assumption testing and challenging (Mitroff and Emshoff, 1979) might prove useful in unearthing and debunking such assumptions within the organisation.

These assumptions need to be tested against an external reality and a number of sources of data on the environment are readily available at low cost. These include competitors' accounts, industry journals, sector reports, national statistics, competitors themselves, industry associations, banks, industry analysts and beyond, to other, more advanced, industries where analogous trends might provide a blueprint for development. The point

is that much of this is not difficult work, it has just not been done adequately before and simply requires a systematic approach to data gathering and analysis.

An important output of this analysis is an envisioned end state for the company, one in which it has a manageable organisation and has achieved at least a minimum level of strategic fit. This then becomes the goal towards which managers will drive the organisation from its current state. The roadmap for the journey between current and envisioned end state is formally documented in the turnaround plan. Progress towards the end state is measured by the results of decisions taken by managers and implemented by the organisation. Since, as von Moltke famously said, no plan survives first contact with the enemy (von Moltke, 1900), these results provide vital feedback for managers to adjust the course and measure the speed of the turnaround. The most important audience for the turnaround plan are the financial stakeholders of the organisation.

While managers must deal with a variety of stakeholders during a turnaround process, the highly directive nature of the process means that conflict with internal members of the organisation is often resolved through the application of superior hierarchical power. New structures, procedures and standards are imposed on organisational members and pockets of resistance are neutralised or eliminated. This is not the case with external financial stakeholders, whose power may rival or exceed that of managers. Consequently, a core component of any manager's turnaround strategy must be a strategy for managing these powerful stakeholders. The source of financial stakeholder power is, quite simply, cash. Cash is not only an imperative for organisational survival, it is, literally, the currency of power. The balance of power lies with those who, relatively, need cash the least. Clearly, the most straightforward way to management autonomy is by generating sufficient cash to be independent of financial stakeholders, but this may not be possible at all times throughout the process. Turnaround managers are therefore well advised to undertake the task of managing these stakeholders with the same degree of seriousness with which they carry out the whole turnaround enterprise. There are a number of tactics for managing stakeholders (e.g. Bourne, 2012), presentation of which lies beyond the scope of this discussion, however, two factors are considered of paramount importance in this respect by turnaround experts: communication and credibility. Turnaround managers must factor in a systematic

campaign of communication with financial stakeholders and be constantly looking for opportunities to build credibility with these stakeholders.

This completes the discussion of the model as applied to the matched cases of a successful and an unsuccessful turnaround attempt, and its utility for turnaround managers. The next chapter is the final and concluding portion of this thesis.

Chapter 8. Conclusions

The human understanding is unquiet; it cannot stop or rest, and still presses onward, but in vain. Therefore it is that we cannot conceive of any end or limit to the world, but always as of necessity it occurs to us that there is something beyond - Francis Bacon (1561-1626)

This concluding chapter looks at the findings of the case studies based on the conceptual framework in terms of the existing strategy and management literature. It then discusses the contribution of this study to the subject of turnaround, along with limitations of the research. Finally, it suggests some avenues that further research might explore in future.

8.1 Findings in the context of existing literature

8.1.1 The strategy school

The findings of the two case studies offer no specific proposal as to what the ‘right’ strategy for turnaround might be. Airsprung and Gaskell both adopted a retrenchment strategy which involved significant cost reductions and major asset disposals. Each company attempted to increase turnover through sales and marketing efforts including new product development and brand management. The companies also undertook a number of similar, complementary moves, such as asset renewal, capital expenditure reductions and working capital management. Thus, in many ways, the strategies of the two firms were identical, yet led to diametrically opposed outcomes. The evidence therefore refutes the contention, or at least the implicit assumption, prevalent in the literature, which dates back to the very origins of research in the field and has carried on through the intervening decades to the present day, that strategy is the unique, or the most salient determination of success (Barker and Duhaime, 1997). Instead, the evidence points to a pluralistic explanation in which strategy is but one of a number of outcome determinants. Moreover, strategy cannot be decided a priori, but is firm specific and only emerges from assessment of the fit of strategy, organisation and environment.

An objection to this might be that, although the strategies were similar, this proves nothing, because the two companies are so different that it is quite possible that similar strategies lead to different outcomes. This objection would be reasonable from the management school, but is not defensible from the strategy school, which has remained true to its original quest for a generic strategic solution, regardless of firm specificity. Nonetheless, there is some substance to this argument, for the two cases are not a perfect match; after all, beds are not carpets. In addition, Gaskell was a company with both a contract and a retail customer base, whereas Airsprung sold only to retail outlets. Moreover, the retail structure and competitive dynamics of the bed industry were not identical to those of the carpet sector. Yet, the cases have a number of compelling features in common. While the two products have different end uses, they are both destined to the same consumer group, UK households, as demonstrated by their membership of the same industry sector (Household Goods) and sub-sector (Furnishings) on the FTSE stock market. The demand for beds and carpets is therefore conditioned by the same consumer behaviour patterns. Beds and carpets are considered to be essential purchases and the vast majority of UK households possess both products. However, since the market for both products is mature, with almost exactly the same proportion (75-80%) of sales coming from replacement purchases, consumer spending is discretionary as it can be easily deferred. The market for beds and carpets alike is therefore driven by macro-economic trends and demographics, and is positively associated with increases in population, disposable income, house prices, property transactions and falls in interest rates. The case study design accounted for these factors by choosing two cases whose decline and subsequent turnaround efforts took place in the same time period. It is indisputable that the Gaskell group operated in two sectors and Airsprung only in one, however, Gaskell had no problems in the contract business, which was the mainstay of its strength. The difficulties that the two companies faced were exclusively in the retail segment. The principal challenge for both bed and carpet manufacturers selling to UK retailers was competition from low priced imports (the impact of a carpet substitute, wood, accounted for a only small percentage of the overall market and its growth was swamped by that of carpet imports). Both companies were fully exposed to the threat of imports as almost all of their respective sales were to the domestic UK market (Gaskell's exports were around 5-6% of turnover; Airsprung's between 0-3%). Both companies were operating in a largely munificent retail environment: UK retail sales of beds grew strongly through most of the period of

Airsprung's turnaround, with the exception of an inflection in 2003; retail sales of carpets grew strongly in two out of four years of Gaskell's turnaround attempt with a dip in 2002 and flat sales in 2004. Other contingent factors such as firm size and market power were controlled for by the choice of cases: the two firms were a close match in terms of turnover and number of employees, and both were in the top five firms in their respective categories in markets which were dominated by imports with an atomistic structure of domestic manufacturers. In addition to these parallels, both Airsprung and Gaskell had exceptional performance, with all-time record sales and profit results, immediately prior to the decline which took them into a similar state of crisis. Finally, both companies were UK PLCs subject to equal legislation and governance requirements.

The fact that Airsprung and Gaskell pursued both efficiency and entrepreneurial strategies contradicts Hofer's (1980) strong dichotomy between a strategic reaction or an operating response and is in sympathy with Hambrick and Schechter's (1983) suggestion of *gestalts*. Moreover, rather than restrict themselves to any one of the individual *gestalts* identified by the authors (cost and asset cuts, product/market pruning and productivity improvements) the two companies spanned all three and went further, indicating that turnaround actions have a wide ambit. This is consistent with the findings of the strategy school *as a whole*. That is to say, while several authors have found evidence for specific strategic orientations, or a limited number of moves, the combined works of strategy authors have found evidence for practically any imaginable strategy, as illustrated by the selection of articles featured in Table 58 on page 264. This is also the position of the management practitioner literature: strategy can take many forms including cost reductions and asset sales to improve efficiency and generate cash, together with a new product/market orientation.

An essential difference between the two schools is that the strategy school advocates that a generic strategy can be determined a priori; whereas for practitioners, strategy is firm-specific. The turnaround model has provided an explanation *why* strategy cannot be determined a priori and must be firm-specific: strategic fit.

	Product/market					Production/engineering				Administration		Financial			Organisational		
	New prods	Cut prods	New mkts	Inc. price	Mktg.	Prod. qual	Renew assets	R&D	Inc. Producty	Imp. Plans /process control	Imp. control	Cut costs	Reduce assets	Manage wking cap.	Reduce capex	Divestment	Acquistion
Authors	X	X	X	X			X	X		X			X	X	X	X	X
Barker and Duhaime, 1997																	
Bruton <i>et al.</i> , 1994										X							
Chowdhury and Lang, 1996									X					X			
Francis and Desai, 2005									X			X					
Furrer <i>et al.</i> , 2007										X					X		
Hambrock and Schecter, 1983		X		X		X		X	X			X	X	X	X		
Hofer, 1980					X							X	X				
Morrow <i>et al.</i> , 2004												X	X				
Morrow <i>et al.</i> , 2007	X															X	X
O'Neill, 1986a			X		X				X	X							
O'Neill, 1986b	X						X			X				X		X	X
Pearce and Robbins, 1994a		X			X	X											
Robbins and Pearce, 1993												X					
Robbins and Pearce, 1992												X	X				
Schudel <i>et al.</i> , 1976	X		X	X	X		X	X	X	X		X	X		X		
Schreuder <i>et al.</i> , 1991	X	X	X														
Sudarsanam and Lai, 2001					X										X		X
Thain and Goldthorpe, 1989			X						X	X		X	X		X		X
Thiéart, 1988	X		X		X				X			X	X				
Zimmerman, 1989	X	X	X			X			X			X		X			

Strategies in **bold** are those most prevalent in this sample

Table 58. Selected turnaround authors' findings of successful turnaround strategies

The difference in performance outcome between Airsprung and Gaskell was due to the fact that Airsprung's entrepreneurial strategy was strongly oriented towards achieving strategic fit with a dynamic, new, retail environment and had a high degree of intra-strategy fit. Gaskell's entrepreneurial strategy, on the other hand, was based on a previously successful business model that was rendered obsolete once it moved into the retail sector; it took no account of the notion of environmental fit in its new (to it) retail environment and had a low degree of intra-strategy fit.

Despite efforts to increase turnover, Airsprung's turnover fell from £74m in 2002 to £50m in 2008 and by 2013 still only stood at £51m. This was due to large scale divestments: the group reduced its fixed asset base by almost 50% during the course of the turnaround. Gaskell's fixed asset disposals were even more dramatic, with fixed assets reduced from almost £25m to just under £5m (-80%). Thus, retrenchment effects dominated both cases. The cases therefore attest the prevalence of retrenchment as a turnaround strategy (see Table 58 on page 264), but do not confirm its efficacy. Like all medicines, retrenchment is a poison; the difference is in the dose (Kirschner, 2009). Certainly, Gaskell overdosed on retrenchment with fatal consequences, but it was Airsprung's use of the proceeds of retrenchment successfully to reposition its business in a dynamic, new, retail environment that was the ultimate performance driver. This is strong confirmation that *how* a firm retrenches is as important as the decision itself.

The research provides confirmation of the models and empirical work of some strategy scholars (Arogyaswamy et al., 1995; Schmitt and Raisch, 2013), and the experiences of many practitioners, that the two-stage model first proposed by Robbins and Pearce (1992) is not sequential, but rather retrenchment and growth initiatives can and do take place at the same time. In contrast to the serial two-stage model of retrenchment followed by recovery in a strict temporal sequence (Pearce and Robbins, 1994b, 2008; Robbins and Pearce, 1992), both firms in this study were engaged in retrenchment and product/market initiatives *simultaneously*; also retrenchment and product/market initiatives straddled one another. This finding is in line with evidence from the management school which suggests that managers do not distinguish temporally between retrenchment and growth initiatives, but are quite comfortable implementing both at the same time as the occasion warrants and as opportunity allows. This is also the thinking of Arogyaswamy et al. (1995), whose model, which includes strategy,

implementation, management and stakeholders, is the most holistic of the strategy school:

we think activity-sequential models may be an over-abstraction of the process because they imply that managers of turnaround firms wait to address core causes of the firm's decline until decline-stemming strategies have been completed. Rather, we propose that the stages in the turnaround process are *interdependent* rather than *sequential*. Being interdependent suggests that both types of activities can occur simultaneously... (Arogyaswamy et al., 1995, p. 513, original italics)

The findings confirm a most recent interpretation of the two-stage model proposed by Schmitt and Raisch (2013) which considers retrenchment and recovery as a “duality”: activities which are contradictory yet interrelated and which are mutually enabling. However, Schmitt and Raisch's (2013) cross-sectional study design did not allow for detailed examination of the underlying processes and they suggested that:

Future research should thus investigate whether the integration of retrenchment and recovery leads to virtuous cycles... and how they unfold over time. Case study research combining in-depth field data with archival data... could enable researchers to examine the decision-making processes at multiple points during corporate turnarounds (Schmitt and Raisch, 2013, p. 1237).

This study has done exactly that. The findings have confirmed the turnaround model, which proposes a virtuous cycle at the core of the turnaround process: cash, in the case of Airsprung generated by retrenchment, is used to restructure the organisation in the direction of strategic fit; this improves performance which produces more cash (and weakens constraints of slack-time and financial stakeholder power, which removes impediments to progress towards strategic fit). Such reasoning is in line with empirical findings from case studies that retrenchment and entrepreneurial actions are taken together as part of a longer term vision in successful turnarounds (Bregé and Brandes, 1993; Ghosn, 2002; Harker, 1996; Ketelhöhn et al., 1991; Thorbeck, 1991; Whitney, 1987). This signifies that, at any one time, different managers in the organisation can be engaged in retrenchment and recovery actions simultaneously, or in no particular order, their timing driven by urgency and opportunity, *as long as there is sufficient cash in the system*. If not, cash must be injected into the system.

One important potential source of cash is external providers of finance, either debt or equity, however, the model presented here stipulates that turnaround only takes place from a theoretically grounded state of crisis, defined as a recognised threat to firm survival. It is unlikely that banks or shareholders will be willing to risk lending to or

investing further funds in an enterprise which is prone to imminent failure. It is therefore likely, although not a requirement of the model, that firms will retrench using either or both cost and asset retrenchment in order to generate sufficient cash for firm survival, to cover retrenchment costs and to pay for major restructuring. Thus, retrenchment, resulting from severe decline (Barker and Mone, 1994; Robbins and Pearce, 1992; Schmitt and Raisch, 2010, 2013), and overlapping restructuring moves to achieve strategic fit are the most likely combination of turnaround strategies. This is consistent with the aggregate of the sample of studies in Table 58 above and much of the practitioner literature.

8.1.2 The management school

As evidenced in the literature review, the replacement of top managers before undertaking, or as part of, a turnaround process is considered by many authors a necessary step for a successful outcome (Kanter, 2003; Maheshwari, 2000; Sudarsanam and Lai, 2001). In the two cases presented, both companies appointed a new chief executive to lead the turnaround and the two chief executives lasted the entire course. In both cases the incumbent chairman also retired and was replaced, and a number of other top management positions changed occupants during the process (see Appendix 10 and Appendix 11 for more details) confirming Barker et al.'s (2001) findings of the 'sweep out effect' of top managers which takes place in the wake of CEO replacement. This evidence is consistent with the suggestion that if replacing top managers is a necessary condition for success, it is not sufficient.

With regard to the two replacement chief executives, there are few obvious distinguishing demographic characteristics. Airsprung's top executive, born in 1957, held his first directorship at the age of 29. He had had management roles with major US and UK multinational companies (Mars, Rio Tinto Zinc) before joining Airsprung at the age of 45. Gaskell's chief executive, born in 1954, held his first director's appointment at age 41 and had held management positions with major US and UK multinationals (GEC, Union Carbide, STC) before joining Gaskell. He was appointed to the position of chief executive at the age of 46. Both managers came from throughput backgrounds: Lisanti had been a graduate production engineer; Wheeler had a background in sales.

An important difference seems to be the professional experience acquired immediately prior to the turnaround processes of their respective companies. Tony Lisanti joined Airsprung directly as chief executive from Spear & Jackson, whereas Gerry Wheeler was promoted to the position from within Gaskell, having had some seven years' tenure in the company. This is consistent with Abebe's (2010) findings that long organisational tenure may have an adverse effect of on turnaround performance in turbulent environments, although it is questionable whether seven years constitutes 'long' tenure.

There is scant evidence of the different causal attributions of the top management teams, at least in the terms outlined in the literature which posits that top managers who attribute decline to internal, permanent and controllable (as opposed to external, temporary and uncontrollable) causes are more likely to effect strategic change (Barker and Barr, 2002; Barker and Patterson, 1996). This was certainly the case for Lisanti, whose comments on previous management and the organisational situation he inherited are scathing. But it is also true for Gaskell's top executives who were well aware that the initial cause of decline was the botched post-acquisition fusion, although later on Gaskell's top managers did mistakenly categorise the competitive threat from wood as temporary. A more convincing explanation is Ford and Baucus' (1987) suggestion that decision makers who are not committed to past decisions and current organisational arrangements have different experiences and are more likely to create new interpretations. This accords with Tourtellot (2004), who advocates that the best turnaround solutions come from managers with cross-industry experience. Outsiders bring fresh perspectives; unburdened by emotional commitments to past decisions they force people to question processes built up over time. Insiders do not ask the right questions because they think they already know the answers. Tourtellot's arguments are borne out by comments made in the interviews:

Interviewer: Did they [PricewaterhouseCoopers, Barclays Bank] give you any advice that you hadn't thought of, or something that opened your eyes?

Richard Hopkin (Gaskell): I'm not sure they would probably have given us a huge amount of stuff. You'd like to think that we thought of... We were close to the business and we knew most of the things that could be done.

Interviewer: Did you talk to, kind of industry experts or industry analysts?

Tony Lisanti (Airsprung): Well I ... There's this big trade body. There's a trade body for this industry. My predecessors had pulled the company out of that trade body some years before. Pulling the group out of the only trade body, the national trade body was a problem, cause the people didn't come into contact with the competition... So I put us straight back in. So I got to learn about the industry, the sector, a great deal of it from talking to my counterparts from all these other businesses at the trade fair. .

I spent a lot of time in the businesses, walking the floor with them. I would spend a lot of time, as much as I could, talking to customers, trying to understand what they were all about, what they thought of the company.

In this respect, Lisanti's scapegoating seems to have had a therapeutic effect which freed new managers from past commitments and allowed them to rethink completely Airsprung's strategy and structure. In contrast Gaskell's managers not only maintained an iron commitment to the acquisition decision that had caused the firm's rapid demise, they intended to compound the decision in the future. The lesson learnt was that the decision was correct, it just needed better implementation.

An already overstretched management team was drawn further into the ensuing crisis, distracting them from the day to day running of the rest of the business, compounding the problems... [Mr Wheeler] says, 'But it's fair to say as we will get back to acquisitions in the fullness of time, we will not attempt to acquire with the same team that we have in place to run the day to day business, as people get stretched beyond the point that is wise' (*The Birmingham Post*, 2001b).

Both Airsprung's and Gaskell's management teams relied on cognitively simplified processes to come to an understanding of their situations, yet the diversity in experience immediately prior to the two turnaround attempts seems to have had a marked impact on the mental models of the leaders of the two companies. This is confirmation of Barr et al.'s (1992) findings that mental models, rather than demographic characteristics, are better predictors of whether changes in top management teams will be associated with strategic change. Tony Lisanti's most recent previous position had been in a company which had gone through a successful turnaround in which he played a minor role but learned much from observation. In contrast, Gaskell's top management team had no experience of turnarounds, either direct or vicarious. Airsprung's management had a clear and accurate understanding of the retail problem from the very beginning, derived from experience of the same situation in a different industry. Contrarily, Gaskell's executive team rapidly coalesced around a common and incomplete understanding of the problem, shared with its fiscal advisors, PwC and Barclays Bank, as a bungled integration programme. This understanding came packaged with a ready-made solution: retrenchment. From that point on, the problem/solution package was not critically examined and was never unpicked. In both cases the most persuasive explanation of differences in performance due to top management characteristics can be traced back to the accuracy of managers' mental models which were, respectively, formed by appropriate metaphor or deformed by cognitive dissonance.

A final point about the two chief executives concerns motivation and expectations. This has not been considered in the literature, but there is arguably a difference in motivation, or at least in expectations, between incumbent managers and incoming managers. New managers *choose* to come into a turnaround situation and therefore, not only do they have greater cognisance of the challenge they getting themselves into, they want to get into it. Incumbent managers find themselves in the middle of circumstances which are profoundly unfamiliar to them and in probably the last place they want to be. Certainly, in Lisanti's case he made a coolly informed choice and had clear ideas of the situation in which he would find himself before he accepted the position.

I wasn't particularly interested in joining the business I supposed that's in a way that quite helped because I was very dispassionate about it. I was head hunted for it rather, rather than apply for some job and so I came on site and had various meetings with people here, quite a few more than if I was coming for a couple of job interviews and selection or whatever the normal process would be. And I did draw, I suppose, a picture of where the business had got itself to pretty quickly and I think I was able to do because the business I had come from had been in a very similar situation eight or nine years previous to it (interview with Tony Lisanti).

In contrast, Gerry Wheeler was unprepared for the task on which he was about to embark.

An already overstretched management team was drawn further into the ensuing crisis, distracting them from the day to day running of the rest of the business, compounding the problems... (*The Birmingham Post*, 2001b).

Gaskell has spent the last year trying to stop the business from unravelling. It launched new products, cut its manufacturing base, supported its marketing activities to the hilt and reduced its work force by 15 per cent to 850 staff. Mr Wheeler said despite some 'sometimes extreme and painful' cost cutting measures, Gaskell would see no significant improvement in the full year to December 31 (*The Birmingham Post*, 2002).

The Airsprung and Gaskell cases confirm a number of issues which feature in the practitioner literature on management techniques, notably the balanced emphasis on strategy, implementation, managers themselves and financial stakeholders. In addition, the matched case study approach has permitted a contrast of how these factors operate differently in the cases of successful and failed turnarounds, a dimension which is almost completely absent from practitioner accounts.

8.2 Contribution

One of the most perplexing aspects of turnaround research is the paucity of theory despite a significant number of large scale empirical studies (Arogyaswamy et al., 1995): “Little progress has been made over the last two decades in discovering the key factors that can lead to firms escaping from continual failure” (Wild, 2010, p. 617). One of the most pressing reasons for the lack of any recognised theory of turnaround is the absence of a systematic explanation of the causal structure of events from the decline stage through to corporate recovery (Chowdhury, 2002). Despite this, there are very few case-based process studies in turnaround research that use recognised qualitative methodologies to uncover causal mechanisms. In his review of 47 turnaround articles Pandit (2000) found only one longitudinal study (Hardy, 1990) which employed a recognised qualitative methodology with a “rigorous, systematic, internally consistent and established qualitative research protocol” and therefore “goes beyond the analysis of a single case by employing a comparative design focusing on the identification of patterns, structures and underlying logics across several cases” (p. 47). The review in this thesis of 200 turnaround articles discovered two such studies (Pajunen, 2005, 2006). While the absence of a rigorous research protocol may not detract from the interest or usefulness of longitudinal descriptions, the *validity* of the findings remains suspect (Pandit, 2000). A corollary of the lack of systematic research protocols is that almost all the case-based works in turnaround are case *histories*, as opposed to case *studies*. The distinction is made by Pettigrew (1997) and echoed by Pandit (2000): a case history presents events and chronologies; a case study goes beyond these directly observable elements by comparing cases to seek out patterns and underlying mechanisms in the process, and interactions between process, context and actors. A further analytical factor which distinguishes case studies from case histories is the element of deduction: scholars bring their own frames of reference and assumptions to case studies, which are vital to pattern recognition (Pettigrew, 1997).

In keeping with its sensemaking (Weick, 1988, 1993; Weick et al., 2005) intentions, this study directly addresses this important gap in the turnaround research stream by presenting a gestalt, comprised of enablers, drivers and constrainers which are separately necessary and jointly sufficient to provide a causal explanation of the forces which lead from crisis to viability, or from crisis to dissolution. The thesis is one of only

a handful of turnaround studies which employs a rigorous case study research protocol, following the methodology advocated by Yin (2009); therefore its findings can claim validity. It is a true case *study*, as opposed to a case *history*, in the sense explained by Pettigrew (1997): it has examined and compared the process of decline to turnaround, and decline to failure, in firm-specific contexts of crisis, through the decisions of leading actors and has contemplated the interactions between process, context and actors over time. Moreover, it is based on a personal frame of reference, born of direct experience, that the essence of turnaround management is complexity management. This insight has led to the formation of a unique theoretical framework within the turnaround field, based on two complementary, non-rational theories, cognitive theory and cybernetics, which deal explicitly with the matter of complexity, respectively, at the personal and the organisational level. The proposal of an explanatory gestalt for the turnaround process under an overarching framework of extant theory contrasts with the largely phenomenon-based research (von Krogh et al., 2012) of most of the work on turnaround (Trahms et al., 2013).

In cybernetic terms, the thesis has presented a set of factors in the form of a gestalt with requisite variety to explain the process outcome. Through a cybernetic lens the vain efforts of the strategy school to explain performance outcome in terms of strategy alone are entirely to be expected: the single factor, strategy, does not have requisite variety to explain the process. The fragmentary, ambiguous and contradictory findings (Cater and Schwab, 2008; Lohrke et al., 2004; Winn, 1993) within the strategy school are the natural result of repeated instances of contingent correlations; they are non-cumulative because they are, in essence, the same thing. The contribution of the strategy school is its works in aggregate, which show that firms can use many combinations of strategic initiatives and achieve success, but that there is a preponderance of asset and cost cutting, and new product/market initiatives. Similarly, the concern of the management school with CEO or top management replacement can produce correlations between replacements, or incumbents, and performance but, here again, the variety of a single independent variable is insufficient to afford an explanation. At most, a case can be made for top management replacement as a necessary condition for success. However, this study has shown that it is not sufficient. In the same vein, studies of top management characteristics, although they consider a plurality of characteristics, are nonetheless limited to actors and ignore the social structure in which they operate,

which includes not only a dysfunctional organisation and its misunderstood competitive environment, but also other powerful stakeholders. Hence, they are similarly lacking in variety and are unable to furnish a causal explanation. In cybernetic terms, since these studies provide no causal explanation, they do not open the Black Box between input (e.g. asset reduction or CEO replacement or throughput background) and output (turnaround success/failure). The most they can do is state that the input leads to the output by some unknown mechanism. Since the mechanism is unknown, so is its reliability. On the occasions that the mechanism does not produce the predicted output, there is no explanation why, or indication what to do, hence the lack of useful advice for turnaround managers (Harker, 1996; Lohrke and Bedeian, 1998). This study has highlighted the levers which need to be manipulated in order to achieve performance and has also supplied an explanation of how and why the mechanism *inside the Black Box* works, that is to say, how and why the factors interact with each other and over time. In other words, the model has requisite variety. Since, “*nothing* can save the manager from his personal obligation to regulate his own muddy [Black] box – which is the model in his head of the operations for which he is responsible” (Beer, 1979, p. 72, original italics), the model is a valuable tool for managers seeking to understand the operation of causal elements and sequences in the turnaround process.

In summary, the model proposed is based on a rigorous research methodology, contains *original insights* into the phenomenon of turnaround and proposes a *useful tool* for managers. A case can therefore be advanced that it makes a theoretical contribution (Corley and Gioia, 2011) to the field of turnaround research. If this is so, it is a middle-range theory (Merton, 1957). A middle-range theory (MRT) is intermediate between non-generalised descriptions of particulars and general theories of social systems. An MRT is close to empirical data, so can be tested, yet is abstract enough for systematic theory development. MRTs are based on regularities and take the form of causal laws; they focus on micro/macro linkages (Ritzer and Stillman, 2004), in this case the link between management cognition and organisational structure. Merton proposed a functionalist paradigm for analysis which is the paradigm adopted for this thesis (see page 47).

According to Whetten (1989) a complete theory must contain four elements: What; How; Why; Who, Where, When. The What consists of the six propositions combined

with the implementation factors. The How is illustrated operationally in Figure 6 on page 125 using 'arrows' to connect the 'boxes' (Whetten, 1989, p. 491). It is worth repeating that this is not a mechanism: there is no automatism inherent in the model; it requires the active intervention of management to navigate the gestalt in the correct sequence, to the required degree and with the right timing, according to the prescription for turnaround outlined on page 123. The Why is the management of complexity. Unmanaged complexity, caused by punctuated disequilibrium, is the root cause of crisis: it is understood on two levels as a failure of the mental model of top management (the regulator) to match the variety of the system it is managing and as a cybernetic breakdown of the organisation. The restoration of requisite variety at the cognitive and organisational levels is the essential logic underlying the causal forces in the model. The Who, Where and When represent the contextual and temporal boundaries of generalisability of the theory. The model focuses explicitly on top management in profit making enterprises in a situation of financial crisis. The temporal arc under consideration starts with trigger events and ends when viability has been restored or dissolution occurs. Within these boundaries it is expected that the results can be generalisable across wide range of organisations. This is because the conceptual building blocks of the model have been chosen for their generic nature and the turnaround-specific elements are derived from the broad sweep of the literature without distinction for company size or industry sector (see pages 20-21). For example, strategic fit is a notion taken from the strategy literature and applies to all strategy, not just turnaround strategy. The concept of accurate mental models is not limited to the purview of turnaround; it goes far beyond even the wider domain of strategy formulation to the realm of human psychology. Similarly, organisational cybernetics has an extremely broad scope: according to organisational cybernetics *all* organisations, of whatever kind, are subject to Ashby's Law of requisite Variety and are therefore amenable to the application of the VSM. The factors cash generation, slack-time and stakeholder power are more specifically oriented to turnaround situations for profit-making companies and would exclude the applicability of the model to non-profit organisations such as organs of the public sector. Yet, none of these concepts is limited to any specific size of company, industry sector, national or international market, as long as those are market economies, subject to the rule of law; although the level of complexity will increase with size and geography. In summary, a priori, the model

should be generalisable to any profit seeking organisation of any size, in both manufacturing and service industries, in a market economy.

Sutton and Staw (1995) argue that strong theory stems from a single or small set of research ideas. The model presented here is undergirded by the single notion of complexity management applied to a situation of financial crisis. In fact a number of researchers have suggested that complexity-based theories may help to understand organisational processes better. These theorists point out that the interaction of a small number of elements can generate high levels of complexity (Langley, 1999). Thus, it is possible for a complex phenomenon to be explained by a relatively parsimonious set of concepts. This thesis presents a limited set of constructs which explains the occurrence and non-occurrence of a desired firm level outcome in terms of the interconnectedness and timing of these constructs and how they are managed. The process is explained on multiple levels in terms of superficially evident factors (such as cash generation), hidden cognitive factors and underlying structural factors, thus reveals implications not seen with the “theoretically unassisted eye” (Sutton and Staw, 1995, p. 378). Langley (1999) describes this as a “synthetic strategy” for sensemaking from process data. A synthetic strategy involves identifying regularities that form the basis of a predictive theory which relates holistic process characteristics to process outcome. According to Langley (1999), the emerging model is a *variance* theory rather than a *process* theory (Mohr, 1982) since the strategy involves converting process events into variables which synthesise their critical components. This leads to a level of abstraction high enough for comparison across several cases.

the complexities of the probabilistic interaction of events, parallel and alternate tracks, patterns of mutual shaping over time, and evolving performance have been compressed into positions on a small number of scales that can now be related to a single overall "success" assessment (Langley, 1999, p. 704).

In addition to the contribution to the work on causal explanations of the turnaround process, the adoption of the two theories, cognitive theory and organisational cybernetics makes a significant addition to both fields. Cognitive theories are used in some works of the management school, particularly those concerned with top management characteristics, however, the importance of mental models in general has been overlooked:

Despite strong evidence of heterogeneity in mental models, there has been very little strategy research that investigates the importance of accurate mental models on performance outcomes. This is surprising since a fundamental assumption in much of strategic management is that successful firms and managers purposefully adopt strategies—based on accurate mental models—that match or ‘fit’ the competitive environment. Most strategy scholars believe that managers who have a richer understanding of the dynamics of industry structure and organizational capabilities can take advantage of this knowledge to improve firm performance. (Gary and Wood, 2011p. 571).

The matched pair of case studies has provided clear empirical evidence of the difference in mental models between the top managers responsible for a successful turnaround and those whose efforts failed, and has provided strong support for the contention that a more accurate mental model leads to superior performance. This finding is not only limited to turnaround, but also has implications for the broader strategy literature.

Cybernetics, on the other hand, features nowhere in the existing turnaround literature. Ackoff (2006) speculates that the reason why systems thinking is not widely adopted is that its proponents are self-referent and communicate in abstruse language. This thesis has provided a compelling case for the adoption of organisational cybernetics as a tool to diagnose organisations in crisis and turn them into viable organisations. It has therefore contributed to the promulgation of cybernetics into a new arena which has many of its core ontological features in common. This development could potentially enrich both fields. Moreover, it has done so in terms readily comprehensible by non-systems experts and practising managers.

Finally, the survey on implementation begins to redress the almost complete lack of academic work on this aspect of turnaround. Through a sort of ‘alluvial mining’ of the practitioner literature it has sifted out potentially valuable references to implementation, most of which were verified as important implementation factors and were subsequently ranked in order of importance by professional turnaround managers. It is this systematic analysis, testing and synthesis of readily available data that represents the novelty. In addition, the survey has provided a rich and rare description of management tasks undertaken as the process unfolds over time. The subsequent case study comparison confirmed the adoption in a successful turnaround of factors that turnaround practitioners claim to be important in their successful personal accounts; the difference is that the research design, with a successful and failed case, allowed for the empirical falsification of those claims (Popper, 1959).

8.3 Limitations

There are number of limitations to this research. Firstly, although the intention of the survey was to obtain data from a broad base of European turnaround managers, only the UK and Italian chapters of the Turnaround Management Association responded with any kind of enthusiasm and the contribution from other associations was minimal. Thus, the opinions in the survey reflect predominantly those of the UK and Italy, in descending order. Although this does not capture attitudes from Central Europe with the hoped for data from Germany and the Czech Republic, it does at least have the merit of reflecting North and South European perspectives. A corollary of this is sample size. The sample size, n , varied according to the question asked, as not all managers responded to all questions. The key question on the importance of the success factors for implementation was answered by 47 managers ($n = 47$). This is a much smaller number than (less than half) the number of executives who responded to similar questionnaires put to the Turnaround Management Association in the United States (Bonnici and Fredenberger, 1995; Fredenberger and Hoy, 1991; Fredenberger et al., 1997; Fredenberger and Bonnici, 1994). Nonetheless, a sample size of $n = 47$ is sufficiently large to provide a margin of error of ± 1 around the mean value of each of the implementation factors with a 99% confidence level. In other words, it can be stated with 99% confidence that the population mean for the importance rating of each implementation factor would fall into a range of ± 1 of the sample mean for that factor (see Appendix 5 for details).

Given word restrictions for the thesis, a choice was made to present two cases in detail rather than offer a more superficial treatment of a greater number of cases. Although the logic of case studies is to generalise the case to the model, rather than the model to the population, nonetheless, replication of the findings with other matched pairs would strengthen the case for generalisation of the model. Within the two cases, only two interviews were carried out, one with a top executive of each company. This is a result of two inherent difficulties in this type of research. Firstly, by their very nature, crisis situations lead to a shakeout of top managers, particularly when the chief executive is replaced (Barker et al., 2001), as happened in both instances. Thus, there were a limited number of top managers who actually remained in office throughout the entire process and could therefore offer a perspective on the turnaround effort from start to finish. In

the case of Gaskell, just three directors were with the company from the start of the turnaround attempt and remained until its demise four and a half years later. All three were contacted, but only the company secretary agreed to be interviewed. In the case of Airsprung, only two directors presided over the entire course of the turnaround. Secondly, a number of directors (in all 18) from seven different companies were contacted with a request to take part in the research, but only five (28%) agreed to be interviewed and only two were from companies which formed a matched pair. It seems that many senior managers either lack time or interest, or are reluctant to participate in academic research. In these situations, simple random sampling is not appropriate as the number of people qualified and available is insufficient for this sampling method. In any case, the aim was not to generate a normally distributed sample in order to produce unbiased point estimators of population parameters for statistical analysis. The objective was rather to supplement publicly available chronicles and financial data with background insight into the thinking and decision making at that time. The sample selection was therefore based on *judgement sampling* which is a non-probability sampling method used when “elements selected for the sample are chosen by the judgement of the researcher. Researchers often believe that they can obtain a representative sample by using a sound judgement, which will result in saving time and money” (Black, 2010, p. 225). This method was appropriate in both cases. As the entrepreneurial architect of the turnaround strategy at Airsprung, the chief executive provides the most qualified possible perspective on the entire process. In the case of Gaskell, the testimony of the chief executive would similarly have provided invaluable background information on the turnaround attempt. However, in his absence, the evidence furnished by the company secretary and finance director is, arguably, of equal stature for three reasons. Firstly, he fulfilled a dual role which placed him at the peak of both financial and legal decision making. Secondly, financial concerns, rather than entrepreneurial moves, were the most salient factors in Gaskell’s turnaround attempt, and the question of financial stakeholder power and the relationship with Barclay’s bank were the responsibility of the finance director. Thirdly, the finance director was one of just two top management executives who shared responsibility for the majority of the turnaround process and the two men, who had known one another as main board members since at least 1998, shared similar professional opinions on the acquisition, the turnaround attempt and its ultimate outcome. In these circumstances, it is reasonable to expect the comments of the financial director to reflect to a large extent those of the

chief executive. In summary, the sampling method was judgement sampling with a sample size for each case of $n = 1$; the *quality* of the interviewee was judged to be more important than the *quantity* of interviewees.

The semi-structured interview technique itself has some limitations. A particular risk is that interviewees may reinterpret real events according to post-rationalised narrative¹⁴ (Miller and Glassner, 1997). This is an inevitable risk of post-event interviews, particularly ones that take place years after the experience. Some interviewees may even (consciously or unconsciously) re-invent the narrative in the light of events: what might have been a desperate attempt ends up being a well thought out plan; a fortuitous event, a calculated action; or vice-versa a bad decision becomes bad luck. However, this risk was known beforehand and a cross-check of information garnered during interviews with data from the public record revealed no factual contradictions. A further limitation of interviews stems from evidence that interviewers themselves affect the responses of the interviewees (Bryman and Bell, 2007, pp. 234-6): potential biases stem from the wish to provide socially or politically desirable answers, or the need to impress the interviewer. While these influences are difficult to detect, a professional, non-judgemental approach on the part of the interviewer can reduce the potential effects. Overall, the net impression of the interviewer was that the turnaround attempts had been a powerful experience for both men which they were most willing to share; both interviewees retained clear and detailed memories of the sequence of events, and responded unhesitatingly and unreservedly to all questions put to them.

A final limitation of the research protocol, shared by almost all academic research on turnaround, is that it is retrospective. This is due to the nature of the phenomenon and this research vehicle. For example, structured or participant observation are potential alternative longitudinal strategies which could yield the fine-grained level of process analysis that this research project seeks to achieve, along with a deeper understanding of human actions and decision making. Indeed, they could deliver a much richer

¹⁴ Boje describes narrative as a control mechanism to achieve coherence and (at least the semblance of) control; in the specific context of organisations he defines it as follows: “narrative is a whole telling, with the linear sequence of a beginning, middle and end (BME); is usually a backward-looking (retrospective) gaze from present, back through the past, sorting characters, dialog, themes, etc. into one plot...” Boje, D. M. 2008. *Storytelling Organizations*, London: Sage Publications Ltd (p. 7).

appreciation of what it is like to be in the “engine room” of a company, in the high pressure environment lived by people going through the edge-of-survival experience that is turnaround, and could provide an in-depth account of team dynamics as they happen. These approaches have a fundamental drawback, though: they would have to map the process of the efforts leading up to a turnaround but, if the turnaround *did not happen*, it would simply be a study of a failed company. Only by positioning a significant number of researchers in declining companies with a reasonable probability that at least one would succeed and one would fail could such approaches be valid. For a single researcher, turnaround research, by its very nature, must be *a posteriori*. A further disqualifying feature of observation-based study is that it suffers from the physical limitation of the researcher, what Boje (2008, p. 15) calls the *Tamara syndrome*: while some events are documented in detail, others are missed entirely; it is impossible to be in all rooms at once. A final difficulty is the open-ended nature of the turnaround process which can last several years. It would be difficult to predict the timing of a successful turnaround of any given company and it may not be achieved in the time frame of a doctoral research thesis. This technical fact on its own precludes all but retrospective case study.

8.4 Future research

The largely empty space in the literature on implementation presents an exciting area for future research, particularly in view of the challenges that managers face in re-establishing control and direction in a threatened, dysfunctional organisation under time and power constraints. Similarly, the crisis context in which turnaround companies operate offers an interesting opportunity for the study of how top management teams strategise in high pressure, high stakes situations. There was clearly a difference in the way the two teams went about formulating and implementing strategy. This thesis has ascribed this to cognitive differences originating in prior experience but there were clearly behavioural aspects which stemmed from and fed back into those mental models particularly in the case of Gaskell’s top management team which expanded too greatly, contracted too much and displayed symptoms of groupthink (Janis, 1982). More detailed study may unearth how turnaround teams work together, how that affects the accuracy of their mental model or how they reach decisions. One research agenda which

could provide deep insights into this is the recent and growing stream of work known as strategy-as practice. Strategy-as-practice (s-as-p) is concerned with *strategising*, the doing of strategy work; it looks at who strategises, how they do it, what they use in order to strategise and how these factors influence strategy (Jarzabkowski and Spee, 2009).

Research of a more holistic nature encompassing a broader palette of explanatory factors can be a productive complement to studies which focus on specific aspects of turnaround such as strategy or top management replacement. Here the focus might be directed more towards which combination of factors offers the most explanatory power in terms of the performance outcome dichotomy, success or failure. This study has identified six and could be a helpful reference point for further inquiry. Finally, the corpus of turnaround research is in need of a theoretical spine. Arguments have been presented here for the adoption of a non-rational theory given a dysfunctional organisation and the cognitive pressures on managers: the assumptions of the behavioural theory of the firm are more functional than those of rational decision making, implicit in many strategy studies. In particular, organisational cybernetics, strikingly similar in ontology to the turnaround construct, seems to be a particularly powerful framework for diagnosing turnaround situations and directing management actions, and may offer a fruitful model (the VSM) for new research.

Appendices

Appendix 1. Survey Questionnaire

Q23 Please select your chapter of the Turnaround Management Association from the drop box below.

- Czech Republic (1)
- Finland (2)
- France (3)
- Germany (4)
- Italy (5)
- Netherlands (6)
- Spain (7)
- Sweden (8)
- United Kingdom (9)

Q24 Please indicate the sector(s) in which you have most turnaround experience.

- Agriculture, forestry and fishing (1)
- Banking and insurance (2)
- Bio-tech, pharmaceuticals and chemicals (3)
- Construction (4)
- Education and health care (5)
- Hotel, catering and tourism (6)
- IT and telecommunications (7)
- Manufacturing (8)
- Mining and utilities (9)
- Professional and business services (10)
- Retail (11)
- Other (12) _____

Q25 Please indicate the size of company in which you have had most turnaround experience.

- 1 - 50 employees (1)
- 51 - 100 employees (2)
- 101 - 500 employees (3)
- 501 - 1000 employees (4)
- 1000 - 5000 employees (5)
- 5001 - 10000 employees (6)
- > 10000 employees (7)

Q1 Thinking of a recent turnaround in which you have been involved, please rate the following factors on a scale from 0 – 10 with zero being “Not at all important” and 10 being “Extremely important”.

- _____ Accountability – Establishing a culture of accountability in the organisation (1)
- _____ Action – Taking many actions on many fronts simultaneously (2)
- _____ Centralisation of power – Concentration power in the hands of the top management team (3)
- _____ Communication – Communicating often and accurately (4)
- _____ Confidence – Creating a sense of self-confidence in members of the organisation (5)
- _____ Cross-functional teams – Introducing project or temporary teams with different functional responsibilities (6)
- _____ Delegation – Delegate authority to people at several levels within the organisation (7)
- _____ Early successes – Achieving early, demonstrable successes in the turnaround process (8)
- _____ Experimentation – Finding new solutions through experimenting (9)
- _____ Focus – Top management focus on a limited number of issues (10)
- _____ Management credibility – Creating trust and confidence in the top management team (11)
- _____ Management incentives – The existence of an incentive scheme for top managers (12)
- _____ Participation – Creating a sense of participation in the turnaround process throughout the company (13)
- _____ Persistence – Insistence on a course of action despite difficulties (14)
- _____ Plan – The preparation of a turnaround plan prior to significant strategy implementation (15)
- _____ Sensitivity – Being sensitive to the feelings of employees (16)
- _____ Symbolism – Using symbolic words, gestures or actions to communicate issues (17)
- _____ Urgency – Creating a sense of urgency throughout the organisation (18)
- _____ Values – The projection of strong values by top management (19)
- _____ Vision – The creation and communication of a vision for the enterprise (20)

Q2 Are there any other factors not listed here which you feel should be considered in researching the implementation of a turnaround?

- Factor (1)
- Factor (2)
- Factor (3)
- Factor (4)
- Factor (5)

Q3 Thinking of groups of stakeholders, how important are your communication efforts with each group on a scale from 0 – 10 with zero being “Not at all important” and 10 being “Extremely important”.

- _____ Company shareholders (1)
- _____ Board of directors (2)
- _____ Banks (3)
- _____ Top management team (4)
- _____ Middle management (5)
- _____ Trade unions (6)
- _____ First line supervisors (7)
- _____ Production and administrative staff (8)

Q4 Thinking of groups of stakeholders, how important is it to establish management credibility with each group on a scale from 0 – 10 with zero being “Not at all important” and 10 being “Extremely important”.

- _____ Company shareholders (1)
- _____ Board of directors (2)
- _____ Banks (3)
- _____ Top management team (4)
- _____ Middle management (5)
- _____ Trade unions (6)
- _____ First line supervisors (7)
- _____ Production and administrative staff (8)

Q5 Thinking of groups of stakeholders how important is the turnaround plan to each group on a scale from 0 – 10 with zero being “Not at all important” and 10 being “Extremely important”.

- _____ Company shareholders (1)
- _____ Board of directors (2)
- _____ Banks (3)
- _____ Top management team (4)
- _____ Middle management (5)
- _____ Trade unions (6)
- _____ First line supervisors (7)
- _____ Production and administrative staff (8)

Q6 Thinking of values in the implementation of a turnaround please rate the following values on a scale from 0 – 10 with zero being “Not at all important” and 10 being “Extremely important”.

- _____ Honesty (1)
- _____ Fairness (2)
- _____ Objectivity (3)

Q7 Are there any other values not listed here which you feel should be considered in researching the implementation of a turnaround? If so please describe and rank them here using the above 0 - 10 scale.

- _____ Value (1)
- _____ Value (2)
- _____ Value (3)
- _____ Value (4)
- _____ Value (5)

Q8 In the first six months of the turnaround process what are your priorities? Please list the top five ranked in order of importance, with 1 being the most important and 5 being the least important. To change rankings, move your mouse over a line, click and hold to move to a different rank.

- _____ Priority (1)
- _____ Priority (2)
- _____ Priority (3)
- _____ Priority (4)
- _____ Priority (5)

Q9 In the second six months of the turnaround process what are your priorities? Please list the top five ranked in order of importance, with 1 being the most important and 5 being the least important.

- _____ Priority (1)
- _____ Priority (2)
- _____ Priority (3)
- _____ Priority (4)
- _____ Priority (5)

Q10 In months 13-18 of the turnaround process what are your priorities? Please list the top five ranked in order of importance, with 1 being the most important and 5 being the least important.

- _____ Priority (1)
- _____ Priority (2)
- _____ Priority (3)
- _____ Priority (4)
- _____ Priority (5)

Q11 After the first 18 months of the turnaround process what are your priorities? Please list the top five ranked in order of importance, with 1 being the most important and 5 being the least important.

- _____ Priority (1)
- _____ Priority (2)
- _____ Priority (3)
- _____ Priority (4)
- _____ Priority (5)

Q28 Thinking of your most recent turnaround case, would you describe it as successful or unsuccessful? In what terms was it successful or unsuccessful?

Q29 In your view, what makes the difference between a successful and an unsuccessful turnaround?

Q19 May we contact you if necessary for further information on this questionnaire?

- Yes (1)
- No (2)

Answer If May we contact you if necessary for further information o... Yes Is Selected

Q20 Please supply contact details

Q21 Would you be willing to be interviewed about your experience in turnaround management?

- Yes (1)
- No (2)

Answer If Yes Is Selected And May we contact you if necessary for further information o... No Is Selected

Q22 Please supply contact details

Appendix 2. Letter Explaining Turnaround Research

The University
of Manchester



Manchester Business School
The University of
Manchester
South Street West
Manchester M13 9PL

+44 (0)161 275 4000
www.mbs.ac.uk

10 January 2011

For the Attention of the UK Turnaround Management Association Members

Introduction to turnaround research survey

This survey is part of a doctoral research project at the Manchester Business School which examines the role of management in the turnaround process. The purpose of the questionnaire is to seek the expert opinion of turnaround professionals in order to determine what are the key success factors in the turnaround process and their relative importance, to determine a hierarchy of factors and to explore a limited set of characteristics of some of these factors.

With broad participation across European countries, it may also be possible to identify any cultural differences in implementation factors, say, for example, between north and south European countries, or between Anglo-Saxon and Latin cultures. Based on this research, at a later stage it is hoped to be able to compare and contrast how turnaround managers go about their task with 'normal' top managers who take on a new assignment in order to identify those factors which distinguish the turnaround construct from other challenging situations.

There is a precedent for research on the turnaround theme in collaboration with US branches of the Turnaround Management Association but, as far as has been determined, there are no published articles based on work with any of the European branches. If this is so, the research would be the first of its kind and an original contribution to the field from a uniquely European perspective.

The contribution of the UK Turnaround Management Association is greatly appreciated and you will receive a summary of the final results of the research. The anonymity of participants is guaranteed.

Ian Roberts
DBA Programme member

Appendix 3. E-mail text prepared by the author for the President of the UK TMA

E-mail text from Bryan Green to TMA members:

Dear TMA Member,

May we invite you to take 10-15 minutes of your time to support research into turnaround management?

TMA UK is an enthusiastic sponsor of this research initiative by the Manchester Business School which aims at achieving a better understanding of the real contribution that you and other turnaround experts make to struggling firms. All participants will receive a summary of the final results through the TMA so that you can compare your management style to that of your colleagues.

Anonymity is guaranteed, unless you chose to include your contact details. If you need further details on the research, please see the attachment, or click on the link below to go directly to the survey.

Follow this link to the Survey: [Turnaround Management Survey](http://mbs.qualtrics.com/WRQualtricsSurveyEngine/?SID=SV_1Ypydt3XKpXKdTK&_1)

Or copy and paste the URL below into your internet browser:

http://mbs.qualtrics.com/WRQualtricsSurveyEngine/?SID=SV_1Ypydt3XKpXKdTK&_1

We really appreciate your contribution towards this important research into the part played by turnaround managers.

Kind regards,
Bryan Green

Appendix 4. E-mail from Italian TMA President to members

25/01/2011

Gmail - Ricerca sul turnaround



Ian Roberts <ianroberts01@gmail.com>

Ricerca sul turnaround

1 message

Mellerio, Maria Grazia <mmellerio@alixpartners.com>
Cc: "ianroberts01@gmail.com" <ianroberts01@gmail.com>

25 January 2011 11:44

Gentili as sociati,

TMA Italia è stata coinvolta in una indagine per il dottorato di ricerca del Dott. Ian Roberts presso la Manchester Business School sul ruolo del management nel processo delle ristrutturazioni aziendali. Si tratta di una ricerca anonima. Lo scopo del questionario è di raccogliere il parere di professionisti che operano nei processi di ristrutturazione e turnaround, per individuare quali sono gli elementi determinanti il successo o l'insuccesso dei processi di ristrutturazione aziendale e la loro importanza relativa.

La ricerca è estesa a diversi paesi europei - dove, per quanto è stato verificato, non sono ancora stati effettuati ancora studi simili. Esiste una precedente ricerca svolta in collaborazione i Chapter statunitensi di TMA - Turnaround Management Association.

TMA Italy riceverà una sintesi dei risultati finali della ricerca e provvederà a renderla disponibile a tutti gli Associati. Il questionario è compilabile on-line nel modo seguente:

1) Seguendo il link sotto indicato:

[Take the Survey](#)

2) Copiando o incollando la URL seguente nel proprio browser internet:

http://mbs.qualtrics.com/WRQualtricsSurveyEngine?SID=SV_1Ypydt3XKpXKdTK&_#1

A nome di TMA Italia Vi ringrazio in anticipo per il contributo che vorrete offrire compilando il questionario.

Eugenio Berenga

Eugenio Berenga

Managing Director

AlixPartners

Corso Matteotti 9 - 20121 Milan

<https://mail.google.com/mail/?ui=2&I...>

1/2

Appendix 5. Recommended sample size calculations for survey question on key success factors

The sample size necessary to give a desired margin of error at a specified confidence level is given by the formula

$$n = \frac{(z_{\alpha/2})^2 \sigma^2}{e^2}$$

Where,

n = sample size

$1-\alpha$ = confidence coefficient

$z_{\alpha/2}$ = z value with an area of $\alpha/2$ in the upper tail of a standard normal distribution

σ = population standard deviation

e = margin of error

With a 99% confidence level, the confidence coefficient $1-\alpha = .99$, therefore $\alpha = .01$. With area of $\alpha/2 = .01/2 = .005$ in the upper tail of a standard normal distribution, $z_{.005} = 2.576$. No data is available for the population standard deviation, so an estimate of the range $\div 4$ is used (Anderson et al., 2011, p. 317). The margin of error is set at $e = 1$.

The following computations show the required sample size to yield a margin of error of ± 1 around the sample mean with a 99% confidence level for each of the success factors for implementation. It can be seen that in each case the required sample size is superseded by the actual sample size of $n = 47$ (see Table 12 on page 69).

1 Communication

Mean	8.67		
Confidence interval	0.99	so, $z =$	2.576
Estimated population std. dev.	2.00		
Margin of error	1		

$$n = \frac{6.64 \times 4.00}{1.00} = \mathbf{27}$$

2 Management credibility

Mean	7.69		
Confidence interval	0.99	so, $z =$	2.576
Estimated population std. dev.	1.25		
Margin of error	1		

$$n = \frac{6.64 \times 1.56}{1.00} = \mathbf{10}$$

3	Accountability				
	Mean	6.65			
	Confidence interval	0.99	so, z =	2.576	
	Estimated population std. dev.	2.50			
	Margin of error	0.5			
		$n = \frac{6.64 \times 6.25}{1.00}$	=	41	
4	Urgency				
	Mean	6.63			
	Confidence interval	0.99	so, z =	2.576	
	Estimated population std. dev.	2.50			
	Margin of error	1			
		$n = \frac{6.64 \times 6.25}{1.00}$	=	41	
5	Confidence				
	Mean	6.46			
	Confidence interval	0.99	so, z =	2.576	
	Estimated population std. dev.	2.50			
	Margin of error	1			
		$n = \frac{6.64 \times 6.25}{1.00}$	=	41	
6	Action				
	Mean	7.27			
	Confidence interval	0.99	so, z =	2.576	
	Estimated population std. dev.	2.25			
	Margin of error	1			
		$n = \frac{6.64 \times 5.06}{1.00}$	=	34	
7	Focus				
	Mean	6.38			
	Confidence interval	0.99	so, z =	2.576	
	Estimated population std. dev.	2.50			
	Margin of error	1			
		$n = \frac{6.64 \times 6.25}{1.00}$	=	41	

8 Persistence

Mean 6.35
Confidence interval 0.99 so, z = 2.576
Estimated population std. dev. 2.50
Margin of error 1

$$n = \frac{6.64 \times 6.25}{1.00} = 41$$

9 Plan

Mean 6.23
Confidence interval 0.99 so, z = 2.576
Estimated population std. dev. 2.50
Margin of error 1

$$n = \frac{6.64 \times 6.25}{1.00} = 41$$

10 Participation

Mean 6.04
Confidence interval 0.99 so, z = 2.576
Estimated population std. dev. 2.50
Margin of error 1

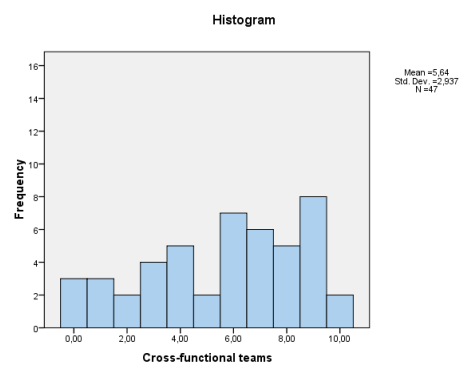
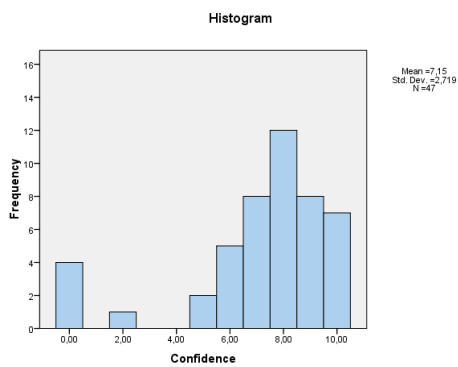
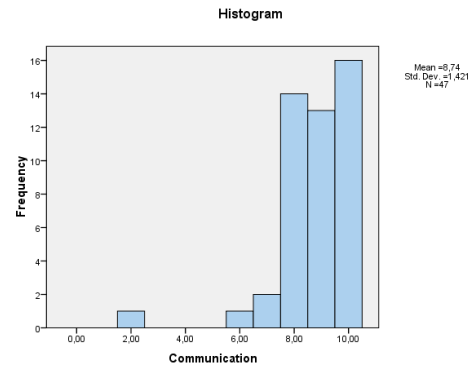
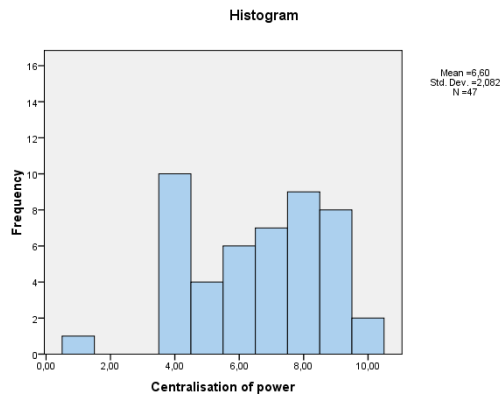
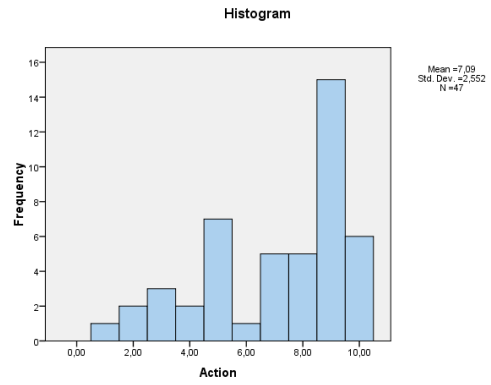
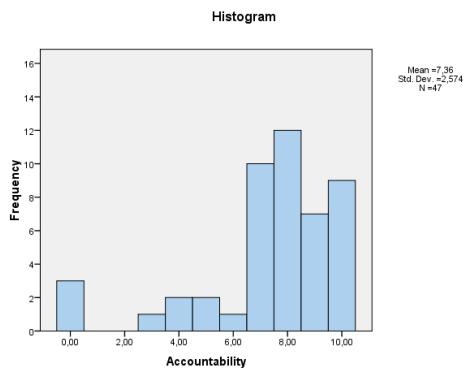
$$n = \frac{6.64 \times 6.25}{1.00} = 41$$

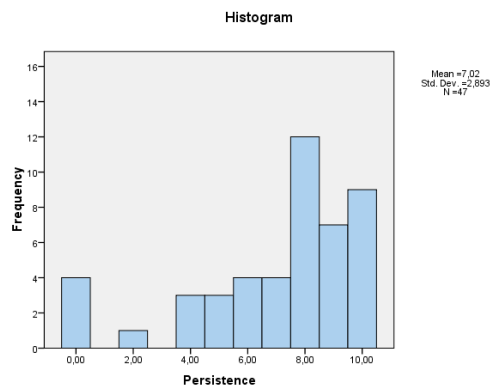
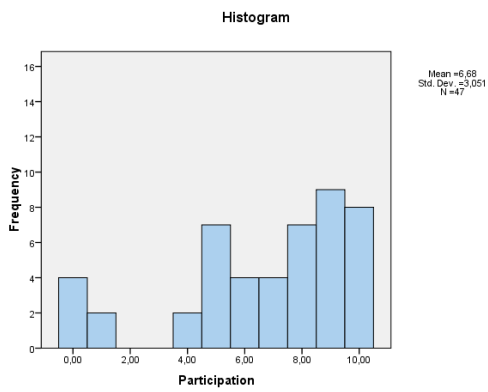
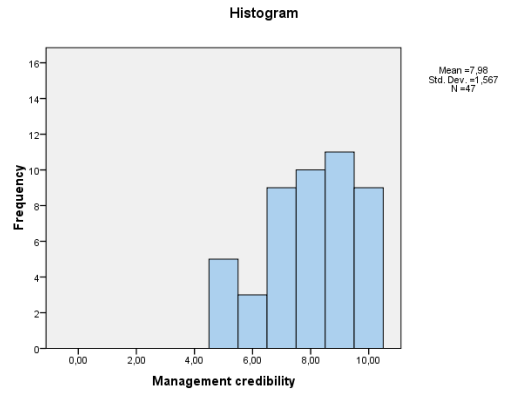
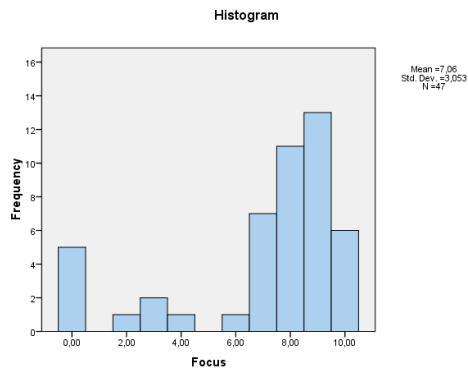
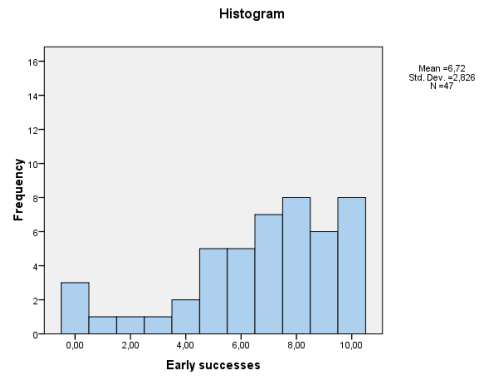
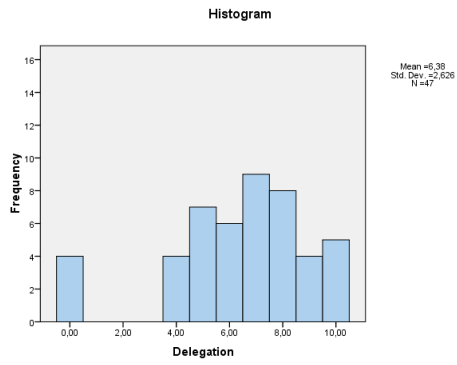
11 Values

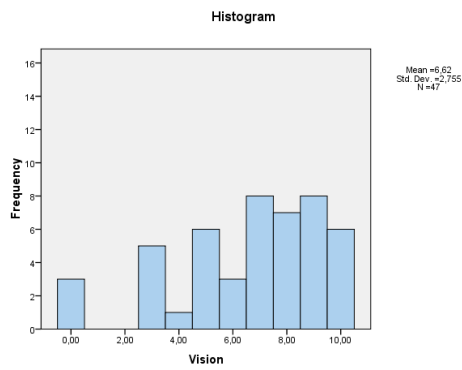
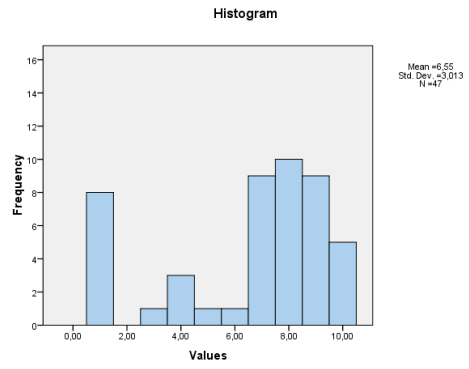
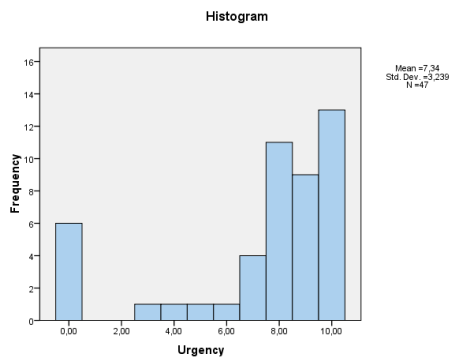
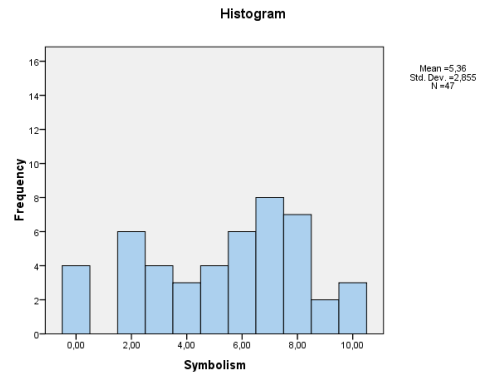
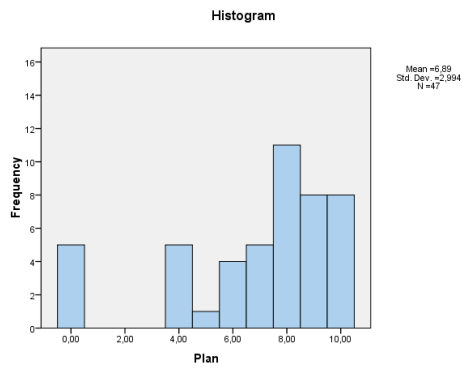
Mean 6.02
Confidence interval 0.99 so, z = 2.576
Estimated population std. dev. 2.25
Margin of error 1

$$n = \frac{6.64 \times 5.06}{1.00} = 34$$

Appendix 6. Histograms of 17 factors showing number of responses per rating







Appendix 7. Altman's Z-Score – Example applied to Airsprung Furniture Group's 2005 accounts

Airsprung Furniture Group PLC 2005	Original Z-score Component Definitions	Variable Definition	Weighting Factor	Public
		Company ownership:		
		working capital		4,365
		total assets		21,943
			$T_1 =$	$0.199 \times 1,200 =$
				0.239
			$T_2 =$	$0.215 \times 1,400 =$
				0.302
			$T_3 =$	$-0.136 \times 3,300 =$
				-0.450
			$T_4 =$	$0.850 \times 0.600 =$
				0.510
			$T_5 =$	$1.810 \times 0.999 =$
				1.808
			Z Score	2.408

<p>$T_1 =$ Working Capital / Total Assets</p> <p>§ Measure of net liquid assets</p> <p>§ Working cap = current assets <i>minus</i> current liabilities (i.e. <i>net</i> wking cap)</p> <p>§ Ordinarily this will shrink in a company w/ consistent operating losses</p>	<p>Company ownership:</p> <p>working capital</p> <p>total assets</p>	<p>Public</p> <p>4,365</p> <p>21,943</p>	<p>$T_1 =$</p> <p>$0.199 \times$</p> <p>$1,200 =$</p>	<p style="text-align: center; border: 1px solid black;">0.239</p>
<p>$T_2 =$ Retained Earnings / Total Assets</p> <p>§ Cumulative profit over time – use balance sheet figures</p> <p>§ Implicitly considers age of firm</p> <p>§ Discriminates against younger firms – reflects real world</p>	<p>retained earnings</p> <p>total assets</p>	<p>4,726</p> <p>21,943</p>	<p>$T_2 =$</p> <p>$0.215 \times$</p> <p>$1,400 =$</p>	<p style="text-align: center; border: 1px solid black;">0.302</p>
<p>$T_3 =$ Earnings Before Interest and Taxes / Total Assets</p> <p>§ Measure of true productivity of firm's assets</p> <p>§ Firm's ultimate existence based on earning power of assets</p> <p>§ Insolvency occurs when total liabilities > fair value of assets</p>	<p>EBIT</p> <p>total assets</p>	<p>(2,991)</p> <p>21,943</p>	<p>$T_3 =$</p> <p>$-0.136 \times$</p> <p>$3,300 =$</p>	<p style="text-align: center; border: 1px solid black;">-0.450</p>
<p>$T_4 =$ Market Value of Equity / Book Value of Total Liabilities</p> <p>§ Shows how much firm's assets (= (mkt. value) equity + debt) can decline in value before liabilities exceed assets and firm is insolvent</p>	<p>market value of equity</p> <p>book value liabilities</p>	<p>6,689</p> <p>7,871</p>	<p>$T_4 =$</p> <p>$0.850 \times$</p> <p>$0.600 =$</p>	<p style="text-align: center; border: 1px solid black;">0.510</p>
<p>$T_5 =$ Sales/ Total Assets</p> <p>§ Capital turnover ratio</p> <p>§ Measure of management's capability in dealing w/ competitive conditions</p>	<p>sales</p> <p>total assets</p>	<p>39,707</p> <p>21,943</p>	<p>$T_5 =$</p> <p>$1.810 \times$</p> <p>$0.999 =$</p>	<p style="text-align: center; border: 1px solid black;">1.808</p>
			Z Score	2.408

Z Score Bankruptcy Model: Zones of Discrimination:

$Z > 2.99$ - "Safe" Zone $1.8 < Z < 2.99$ - "Grey" Zone $Z < 1.80$ - "Distress" Zone

Appendix 8. Coding used to analyse data for case studies

Complexity management	Stakeholders
Fitness landscape	Banks
Internal complexity	Customers
Learning organisation	Employees
Reduce complexity	Shareholders
Crisis	Suppliers
Culture - identity	Unions
Cybernetics	Strategy
Decline	Administrative
Causes of decline	Controls
External environment	Coordinate plans
Internal organisation	Incentive plans
Process of decline	Monitoring
Downsizing	Processes
Implementation	Purchasing
Accountability	Financial
Communication	Asset reduction
Confidence	CAPEX reduction
Focus	Cash management
Management credibility	Cost reduction
Participation	Debt restructuring
Persistence	Working capital management
Urgency	Innovation
Values	Process innovation
Vision	Product innovation
Industry	Technical innovation
Competition	Operations - engineering
Market situation	CAPEX
Substitutes	Operating efficiency
Investment	R&D
Leadership and management	Product market
Centralise authority	Advertising and promotion
Credibility	Branding
Delegate authority	Customer focus
Management change	Exports
Management team	High margin focus
Planning	New markets (diversification)
Link to implementation	New products
Planners involved	Positioning
Short term vs. long term	Pricing
Restructuring	Product pruning
Environmental fit	Supply chain management
Financial necessity	Structure
Organisational efficiency	Acquisition
Results	Divestment
Sales	Intra-company
	Joint venture

Appendix 9. Questionnaire used for semi-structured interviews with top managers

(Numbered questions are the main questions; prompts/follow up questions are in italics below)

1. Thinking of the period in which COMPANY X started making financial losses how did you go about understanding the situation the company was in?
 - a. *Was there a specific point in time, or event, prior to or during the period in which the firm was making financial losses that the TMT thought: “this is a turnaround situation”?*
 - b. *What factors were analysed in order to reach an understanding of the situation?*
 - c. *Why those factors?*
 - d. *How were they analysed?*
 - e. *Did the factors you analysed change over time? If so what changed and why?*
 - f. *Did you feel confident at that time that you correctly identified the causes of the decline? Do you still think that now?*

2. Can you describe to me the strategy making process for the turnaround/dealing with the losses?
 - a. *Did the TMT produce a formal, written plan as a result of this strategy?*
 - i. *Who read/received/used the plan?*
 - b. *Who was involved in the formulation of the strategy?*
 - c. *Would you describe the initial strategy as a long or a short term strategy?*
 - d. *Did the strategy evolve over time - if so why and how, and were the same people involved?*
 - e. *What do you believe are the key success factors in this industry?*
 - i. *Did these factors change from the period before the losses to the period in which the company started making losses?*
 - ii. *Did you believe then and do you believe now that the strategy effectively addressed these success factors?*
 - iii. *Did the strategy call for a new business model – for example:*
 1. *To compete against existing competition for the same customers in a different way, or*
 2. *To compete for new kinds of customers against different competitors, or*
 3. *Shifting focus away from areas where competition was too powerful*

3. Do you believe the strategy was implemented fully according to plan?
 - a. *To what do you attribute this?*
 - b. *Did the TMT plan in advance for issues with implementation during the strategy formation or did you have to improvise with problems as they came up?*
 - c. *In order to implement the strategy did you find you had to centralise decision making power and controls or decentralise decision making power and controls?*

- d. *To what extent, if any, was the implementation influenced by the shareholders or the banks? How did you deal with that?*
 - e. *Did the influence of these financial stakeholders increase or decrease during this period?*
 - f.
4. Thinking about the way the company was restructured...
 - a. *Did it improve your financial situation? In what way?*
 - b. *Did the restructuring help you better to match or beat your competitors? In what way?*
 - c. *Did the restructuring help you to bring added value to your customers? In what way?*
 - d. *Did this [answers to above] change as the situation progressed?*
 5. What variables did you measure, or what aspects of the business did you monitor, in order to know how the business was progressing?
 - a. *Did certain variables or aspects become more or less important over time? If so, which ones and why?*
 - b. *Did you have, or did you develop, mechanisms or procedures to amplify weak signals coming from your environment? What were they?*

Supplementary (depending on time)

- What do you think were the most important factors that determined the outcome for the company?
- With the benefit of hindsight, do you think the management team should have done anything different? What? Why?
- In your opinion, did the TMT share a clear vision of how the company should return to profit? Did that vision/those visions represent a new and different future for the company or a return to its traditional strengths?
- What effect did downsizing have on the morale of the company? How important was that effect? How did you go about reducing the effect?

Appendix 10. Top management changes at Airsprung during the turnaround process

Date	Name	Position	In/Out
August 2001	Peter Zemniak	Chief Executive	Out
March 2002	Roger Blaney	Managing Director, Peter Guild	Out
April 2002	Tony Lisanti	Chief Executive	In
July 2002	Patrick Howe	Non-executive director	Out
February 2003	Stephen Harrington	Managing Director, Airsprung Beds	Out
January 2003	Paul Lamb	Managing Director, Airsprung Beds	In
May 2003	Jim Murphy	Marketing Director, Airsprung Beds	In
October 2003	Andrew Alsop	Group Financial Director	Out
December 2003	Paul Lamb	Group Operations Director	In
April 2004	Tean Dallaway	Group Financial Director	In
July 2005	Paul Lamb	Main Board Executive Director	Out
July 2005	Stephen Yates	Main Board Executive Director	Out
July 2005	Jerry Yates	Main Board Executive Director	Out
July 2005	Philip Bradshaw	Chairman	Out
July 2005	Stuart Lyons	Chairman	In

Appendix 11. Top management changes at Gaskell during the turnaround process

Date	Name	Position	In/Out
September 2000	Michael Hield	Chief Executive	Out
September 2000	Gerry Wheeler	Chief Executive	In
December 2000	Peter Livesey	Managing Director, Gaskell Textiles	Out
December 2000	Gary Stokes	Managing Director, Tomkinsons	Out
January 2001	Gordon Donald	Managing Director, Tile Division	In
January 2001	Des Hutchinson	Managing Director	In
January 2001	Ian Ramsay	Managing Director	In
January 2001	Nigel Brook	Managing Director, Gaskell Carpet Tiles	In
April 2001	Nigel Roberts	Managing Director, Carpet Division	In
August 2001	Ian Crowther	Managing Director, Non-wovens Division	In
September 2001	Gareth Lewis	Commercial Director	Out
September 2001	Jon Wain	Managing Director, Crucial Trading	In
October 2001	Tim Darbyshire	Financial Director, Non-wovens Division	In
December 2001	Lowry Maclean	Board director	Out
March 2002	James Harrison	Non-executive director	In
May 2002	Ted Andrew	Chairman	Out
May 2002	Alan Chamberlain	Non-executive chairman	In
July 2002	Nigel Roberts	Managing Director, Carpet Division	Out

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