turnaround strategy[1]

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Turnaround strategy is about doing different things and attempting to change companies' fortunes by fundamental adjustments in strategy, such as acquisition and divestment. Operating turnarounds are about doing things differently in terms of processes such as manufacturing, so that the firm's efficiency can be improved.

Three categories of turnarounds are proposed: traditional asset cost surgery, product-market pruning, and piecemeal strategies. The characteristics identified in successful turnaround strategies involve good management, which is seen to be critical to a sustained recovery. An appropriate organizational structure often means a much leaner one, with fewer layers in the hierarchy. Tightly controlled costs mean better controls, rather than cutting costs.

The Grinyer, Mayes, and McKiernan (1988) empirical study of corporate turnarounds by UK manufacturing companies does find evidence to suggest that turnarounds have distinct stages. Figure 1 shows the different types of "sharpbender" identified.

Case A is the firm showing *early recovery*. The firm is aware of its decline in performance and *anticipates* that on such a trend, it is likely to breech its managerial-determined minimum acceptable level of performance. Although the firm is far from extinction, actions are taken in advance, the crisis averted, and a path of sustained improvement achieved.

Case B is the firm taking *intermediate* action to break through its line of minimum acceptable standards. Alarm bells are ringing and actions taken to recover. However, such actions are insufficient – perhaps superficial, addressing symptoms rather than causes – and the firm returns to its decline trajectory. At this point, the firm may countenance more sweeping changes to restore the firm to a trajectory of sustained improvement. However, should this step not be taken, it is likely that the firm will continue to oscillate around the line of minimum acceptable standards, with successive uplifts being more difficult to achieve than previously, before ultimately failing.

Case C is a firm which is late in reacting to the crisis. The firm has breached its managerial-determined minimum level of performance and has begun to approach the line of failure. It is the classic turnaround, as described by Slatter (1999). In this instance, the firm needed the spur of breaking its internal standards, as well as the threat of extinction to begin to take substantial action. By so doing, sustained recovery is achieved.

Case D is the firm that does not perceive the threat of extinction, despite breaking its own minimum acceptable standards, or is unable to make any changes before termination.

The Decline Process

Research gives the following wide variety of reasons for corporate decline:

- *Over-expansion*: firms that have expanded too far find that they are stretched in both managerial and financial terms. This is the classic criticism of the diversification boom of the 1960s in the United Kingdom, which led to massive under-performing conglomerates.
- *Inadequate financial controls and high costs*: these often occur when a business grows beyond the capability of its original systems, so that costs spiral out of control.
- *New competition entering the market*: the arrival of a new competitor can substantially distort the competitive dynamics of a market and damage a firm's health.
- *Unforeseen demand shifts*: the nature of the market may change dramatically. Where a firm has substantial and rigid asset configurations, this can spell disaster – the classic example being the impact on IBM of the widespread switch from mainframe to desktop computers. The area most on people's minds at the moment is the potential impact of the Internet.
- *Poor management*: managers may have a false sense of confidence in their own abilities. This can arise from experiencing a period of success, causing an atmosphere of infallibility, and the screening of information. Of course, poor management may also just mean poor management.

Wiley Encyclopedia of Management, edited by Professor Sir Cary L Cooper.

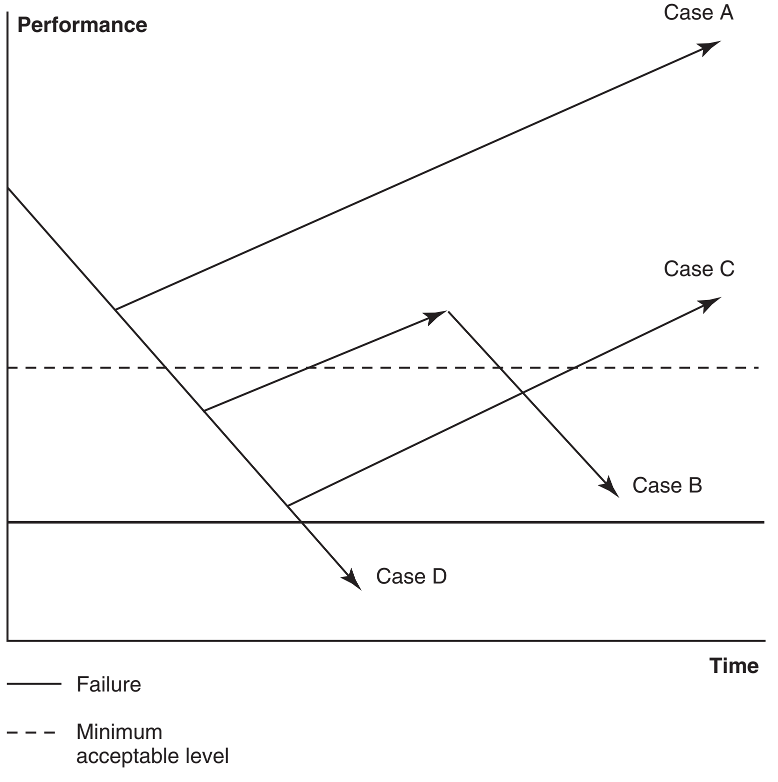


Figure 1 Types of sharpbenders. *Source*: Adapted from Grinyer, Mayes and McKiernan (1988); p. 14.

How do Managers React to a Crisis?

When the crisis is too obvious to ignore, managers tend to react in a sequential way, taking the least risky actions at first, and then becoming progressively more radical if the crisis worsens and they have time to act.

The stages of reactive behavior are well captured in Figure 2. Comparisons are continually drawn between reference points such as competitor performance, share performance, and ambitions and aspirations for profit performance. Should this comparison be favorable, then the innermost loop will be followed with the current behavior being reinforced. Should the comparisons prove unfavorable, then the first stage will be followed. If desirable results are not forthcoming, then executives may move progressively outwards in Figure 2 until the third stage of a fundamental review of strategy is undertaken.

Triggers for Action

Whilst it may be clear that an organization is on a decline trajectory, it is vital that triggers are identified to bring about action. If triggers cannot be identified, then it is likely that nothing will change, despite the abundance of warning signs.

The important triggers for bringing about change are seen in Table 1. A well-known example of an acquisition as a trigger prompting a strategic change is the Hanson bid for imperial chemical industries (ICI). In fighting off the bid, ICI announced the de-merger of Zeneca.

The main trigger identified is a new CEO. His/her importance is in terms of supplying a new vision and symbolizing that things need to change. Indeed, such a person has undoubtedly been appointed with a mandate for change.

In terms of early, intermediate, and late stage recoveries, the broad pattern, as one might

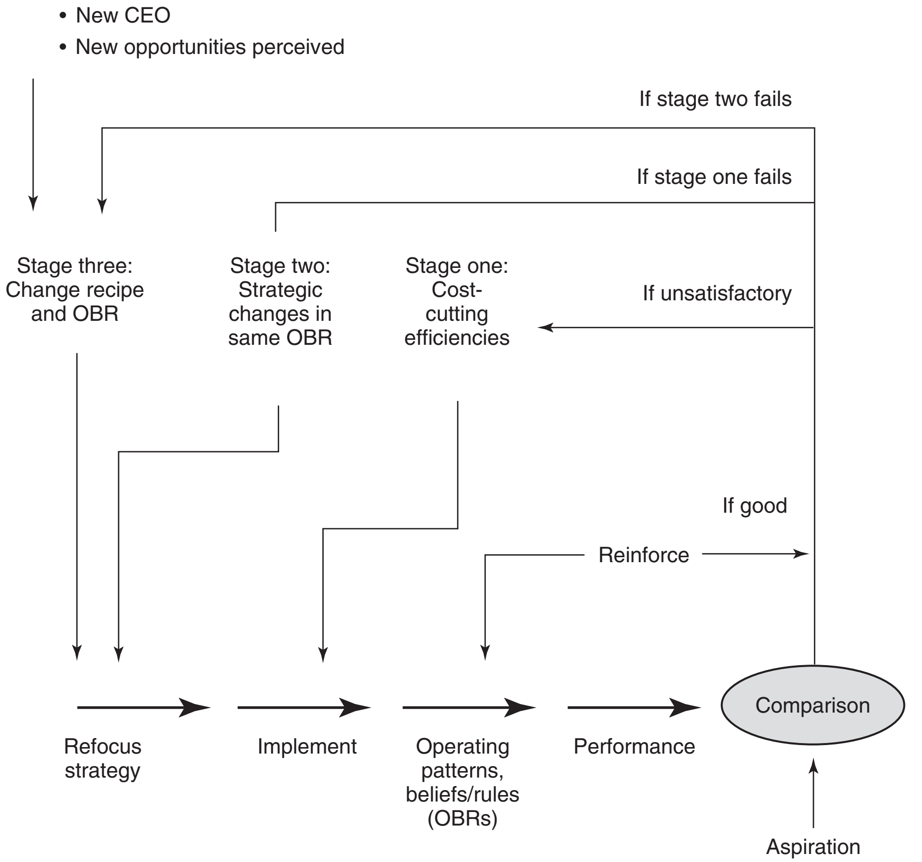


Figure 2 A conceptual model of the stages of reactive behavior. *Source*: Extended Cyert and March model (McKiernan, 1992); p. 58.

Table 1 Triggers.

	Sharpbenders citing this factor (%)
Intervention from external bodies	30
Change of ownership or the threat of such a change	25
New chief executive	55
Recognition by management of problems	35
Perception by management of new opportunities	10

Source: Grinyer, Mayes, and McKiernan (1988), p. 47.

expect, is for the early stages to have internal triggers and have a management able to perceive problems and opportunities. As we move to the late stagers, all triggers are important with an increased external emphasis.

Actions Taken

If there are triggers in place then the sort of actions that might be taken to bring about a recovery are contained in Table 2. We are interested to know the actions which sharpbenders

Table 2 Actions taken.

Percentage of firms citing factor	*Sharpbenders*	*Control companies*	*% difference*
Major changes in management	85	30	55
Stronger financial controls	80	70	10
New product market focus	80	80	0
Diversified	30	70	(40)
Entered export market vigorously	50	30	20
Improved quality and service	55	50	5
Improved marketing	75	30	45
Intensive efforts to reduce production costs	80	30	50
Acquisitions	50	80	(30)
Reduced debt	50	80	(30)
Windfalls	85	70	15
Other	25	20	5

Source: Grinyer, Mayes, and McKiernan (1988), Sharpbenders p. 64.

took and, in particular, those actions which are specific to them. For this reason, we show the percentage of sharpbenders citing an action in column 1, the percentage of other randomly selected companies citing an action in column 2 and the difference between the two scores in column 3.

The major difference between sharpbenders and control companies in terms of action taken are management changes. Eighty-five percent of sharpbenders cited management changes, some 55% more than the control companies. They also devoted considerable efforts to improving marketing and reducing production costs. Unlike the control companies, they were very reluctant to diversify and there were markedly reduced levels of acquisition. Interestingly, they also were reluctant to reduce debt, and here there is a distinction with pure turnarounds in that the latter make considerable efforts to reduce debts. Sharpbenders are more likely to invest to improve performance.

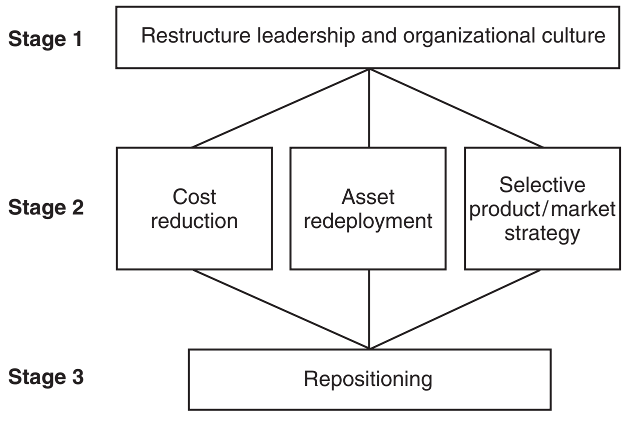
Characteristics of Sustained Performance

Following the turnaround, sharpbenders needed to adopt characteristics, which would enable sustained levels of performance – to refer back to Figure 1, organizations want cases A and C, rather than B (where the recovery achieved is only short term). The characteristics identified in the Sharpbenders (1988) study are contained in Table 3:

Table 3 Key features of sustained improved performance.

	Number of characteristics cited	*Percentage of firms cited*
Good management	4+	90
Appropriate organizational structure	4+	75
Effective financial and other controls	4+	50
Sound product market posture	5+	45
Good marketing management	2+	55
High quality maintained	2+	35
Tightly controlled costs	3+	40

Source: Grinyer, Mayes, and McKiernan (1988), p. 110.



Stage / Strategy	Action	Conditions
1 Restructuring	Replace top managers	Internal causes of turnaround
	Use temporary structures Alter organizational structure Alter culture	Need to diversify Control and communications problems Aid repositioning Culture change Structure change
2 Cost reduction	Reduce expenses	Internal causes of decline
	Institute controls	Sales 60-80% of break-even
Asset Redeployment	Sell assets Shutdown or relocate units	Over-expansion/low capacity use Sales 30-60% of break-even Rapid technological change Rapid entry of new competitors
Selective product/ market strategy	*Defensive* Decrease marketing effort Divest products *Offensive* Increase marketing Increase prices Improve quality, service	Over-expansion External causes of turnaround High capacity use Possessing operating and Strategic weaknesses
3 Repositioning	*Defensive* Niche Market penetration Decrease price Divest products *Offensive* Diversification into new products	Over-expansion (defensive) Improved short-run profitability External causes for turnaround Major decline in market share Non-diversified firms faced with external causes of decline (offensive)

Figure 3 Five generic strategies of recovery. *Source*: Adapted from Hoffman (1989).

- good management is seen to be critical to sustained recovery;
- appropriate organizational structure often meant a much leaner one, with fewer layers in the hierarchy;
- tightly controlled costs meant better controls, rather than cutting costs.

GENERIC TURNAROUND STRATEGIES

Grinyer, Mayes, and McKiernan (1988) academic study is consistent with the review of practitioners' work by Hoffman (1989) in identifying a three-stage process for recovery, although not all organizations need to go through all three stages – see Figure 3.

CONCLUSION

Turnarounds are just one example of crisis situations in corporate strategy, and readers should be aware that this has particular implications for how strategy is viewed in such circumstances. In the case of turnarounds:

- A proactive top-down style of management has been advocated as necessary and effective for turnarounds. For other strategy decisions, a Mintzbergian bottom-up view, or indeed a middle-up-down perspective is more common.
- Rapid change is critical to survival in a turnaround, although currently dominant in strategic management is the processual view, which emphasizes the complexity and difficulty of change, so that it is perceived as a long and involved process.
- Structure comes before strategy in so far as changes are made for the company's very survival before the luxury of a strategy can be considered. This is contrary to the strongly held Chandlerian view that structure follows strategy.

ENDNOTES

[1] Original article by Duncan Angwin and John McGee. Updated by Tanya Sammut-Bonnici.

See also *acquisition strategy*; *divestment*; *downsizing*; *joint ventures*

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