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Role of strategic flexibility in the choice of turnaround strategies: A resource based approach

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Abstract

With the recent economic recession and the increase of business failures along with that crisis, the study of organizational decline and turnaround responses has become even more crucial. The aim of this paper is to contribute to the quest for successful turnaround strategies by taking a resource based approach. Considering the role of sustainable resources of the organization and the strategic flexibility to exploit them properly as well as exploring new ones, the study contributes to the analysis and management of turnaround situations by investigating how the interaction of these two important factors affects the optimum strategy choice during the recovery period. The paper first gives a synopsis of the perspectives on turnaround strategies, resource based view and strategic flexibility based upon the previous literature and theories. The proposed model of the study which adopts the two staged view of turnarounds consisting of retrenchment and recovery, suggests a 4-cell matrix for each stage, to determine both the focus of retrenchment and focus of recovery for each quadrant as well as the prior strategies to be implemented in four different cases of variations contingent upon the level of sustainable resources and strategic flexibility of the organization. The rationale behind each strategy is also explained based on literature. It is expected that a shift of quadrants within the matrix will occur by implementing the suggested recovery strategies. The model looks forward to helping academicians and practitioners gain insight into how to analyze and manage turnaround situations and tailor their strategies accordingly both during recession and post-recession periods.

Keywords: recession; turnaround strategies; retrenchment; recovery; strategic flexibility; resource based view

1. Introduction

The recent financial crisis and subsequent economic downturn are among the most important global economic events since the Great Depression of the 1930s [1]. According to Rumelt [2], adjustment is neither easy nor quick; some organizations wipe out due to difficult and volatile conditions whereas others prosper because they understand how to exploit new patterns. In those hard times of decline, organizations face the challenge to select the optimal turnaround strategies to recover from the crisis. A

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turnaround situation is defined as the sustainable recovery of a sick firm back to its normal growth and profitability [3, 4]. In the challenge of turnaround situations, resource-based view helps to conceptualize the relationships between firm resources and performance in the context of recovery from the crisis. The resource-based perspective considers the possession and use of some specific resources, unique, scarce, and difficult to imitate, as the main source of competitive advantage [5, 6, 7]. However, research also suggests that possessing resources alone does not guarantee the development of competitive advantage; instead, resources must be accumulated, bundled, and leveraged [8]; meaning that strategic flexibility becomes crucial to realize the full value of resources. In light of these findings, in this study, strategic flexibility as well as key sustainable resources is considered as two important factors to influence the appropriate strategy selection during turnaround processes.

This paper aims to contribute to the quest for recovery strategies by investigating how the interaction between key resources and strategic flexibility of the organization affect the strategy choice in the turnaround situations. The paper is structured as follows: In the first section the literature on corporate turnarounds is discussed with major emphasis on retrenchment and recovery strategies. Afterwards, the theoretical background on resource based view is discussed, considering the role of sustainable key resources, followed by the literature on strategic flexibility. Then, based on the literature findings, a conceptual model is proposed which suggests that turnaround strategy choice is contingent upon strategic flexibility as well as the availability of key sustainable resources of the organization. Finally in the conclusion part, managerial and theoretical implications and limitations of the study are discussed.

2. Corporate turnarounds

Turnarounds have gained increasing significance in recent decades leading to an accumulation of a body of research on the topic [9, 10, 11, 12]. This scholarly interest may be attributed to the many examples of business failures in the tough conditions of turbulent environments as well as recessions and the dramatic period of organizational decline faced by firms. An organizational decline is defined as deterioration in an organization's adaptation to its environment and the consequent reduction of resources within the organization [13, 14]. Corporate turnaround may be defined as the recovery of a firm’s economic performance following an existence-threatening decline [15, 16, 17, 18, 19]. A turnaround situation has also been defined as the sustainable recovery of a sick firm back to its normal growth and profitability [3, 4]. In other words it is the process by which once-successful firms, that experience severely declining performance for a period of time, overcome their troubles and return to or exceed their pre-downturn performance.

2.1. Turnaround as a staged process

The idea that turnarounds consist of sequential processes, has led to the introduction of staged models. The major multistage approaches to turnarounds include those provided by Bibeault [20] (five stages: management change; evaluation, emergency, stabilization, and return to growth); by Hambrick [21] (crisis, stabilization, and rebuilding); by Robbins and Pearce [10] (retrenchment and recovery)—and also by Khandwalla [22], Zimmerman [23], Slatter [3], and Arogyaswamy et al. [15]. Balgobin and Pandit [24] also propose that a successful turnaround consists of five stages, but their model includes the stages of decline and crisis that precede the implementation stages. Similarly, McKiernan’s [25] turnaround model includes six stages including the period before explicit implementation of turnaround: causes, triggers, diagnosis, retrenchment, recovery, and renewal.

In this paper, the most parsimonious model of turnaround stages, the two-step design of retrenchment and recovery discussed by Robbins and Pearce [10], Arogyaswamy et al. [15], Hofer [16], and Schendel et al. [4] will be used. The first stage called retrenchment, involves a stabilization plan to stop the firm's financial crisis and improve core operations. This initial stage has the primary objectives of survival and achievement of positive cash flow through retrenchment activities concerning costs and asset reduction such as liquidation, divestment, product elimination and downsizing. After stabilization is ensured, the second phase is return-to-growth or recovery stage. In this stage, bleeding has stopped and the aim is growth and development through strategies such as acquisitions, new products, new markets, and market penetration.

While some researchers [10, 20, 16, 26, 27, 28] find retrenchment to be an integral part of successful turnarounds, according to another group of researchers [11, 29, 9, 30, 31], it’s not essential to turnaround. Interpreting the recent economic crisis, Rumelt [2] has also emphasized the coexistence of retrenchment and recovery stating that the first aim is to survive, but the second is to benefit from the new patterns. During hard times, besides cutting costs, things have to be done differently on two levels: reducing the complexity of corporate structures and transforming business models. This paper also holds the perspective that turnaround success depends on the right implementation and coupling of retrenchment and recovery strategies which will be explained below in more detail.

2.2. Retrenchment and recovery strategies for turnaround success

Robbins and Pearce’s [10] two staged model requires action to achieve stability followed by recovery. Retrenchment as the first step in this two-phase process which is seen as the foundation and requirement of business turnaround [32] focuses on cost cutting and efficiencies to provide positive cash flow. Robbins and Pearce [10] indicated that asset and cost retrenchment should lead to performance improvements because of increased efficiencies provided by the reduction of expenditures and the elimination of assets. Regarding strategic choice, Robbins and Pearce [10] further suggested that as severity of decline increased, retrenchment strategies should progress from cost reduction to asset reduction strategies. After survival is ensured, the second stage of recovery follows. Bibeault [20] argued that between these two stages of retrenchment and recovery, a decision was needed on a strategy for the firm. At that point, the firm must choose either to continue to pursue retrenchment as its dominant strategy or to couple the retrenchment stage with a new recovery strategy that emphasizes growth. If it continues with retrenchment merely, the entire process becomes an operating or efficiency turnaround. In the latter circumstance specified, the process is classified as a strategic or entrepreneurial turnaround [10].

Recovery is a crucial stage that determines the success of the turnaround since a turnaround is successful when the firm is able to reverse the performance crisis, end the threat to its survival and achieve sustained profitability. Supporting that view, Bibeault [20, p.125] suggests that a firm has not really turned around unless it achieves a solid base for future growth. Recovery stage is characterized by priority given to revenue generation and investment over asset and cost reduction. While retrenchment is more concerned with efficiency, this stage involves both efficiency and the building of effective systems and skills needed to create sustainable growth [28, p.401]. During this period of the turnaround, specific actions are taken to improve the health of the firm which lead the change to a new form of behavior [33, p.109]. As an extension of the cost savings in the retrenchment phase, maintaining efficiencies during the recovery phase of turnaround is still a crucial matter. No matter which growth strategies are implemented, backing them up with the realization of efficiency gains is absolutely essential to successful recovery [32].

Many strategies for recovery are reported in the literature, with similar strategies appearing under different terminologies. Hofer [16] distinguishes between operational (revenue generating, cost-cutting, asset-reduction and combination) and strategic (position-changing) turnarounds as the two broad strategies. Hambrick and Schecter's [9] research identified three strategy combinations (called "gestalts") associated with successful turnarounds (Asset/cost surgery; selective product/market pruning; and increased capacity utilization and employee productivity) and four gestalts associated with failed turnarounds (significant entrepreneurial initiatives; dramatically reduced monetary expenditures; significant increase in new products; and no distinguishing actions). Hoffman [34] reviewed 17 studies of corporate turnaround strategies and he noted that the strategies involved one or all of the following components: restructuring of leadership and the organization/culture, cost reduction, asset redeployment, a selective product/market strategy, and repositioning.

The strategies investigated by Sudarsanam and Lai [35] are: operational restructuring, asset sales, acquisitions, capital expenditure, managerial restructuring, dividend cut, equity issue and debt restructuring. Pearce and Robbins [17] mention strong financial control, product/market reorientation and improved marketing to the list of strategies associated with successful turnarounds. Pretorius [36] proposes a matrix of strategies in response to different turnaround situations depending on resource munificence and origin of the decline.

Restructuring has significant importance in the efforts to revitalize management practices and organizational structures in recovery stages [37]. Grinyer et al. [33, p.141] argue that the ways in which people and systems are organized in troubled organizations can have a major impact on effectiveness and in unsuccessful turnarounds there is less attention to restructuring activities. O'Neill [38] investigated the relationship of contextual factors on the effectiveness of four primary turnaround strategies: management, cutback, growth, and restructuring. His model predicted a negative relationship between growth strategies and turnaround success where there were strong competitive pressures. Where firms were in weak market positions, success was found in cutback and restructuring strategies. For firms competing in mature or declining industries, efficiency or operating recovery strategies were the best preference for successful turnaround. New structures can be an alternative to accomplish new visions and missions and to effectively implement turnaround plans. This response to failure may involve a new definition of the core activities of an organization. Restructuring may involve changes in planning systems, extent of decentralization, and styles of human resource management or replacement of the chief executive or the entire senior management team.

Zammuto and Cameron [39] also propose five domain-altering strategic responses to organizational decline: domain defense (buffering from the environment), domain offense (expanding markets or product line), domain creation (diversifying or innovating), domain consolidation (reducing size of domain and peripheral actions), and domain substitution (replacing domain when carrying capacity of original niche goes to zero).

As indicated among the various alternatives of strategies above, recovery phase may have an entrepreneurial focus or growth orientation as well. Pearce and Robbins [32, p.102] concluded that firms with entrepreneurial activities in the recovery response were more successful in their turnaround efforts. However, planning for growth should consider the available resources and other constraints of the firm. It is expected that the turnaround plan will employ existing resources rather than new ones given the time required for key resource creation [40]. Findings of the research conducted by Francis and Desai [41] agree with previous research in that the availability of resources either limit or enhance the options for firms attempting a turnaround strategy [10]. The most common growth strategies are diversification at the corporate level and concentration at the business level [42]. Diversification can be defined as the entry of a firm into new lines of activity, through internal development or acquisition [43]. Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion. Diversification can also be accomplished through external modes such as acquisitions and joint ventures. On the other hand, concentration can be achieved through vertical or horizontal growth. Vertical growth occurs when a firm takes over a function previously provided by a supplier or a distributor. Horizontal growth occurs when the firm expands products into new geographic areas or increases the range of products and services in current markets. Burgelman [44] argued that deteriorating performance in existing businesses often stimulated the creation of new ventures.

It should be noted that a turnaround situation is an extraordinary period which is unique to the firm; therefore it requires different and customized approaches and strategies compared to normal situations. Moreover, the success of particular recovery initiatives is linked to many contextual factors which can be summarized under three broad domains: industry and environmental context factors, organizational contingencies, and context conditions associated with the nature of decline. For example, Hofer [16] focuses on the severity of the crisis, as a contextual factor determining the appropriateness of certain recovery actions. Size, state of development, organizational slack and managerial discretion are among the organizational contingencies of interest. For example, organizational slack provides the organizations with the luxury of adopting a longer timeframe. Limited slack pushes organizations to use of turnaround strategies which focus on short-term revenue expansion and cost cutting, while firms with sufficient slack can also emphasize strategic approaches that involve longer-term competitive advantage. The degree of bureaucratization is another organizational context that may lead to failure in turnarounds due to hierarchy acting as an inhibiting aspect. Thus, to form useful recommendations for turnaround situations, it is important to pay attention to the differences in turnaround situations depending on different internal and external factors. For the purposes of this paper, organizational context will the focus point where two critical organizational contingencies that are influential in the selection of recovery strategies, namely key resources and strategic flexibility of the organization, will be taken into consideration, and recovery strategies will be suggested for turnaround situations contingent on these two factors. These two variables of interest will be examined in detail in the next section.

3. Theoretical background: Resource based view

Since corporate turnaround is related to loss of competitive advantage, the threat of existence, and the subsequent regaining of competitive advantage, it's appropriate to consider the sources of competitive advantage while investigating recovery strategies. Therefore the resource based view of the firm (RBV) which has emerged as a popular theory of competitive advantage, as an alternative to industrial-organization (IO) perspective [45] will be the theoretical basis of this study to understand how an organization exploits its resources and capabilities to face the challenges of an economic crisis.

3.1. Resource based view and its assumptions

For years, management strategists have tried to figure out the factors that influence a firm's success in the marketplace. In this search for reasons behind competitive advantage, there exist two mainstream schools in the contemporary strategic management literature: the positioning school proposed by Porter [45] in his seminal book "Competitive Strategy" and the resource based view (RBV), building on the seminal work of Penrose [5], The Theory of the Growth of the Firm. The positioning school [45] views the firm as concerned with achieving strategic alignment with its environment. Accordingly, a firm's success is based on both the attractiveness of the industry in which the firm competes and the firm's relative position in that industry. In the RBV school which is initiated by Penrose [5] and developed by Rumelt [46], Wernerfelt [6], and Barney [7], a firm's competitive advantage depends mainly on the bundle of unique resources it possesses and how it can stretch these to achieve competitive advantage. Major assumptions of this perspective are that resources are heterogeneously distributed among firms and they are not transferable without costs [6, 7].

Wernerfelt [6, p.172], who originated the term "resource-based view of the firm", defined resources as those tangible and intangible assets which are tied semi-permanently to the firm. Tangible resources are financial capital, physical capital, human capital, and organizational capital [47]. Intangible resources are knowledge based, include organizational routines and the abilities of individual employees and can be more powerful than the tangible ones in terms of leading to competitive advantage [48]. Some examples of intangible resources are patents, copyrights, technical employees, reputation and research facilities.

When examining resource characteristics, it is also necessary to look at a firm's capabilities which differ from resources, in that capabilities determine the way in which resources are reconfigured and redeployed to add value to the firm [49]. Dynamic capabilities constitute an essential component of the RBV, by their ability to generate new sets of resources in turbulent environments. Therefore, a firm can be flexible via its dynamic capabilities and can adapt its resources to changing conditions.

3.2. Resource sustainability

This paper deals with the key sustainable resources which bring advantage to the firm, rather than ordinary resources which do not possess strategic importance. To achieve competitive advantage, the firm's resources must be valuable and rare. In addition, for this advantage to be sustainable, the firm's resources must also be imperfectly imitable (difficult to replicate because of causal ambiguity, social complexity, or specific historical circumstances), and non-substitutable [7, 50]. Thus, value, rarity, inimitability, and non-substitutability refer to the sustainability of a firm's resources, because they determine the extent to which a firm's resources lead to sustainable competitive advantage. On the other hand, Grant [51] uses the criteria of durability, transparency, transferability, and replicability to capture the sustainable competitive advantage. It is expected that existence of key sustainable resources of the firm bring advantages in turnaround situations as well as being influential in shaping the strategic choice during recovery from crisis.

3.3. Resource based view and turnarounds

Among the turnaround literature which integrates the resource based view with the corporate turnaround situations, Balgobin [52] examined four successful and four unsuccessful cases to see how turnaround firms leveraged their resources in their recovery attempts. It was found that in successful turnarounds, recovery strategies were based on resources with those four characteristics that made a resource "sustainable", occurred within a system configured to use them and were strategically relevant to the recovery plan. By contrast, in the unsuccessful cases, turnaround strategies were based on resources which lacked some of the characteristics identified as foundations of sustainable competitive advantage. In other words, recovery success was determined by the availability and type of key resources. Also, In Balgobin's research [52], successful firms reduced their resource base in areas where activities were no longer 'core' and they changed the alignment of their resources to suit their needs. Results showed that all turnaround firms attempted to learn from their experiences and understand the resources they lacked or needed to improve, in order to improve their performance.

Another research was conducted by Pretorius [36] where a model for strategies which could be applied in each turnaround situation was proposed. In his turnaround matrix, he combined resource munificence and causality results in a matrix with four cells of turnaround situations. Resource munificence which is at the heart of the turnaround situation [30, p.542] refers to scarcity or abundance of critical resources that are needed. On the causality dimension, he mentions that the cause of decline and failure is frequently classified as strategic or operational [10, p.287]. Each turnaround situation formed in the model from the interaction of these two variables demands a different strategy. Depending on either resource abundance versus munificence and on strategic versus operational causality, Pretorius [36] suggests growth, efficiency, repositioning or last resort strategies for each cell.

Although existence of key sustainable resources of a firm constitutes a very important variable in the strategy choice and success of turnaround, the applicability of these resources is not guaranteed. To create superior economic value, mere possession of resources should be enhanced by their exploitation – the effective and innovative utilization of these resources towards clearly defined goals [53]. As Slack [54, p.1201] summarized, "flexibility has come to occupy a central position in how operations can be strategically developed to play an effective part in achieving competitive advantage." Therefore the next section will introduce the second important variable of interest in this paper, which is strategic flexibility.

4. Strategic flexibility

Key resource availability is not sufficient in successful turnaround strategies unless the firm is capable and flexible to make use of these resources or create new ones. Thus, as mentioned, strategic flexibility becomes another important variable in the proposed model of this study. The definition of strategic flexibility, its linkage to resource based view and its role in the success of corporate turnarounds will be explained below based on the relevant literature.

4.1. Definitions and typologies

Organizational flexibility in general has been classified under different categories, including operational flexibility, tactical flexibility, and strategic flexibility [55, 56, 57]. This study deals with strategic flexibility which is indicated to be more important than the other aspects of flexibility as well as covering both operational and tactical domains, since it is a long-term perspective of flexibility emphasizing a firm's managerial capability to identify, generate and maintain different strategic options while responding to environmental changes and uncertainties [58, 57].

Among the numerous definitions of strategic flexibility in the literature, Shimizu and Hitt [59] defines strategic flexibility as an organization's capability to recognize the changes in the external environment and commit resources to take appropriate actions timely and quickly. According to Hamel and Valikangass [60], strategic flexibility is the ability to dynamically reinvent business models and strategies as circumstances change. Sanchez [61] defines strategic flexibility from the resource based approach as the ability of a firm to reallocate and reconfigure its organizational resources, processes, and strategies to deal with environmental changes.

Research on strategic flexibility focuses on three interrelated aspects: Resource flexibility [62], process flexibility [63] and strategic options [64]. The strategic options view which focuses on the dynamic capabilities that allow a firm to identify, create and maintain options is stated to encompass the resource and process perspectives of flexibility, claiming that a business unit has the capability for strategic flexibility only when it is able to build and implement an optimal set of strategic options in the strategic paths of the firm [64, 65].

4.2. Strategic flexibility and RBV

Based on this strategic flexibility view and the resource-based view (RBV) of a firm, Sanchez [61] suggests that flexibility is constrained not only by resources but also by the ways a firm uses the resources. Sanchez [66] further categorizes strategic flexibility as resource flexibility and coordination flexibility. He suggests that flexibility requires that an organization have access to flexible resources and be able to be flexible in coordinating those resources in alternative uses. This perspective suggests that an organization must have access to flexible resources and be able to be flexible in coordinating those resources in alternative uses in order to create a range of strategic options. This view is consistent with the approach of Penrose [5], who is a cornerstone of RBV and whose notion of a firm is a collection of productive resources.

The dynamic core competencies view also supports that unique resources of the firm must be complemented by strategic flexibility [67]. Accordingly, in turbulent environments, firms need to develop a unique set of resources to build competitive advantage. This unique set of resources is built into skills and capabilities which are referred to as core competences. However in the changing nature of the environment, these core competences cannot remain static; they must be continually developing. Otherwise, Leonard-Barton[68] states that in highly competitive environments, a core competence can become core rigidity. On the other hand, the ability to upgrade and reinvent these core competencies dynamically brings strategic flexibility. Because strategic flexibility emphasizes the flexible use of resources and reconfiguration of processes, it enables firms to achieve a competitive advantage in turbulent markets [69, 70]. In this sense, strategic flexibility can help the firm achieve the full potential of its key resources when used in combination [71].

4.3. Strategic flexibility in turnaround success

Strategic flexibility is found to have numerous advantages for organizations, especially in the success of recovery during turnaround situations. Firms that have the flexibility to respond to new competitive patterns have the advantage to easily redeploy critical resources, use the diversity of strategic options available to them and develop new markets [72, 73]. As mentioned above, without flexibility, key resources and core capabilities of the firm have the danger to turn into core rigidities [49, 74]. Strategic flexibility brings superior performance and inimitability of core competences [61, 67]. In line with these findings, Grewal and Tansuhaj [72] stated that through strategic flexibility, the ability to respond quickly to changing competitive conditions has a positive influence on performance after a crisis. Moreover, Krantz [75] mentioned capacity for flexibility as a key element of successful turnarounds for organizational recovery. Balgobin's [52] findings also reveal the importance of being a strategically flexible organization for successful turnarounds. He found that the successful firms were able to change the alignment of their resources to suit their needs and they were able to blend and balance resources. Thus, in line with the supporting literature, strategic flexibility is expected to play a significant role besides sustainable resources in survival and recovery during a crisis.

5. Methodology

Since this study is conceptual and theoretical in nature, the answers to the inquiry questions have been based upon an extended review and analysis of literature. Secondary data available in the literature consisting of books, periodicals, seminar proceedings, and internet resources has been used to thoroughly and systematically analyze the relevant points in the turnaround literature in order to develop the proposed conceptual model. The study provides a foundation for further empirical investigation of the model.

6. Findings and proposed model

As specified in turnaround literature, businesses adopt a variety of strategic approaches to survive in and recover from recession conditions. Based upon the literature support, a turnaround model is proposed, taking into consideration the level of key sustainable resources and strategic flexibility of the organization where each turnaround situation demands a different strategy. Considering the two-staged process of turnarounds, the model consists of two separate matrices, one for retrenchment and the other for recovery. Although there is one focal point and one prior strategy suggested for each quadrant, it should be noted that these are only specified as dominant strategies and different strategies may be used in combination since there is no single best way. Also although two stages are shown to be separate from each other, businesses are more likely to succeed if they combine strategies of cost efficiency and retrenchment (exploitation) with strategies of innovation and positioning for future growth (exploration) [76].

6.1. The proposed model

Regarding the terms in the model, "focus of retrenchment" refers to the target areas of retrenchment such as reduction in assets or costs; improving efficiencies and generating revenues. "focus of recovery" mentions two dimensions; one of which is internal versus external growth. A firm can grow in two ways: either by merging with or acquiring other firms (external growth), or by increasing its own assets or output through the reinvestment of its cash flows in existing businesses (internal growth). The other dimension emphasizes the response to organizational decline from the terminology adapted by Zammuto and Cameron [39], related to domain adjustments of organizations. "Prior strategy" in both matrices refers to the relevant retrenchment or recovery strategy to be implemented as the main strategic focus contingent upon levels of resource sustainability and strategic flexibility. Resource sustainability will be mentioned as RS, and strategic flexibility as SF, for the briefness of the following explanation part.

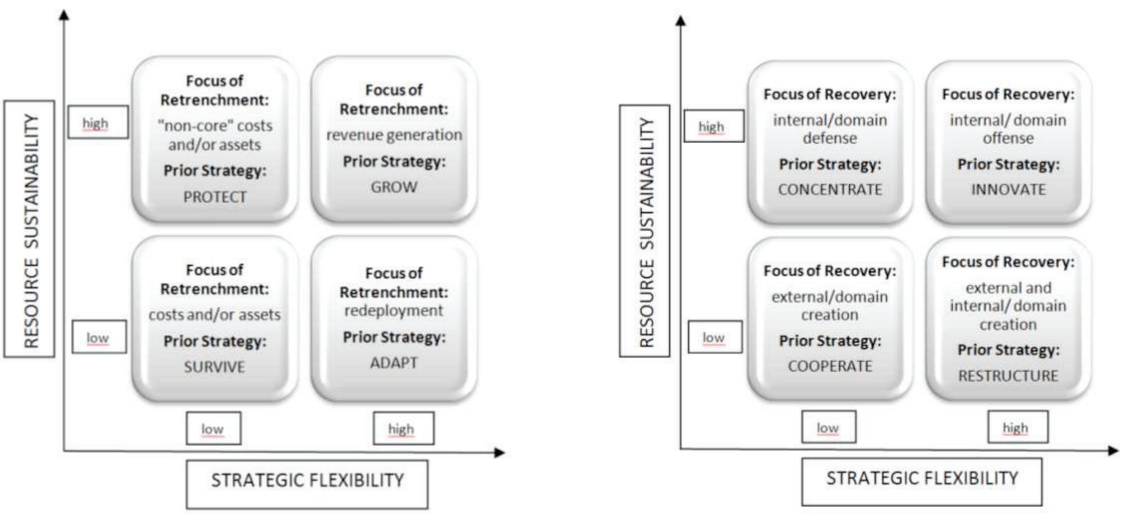

Fig. 1. Matrices of turnaround strategies (a) Stage 1: Retrenchment; (b) Stage 2: Recovery

6.1.1. Stage 1: Retrenchment Strategies

In the retrenchment stage, the most common approaches adopted by businesses to deal with recession conditions, especially in the short-term focus mainly on cutting operating costs, divestment of non-core assets, efficiency improvement or revenue generation. A relevant retrenchment strategy that suits each of the quadrants in the matrix is suggested and explained below.

- Low RS- Low SF: Survive: Since resource sustainability is low, no restrictions apply on the cost, and if necessary, asset reductions. Retrenchment may involve divestment of businesses, closure of establishments, and downsizing. The crucial priority becomes the survival of the firm and to stabilize itself to be able to pass to the recovery phase.

- High RS - Low SF: Protect: Due to requirements of retrenchment, asset and or cost reduction will have to be considered, but the critical ones constituting the core competences of the company should be protected. In other words, as sustainable resources bring competitive advantage to a company, they must not be given up, not to risk success of turnaround during recovery phase. This suggestion is supported by Balgobin's [52] research where it was found that successful firms reduced their resource base in areas where activities were no longer 'core'. By contrast, the failed firms in the study were more likely to reduce their most valuable resources which might have supported efforts at turnaround. Francis and Pett [41] also suggest that organizations implement turnaround strategies that focus on areas of internal weakness and avoid reducing areas of strength. In this situation the reduction of expenses becomes more appropriate for generating cash than reducing assets.

- Low RS - High SF: Adapt: Since the firm is low on resource sustainability but high on flexibility, it should make use of this flexibility by an adaptation strategy. Thus retrenchment can be focused on redeployment of existing resources in order to create efficiencies of inputs and higher capacity utilization.

- High RS - High SF: Grow: Firms high in both dimensions can perceive recessions as opportunities rather than threats and both in retrenchment and recovery phases they can benefit from these advantages. Rather than reductions in costs and assets, the efforts can be directed towards revenue generation and growth oriented strategies, but still being backed up with efficiency control. Firms' resources and capabilities may be exploited to increase operational efficiency and at the same time dynamic capabilities may be developed to explore new opportunities for revenue generation.

6.1.2. Stage 2: Recovery Strategies

When the firm ensures survival and passes from retrenchment to recovery phase, the focal points and prior strategy selections for returning back to growth differ among the quadrants of matrix which will be explained below. Focal point mentioned on the model as internal or external refers to growth orientation, based on the distinction that a firm can grow in two ways: either by merging with or acquiring other firms (external growth), or by increasing its own assets or output through the reinvestment of its cash flows in existing businesses (internal growth). The other focal point is relevant to Zammuto and Cameron's [39] different domain manipulation responses that involve changing of products or services, or populations served by the firm, consisting of domain offense, defense, creation, substitution or consolidation.

- Low RS- Low SF: Cooperate: The firm in this quadrant is low in both dimensions, therefore lacks the necessary foundation to return to growth based solely on its own resources and capabilities. In that case, in order to create or enhance its resource sustainability and flexibility, the firm has to depend on external growth strategies, such as mergers, acquisitions and inter-organizational networks. The firm looks forward to domain creation [39] through alliances. Mergers and acquisitions can help the firm enhance its resource sustainability which will be explained under restructuring in more detail. Strategic alliances may enable firms to push the limits of technology by combining their resources and by providing more access to capital as well as greater managerial capabilities. On the other hand, cooperations such as inter organizational networks are especially found to be helpful for small firms in terms of increasing their strategic flexibility as well as resource base. According to Hitt et al. [67], an organizational network is a voluntary arrangement between two or more firms that involves durable exchange, sharing or co-developing new products and technologies. Advantages include faster market penetration, sharing of financial risk, increased production efficiencies, enhancements of innovation capability, and access to competitively valuable knowledge. Thus through networks firms learn new capabilities and gain access to resources they need but do not possess.

- High RS - Low SF: Concentrate: The focus of recovery in this quadrant shifts to internal growth whereby the firm with high level of sustainable resources is able to get advantage of its internal resources. Domain defense is the relevant action in this quadrant in order to preserve or restore the organization's existing domain and support the continuation of current activities by refocusing issues to protect market position and competitive advantage. In that case, the focus is mainly on internal operations and doing the business right and better. Since the firm doesn't possess high flexibility, the prior strategy becomes to concentrate on the existing strengths which may involve shrinking selectively or to reposition the existing business. Hambrick and Schecter's [9] selective product/market pruning that focuses on the business's most profitable products and market segments, combined with an abandonment of the least profitable ones or refocusing on a profitable niche may be applicable in this quadrant. Also, market penetration [77] consisting of the firm seeking increased sales for its current products in its current or international markets may be another preferred recovery strategy. In order to deal with low flexibility in the short run, such a firm can enhance its strategic flexibility by managing properties that are owned by others, e.g. by outsourcing; however in the expense of forgoing the additional revenue potential from owning the assets. Besides these short term strategies, the firm in this quadrant must set long term strategies to increase its strategic flexibility in which case restructuring towards flexible structures, processes, mindsets and resources can be applied.

- Low RS - High SF: Restructure: The focal point of this quadrant can be either internal or external growth or a combination of the two depending on the strategies selected. Also either domain creation- supplementing current domains with new domains through acquisitions, joint ventures, or geographical expansion or domain substitution responses- replacing one domain with another can be preferred. In this quadrant, the prior strategy is called restructuring since the short term response when shifting to recovery can best be managed by the flexibility capability of the firm rather than with the low level of sustainable resources it has. Researchers characterize corporate restructuring as change along the dimensions of assets, capital structure, or management [78]. A firm may need to shift its product or service focus to stay competitive in the market; a firm may look ways to differentiate itself; or a firm may decide that it should change its management, human resources, organizational culture or organizational structure which inhibit acquisitions of highly sustainable resources. Key resources should be developed during the recovery phase. From the internal point of view, corporate restructuring here may involve reengineering with the aim of redesigning business processes to increase efficiencies or internal restructuring efforts aimed at moving towards more flexible structures (such as horizontal forms) or top management change. Also Ansoff's [77] market development strategy where the firm seeks increased sales by taking its current products into new (international) markets may be an alternative. Therefore it can acquire key resources like knowledge from the new markets. From the external perspective, mergers and acquisitions may provide the firm with an enhancement in its key resources. According to Balgobin [52], in successful turnaround companies, changes were augmented by 'borrowed' resources accessed through development agreements, joint ventures and acquisitions. Mergers and acquisitions provide firms with a tool to close their resource gaps, allowing for a much faster reconfiguration of the product mix toward high profit products than internal development [79]. Mergers and acquisitions provide the possibility to obtain entire knowledge systems that are brought under a unified control [80].The acquisition of entire bundles of resources and capabilities gives the acquirer full control with the advantage of information dissemination. However it is important that when mergers and acquisitions are employed to obtain resources, the intention should be to realize synergies from the combination of the merging firms' strategically related resources; otherwise there occurs a risk of reduced flexibility.

- High RS – High SF: Innovate: Resources and their availability constitute an important element in the facilitation of innovative activities [81]. As Covin and Slevin [82] point out, entrepreneurial ventures are resource consuming activities and therefore a firm's ability to pursue innovation will be constrained by available resources. Strategic flexibility also enhances innovations since it allows rapid commitment of resources to new actions in response to change, it promotes a firm's willingness to forgo existing investment in exchange for future development [61] and it may enhance the usage of technological capabilities in innovations. Therefore a firm that is high in both of the dimensions can get the most out of the core resources and capabilities by becoming more dominant in an existing market or by diversifying into new markets and products through innovation and differentiation. An entrepreneurial strategy that emphasizes growth and innovation is suggested in this quadrant. For some analysts, recessions are regarded as periods of 'creative destruction' [83] during which some businesses and industries decline, while new ideas, technologies, products and industries emerge and become the driving forces of growth [84]. Accordingly, a firm high in both dimensions is expected to benefit from the recession through investment in new markets, new products, new technologies, new methods of operating, or new people, or in other words through an entrepreneurial approach. In this quadrant the focus is internal growth since it exploits internal resources and capabilities. Also domain offense response is taken as the focal point which is designed to do more of what the organization already does well, by expanding the market for current products or introducing new forms of the product to generate revenue through the maintenance or improvement of market share and continuous product innovation.

6.1.3. Shift of quadrants

The short term strategy suggestions primarily aim at the recovery out of the recession within the existing resources and flexibility range. However, in order to make this growth sustainable, firms must focus their long term efforts on strategies to improve their sustainable key resources and their strategic flexibility which will bring them competitive advantage. Thus the long term strategy for the firm should be beyond solely saving the day; hence in order to make it a successful turnaround, the goal should be to move the organization through a shift of quadrants towards a more advantageous position in terms of resource sustainability and strategic flexibility. Therefore, as suggested strategy is implemented, it is expected that a firm shifts from low to high resource sustainability position as well as from low to high strategic flexibility which will provide it a competitive advantage, in or out of a turnaround situation. Hitt et al. [67] advise organizations to use a mix of actions to build flexibility and competitive advantage: such as, (a) developing dynamic core competences, (b) focusing and developing human capital (e.g. contingency workers and outsourcing), (c) effectively using new technologies (e.g., IT or flexible manufacturing systems), (d) engaging in valuable strategies (e.g., cooperation), and (e) developing new organization structures and culture (e.g., horizontal structures). Vertical structure tends to be slower in developing and implementing decisions and less facilitative of innovation. As a result, firms are developing flatter and more horizontal structures to enhance innovation and speed up strategic actions [85]. Exploiting global markets also has an impact on strategic flexibility [67]. Firms that diversify into international markets often outperform domestic competitors, and tend to be more innovative. Furthermore, strategic alliances may enable firms to push the limits of technology by combining their technological and creative resources and by providing more access to capital as well as greater managerial capabilities.

7. Conclusion

This is a conceptual study which provides a good foundation for empirical testing in future research. It contributes to the academic literature by combining two important factors of sustainable resources and strategic flexibility on the strategic choice of recovery. At the same time it helps both academicians and practitioners identify key factors that may be more critical during a turbulent time of an economic crisis, to gain insight into how to analyze and manage turnaround situations and tailor their strategies accordingly. Managers should focus on the importance and development of sustainable key resources as well as strategic flexibility to survive and recover from the crisis. A limitation of the matrix type model is only two variables of interest have been considered. There exist other organizational contingencies and contextual factors which can be examined in further studies. Matrix type models can also be criticized due to oversimplification (not capturing the complexity of the situation) and offering a more general framework. However, this type of a model also has strengths. Lowy and Hood [86] mention the power of 2x2 matrix with its simplicity and comprehensiveness in understanding complex situations, being particularly useful in defining possible areas of focus and action, and creating a sound basis for decision-making with easiness to analyze and apply. The 4-cell matrices of retrenchment and recovery strategies proposed in this paper draws managers' attention to contingencies that should be considered before choosing a turnaround strategy. In this paper the focal point for each quadrant has been described, but these strategies that are suggested to be the dominant ones should be complemented with other recovery strategies. Firms' responses to recession are diverse. It should be noted that there's no single best strategy that guarantees business survival, or success, under recession conditions, but rather ambidextrous strategies used in combination.

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