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Corporate Decline and Turnaround Strategies

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Corporate decline and Turnaround Strategies

Abstract

This research is a literature review for corporate decline and turnaround strategies. It aims to identify what are business decline symptoms and causes and which strategies have been identified by scholars and associated with turnaround situation. The literature review has offered further insights into the understanding of symptoms and causes of business decline. It has raised the issues of confusion between symptoms and causes of decline and the subject of how to determine the causes decline. Two lines of thought that considered the company's failure and decline have been discussed: external/internal category of causes of decline and the loss of competitive advantage as the main cause of decline. Furthermore, this research revealed that the most common strategies which associated with turnaround situation were cost reduction, divestment, investment, CEO replacement, refocusing/repositioning. These strategies have been classified in different categories such as "Efficiency", "operation", "Strategic" and "entrepreneurial" by different authors

Introduction

The fall of a company from a superior position in terms of performance to poor position reflects a fundamental problem with its management or a drastic change in its environment. How should managers respond in such circumstances? The ailing company can be rescued by adopting a set of strategies called turnaround strategies. However, survival is not taken for granted even if companies adopt such strategies.

While turning around ailing companies has become a prevalent phenomenon in the past two decades, researchers (e.g. Pettigrew, 1990; Winn, 1993; Pandit, 2000; Bruton et al., 2000; Sudarsanam et al., 2001) have stressed that our understanding of this phenomenon is still incomplete and require more research to fill the gap in order to provide a better understanding of turnaround. For example, Winn (1993, p. 48) cited in Pandit (2000) states that:

> While companies facing near-bankruptcy, market losses, or substandard performance are increasing in frequency, strategy researchers have provided little help for the managers with turning around deteriorating performance.

Turnaround is considered to be an extreme situation in a company's life cycle, and turning around ailing companies is a complex process. It is a big challenge for managers and researcher to uncover the reasons behind performance decline and the action required to put companies back on track. Based on the challenge involved in such research and the recommendations by other researchers, turnaround has been chosen to be researched.

The purpose of this research is to interpret business decline and understand the reasons behind this decline as well as analyse and evaluate turnaround strategies in the extant literature in response to corporate decline.

1. Corporate decline

In practice, companies' performance tends to fluctuate from time to time due to rapid change in their internal and external environment. However, the real problem for management is the declining performance of their companies. Why high profile companies which dominated their market and had been markedly successful lose destiny with their profit being transformed to loss? This dilemma had pushed managers and encouraged researchers to interpret business decline and understand the reasons behind this decline. Companies' performance decline is distinguished by early signals and indicators of decline, regardless of whether these signals and indicators have been observed or not. These signals do not give an explanation for business failure and decline, instead, the root of those signals is the most important thing which managers should consider.

1.1 Symptoms of decline

Many researchers have described and examined symptoms for companies' decline. For instance, Slatter & Lovett (1999) described symptoms of decline as danger signals which can be discerned by people outside the ailing company. Thompson (2001) described symptoms of decline as indicators for a deteriorating situation while Scherrer (2003) has described them as warning signals which start flashing a long time before a company's performance starts its decline. From the a above description, symptoms of decline can be derived from companies' performance measurement and considered as a sign of the existence of an undesirable situation when compared with the past performance, future target, competitors' performance or the industry average performance.

Symptoms of decline are not the same as causes of decline which will be discussed in the next part; they give clues that something is going wrong inside or outside companies' environment which, ultimately affects the companies' performance negatively but they do not answer the questions of why is something going wrong? And which factors drive things to go wrong? The most common symptoms of decline are financial in their nature; however, there are some non financial symptoms of decline. Slatter (1984) conducted research on 40 UK declining companies and revealed a combination of ten financial and non financial symptoms of decline summarised in Table 1 (Cited in Thompsom, 2001).

• Profitability decline	• Dividends reduction
• Sales decline	• Debt increase
• Decreasing liquidity	• Delays in publishing financial reports
• Market share erosion	• High turnover of managers
• Lack of strategic planning	• Top management fear of ignoring important tasks and pressing problem

Table 1 Symptoms of decline Source: Slatter (1984) cited in Thompson (2001. P. 623)

Recent research, however, conducted by Scherrer (2003) has described symptoms of decline from different perspective; he developed three stages of decline: early, mid-term and late. Scherrer (2003) also argued that each stage has its own symptoms or signals. Table 2 summarise some of Scherrer symptoms of decline.

Early decline	Mid-term decline
▪ Lack of cash	▪ Increase in inventory
▪ Liquidity strain	▪ Decrease in margin
▪ Decrease in working capital	▪ Increase in bank advances
▪ Return of investment declining by 20%-30%	▪ Unreliable financial information ▪ Erosion of customer confidence
▪ Late financial information	▪ Overdraft made at banks
▪ Increase in customer complaints	▪ Bank is sued to cover payroll

• Flat sales	• Violation of loan covenants
Late decline	**All stages of decline**
• Increase in inventory	• Market share erosion in key product line
• No liquidity	• Increase in management turnover
• Hasty lay-off	• Poor internal accounting
• Decrease in working capital	• Management conflict with company goals
• Cut-off of supplies	

Table 2 symptoms of decline Source: Scherrer (2003)

Researchers (e.g. Slatter, 1984; Slatter and Lovett, 1999; Scherrer, 2003) have introduced lists of symptoms of decline, some of them financial and some of them non financial and the number of symptoms vary from one researcher to another, for example, Slatter (1984) concluded that there are 10 major symptoms. Slatter and Lovett (1999) introduced 47 symptoms from different observer's perspective while Scherrer (2003) mentioned 32 symptoms which related to different stages of decline.

In real life, some of these symptoms exist in declining and healthy companies at the same time (Slatter and Lovett, 1999). For instance, reducing dividends does not have to mean that the company performance is declining. Rather, the company may tend to invest a substantial amount of profit for future growth. Inventory increase is not sign of decline in the stage of company expansion in growing industry. This leads us to the point that many symptoms of decline mentioned by researchers such as Slatter (1984); Slatter and lovett (1999); and Scherrer (2003) are description of the declining performance rather than an early signal of decline. Therefore, it is quite difficult to judge whether a company in real trouble or not because one or more symptoms of decline exist.

Managers are desperate to recognise signals of decline as early as possible, therefore there is no need to mention symptoms of decline for example in the late decline stage because in this stage the company's managers know the fact that they are in big trouble already. In this context, companies need to establish their own measurement system to trace those signals of decline; Jack Welch the CEO of General Electric US states that:

> The three most important things you need to measure in business are customer satisfaction, employee satisfaction and cash flow (Cited in Thompson, 2001).

This confirms the facts that the less number of signals the more attention will be drawn to them. Kaplan and Norton emphasised that companies should focus on limited and critical performance measures and they summarised them in their framework which is known as 'balanced scorecard' (Thompson, 2001).

1.3 Predicting company's failure

Many investors, authors and external observers are concerned more with companies' financial performance as a measurement of decline..Some of them such as Altman (1968) and Taffler (1977) went far toward predicting company failure using the company's financial ratios; the work of Altman (1968) led to the development of 'Z-scores' which is redeveloped by Taffler (1977. Z-scores were considered to be a good indicator to assess a company's potential bankruptcy; where Altman Z-scores were below 1.81, the company was considered bankrupt; where Z-scores were above 2.99, the company was considered healthy. If we use Taffler Z-scores; a score above 0.2 indicates that the company is healthy while a score below 0.2 indicates to the company potential bankruptcy (Slatter and Lovett, 1999; Thompson, 2001).

1.4 Causes of decline

Causes of decline are those factors that stand behind the existence of symptoms of decline. Sales decline is a symptom not a cause of decline; the factors that pushed down sales are the root of problem which causes the decline. In this context, many

authors failed to explicitly distinguish between symptoms and causes of decline; for example Thompson (2001, p. 624) states that:

> An investigation of 1000 insolvencies in 1994 determined that the greatest single cause of business failure was loss of market, which was responsible for 29% of the insolvencies. Inadequate cash flow accounted for a further 25% and leadership failing 16%.

Loss of market and inadequate cash flow are symptoms of decline while leadership failure is cause of decline. Sherrer (2003) introduced list of 32 symptoms of decline and 21 causes of decline which reflects how subjective this issue. Many authors sought to categorise the factors causing decline; the popular internal/external categorisation used by Casseells, 1992; Slatter and Lovett, 1999; Pandit, 2000 and Scherrer, 2003; while, other authors such as Pearce II & Robbins, 1992; Chan, 1993; Thompson, 2001 categorised the cause of decline in terms of issues such as leadership, finance, competitiveness, poor management, technological change, economic problems and over expansion.

The different emphasis on the importance of any single cause of decline between the authors reflects their subjectivity in this topic. For example, Chan (1993) stressed on poor management and external factors as a common reason in most businesses that start to get in trouble. While, Thompson (2001) emphasis on poor strategic leadership, inadequate financial management, and lack of competitiveness categories as causes of decline. It is not easy task to identify the causes of decline in general because the significance of each cause varies from company to another and from industry to another. If manufacturing problems regarded as a particular cause of decline among computer companies we can not generalise this on services companies. Using the external/internal framework of the causes of decline, Table 3 summarises the argument and findings of sixteen authors whom discussed this issue.

	Schenel et al. (1976	Bibealt (1982)	Slatter (1984)	Thain & Goldthorpe (1989)	Grinyer et al. (1990)	Gopal (1991)	Pearce & Robbins (1992)	Cassells (1992)	Chan (1993)
External causes									
Intense competition	X	X	40%	X	X	X	X	X	X
Falling demand	X	X	33%	X	X	X	X	X	X
Input price increase	X	X	30%	X		X	X	X	X
Internal causes									
Poor management	X	X	73%	X	X	X	X	X	X
Poor financial control		X	75%	X	X	X	X	X	
High cost structure	X		35%	X	X		X	X	X
Overtrading	X		17%	X			X	X	

(Continued)

	Richardson et al. (1994)	Hill & Jones (1995)	Hacker (1996)	Gething (1997)	Scherrer (2003)
External causes					
Intense competition		X	X	44%	X
Falling demand		X	X	68%	X
Input price increase			X	20%	X
Internal causes					
Poor management	X	X	X	84%	X
Poor financial control	X	X	X	60%	X
High cost structure	X	X		56%	
Overtrading	X	X	X	20%	

Table 3 Causes of decline*.Adapted from Slatter and Lovett (1999), and Pandit (2001)
*** X authors stresses on these factors as causes of decline**

The same causes of decline could be categorised in different ways as discussed above, however using external/internal category is much easier especially for the purpose of this research.

1.4.1 External Causes

External causes can be defined as those factors that exist in the companies' business environment but beyond their control, therefore, these factors pose a real threat to the companies' survival. In this context, Robert Marks states that:

> Catastrophes build up slowly while the existing management is busy looking after day-to-day business: competitors steals its market share, demand for the product diminishes, lack of investment in new technology makes the company uncompetitive (cited in Richardson et al., 1994).

1.4.1.1 Intensity of competition

Companies' performance decline when they fail to remain competitive, simply because their products are obsolete or their price is too high. Product's obsoleteness comes from a shift in customer demand due to new products developed by other competitors. Therefore, a company runs into trouble when it fails to respond quickly to their competitors' move in terms of developing new products. Slatter and Lovett (1999) pointed out that companies fail to replace their existing obsolete products because:

- Company's management believes that the existing products are unbeatable because it is the best in the market.
- The success rate of new product is very low; therefore companies tend to avoid such potential loss unless obliged to do so.
- There is a lack of the required resources and ideas to develop new products.

In addition to new product development by competitors, price competition is another factor which may drag down the companies' profitability. Price competition is considered by Slatter and Lovett (1999) to be the most common cause of decline in manufacturing industry in Western countries and it is a common feature for mature industry. High-cost companies will not be able to maintain their profit in price competition situation because their profit margin will erode faster than their low-cost competitors which ultimately will lead to a prominent declining performance for the high-cost companies. The intensity of competition depends on the industry structure as discussed in chapter two and the interaction between forces in Porter's industry framework determines the industry members' profitability.

Thirteen authors out of fourteen mentioned or stressed competition as external cause of decline. Slatter (1984), Grinyer et al. (1990) and Gething (1997) found that competition accounted for 40%, 44% and 60% of externally caused decline respectively.

1.4.1.2 Falling demand

Demand fall can be brought about by new substitute products/services (innovation and technological change), economic recession and social and cultural change (Slatter and Lovett, 1999). Some authors distinguished between many different kind of demand; for example Schendel et al. (1976) identified secular decline (industry or specific firm decline) and cyclical decline brought about by economic conditions (Cited in Pandit, 2001). Slatter and Lovett (1999) distinguished between long-term decline, cyclical decline and changing pattern of decline (shift in customer's preferences). Regardless of demand type, declining demand influences companies'

performance negatively and may drive some of them out of the market. Companies aim to maintain or increase their level of sales, however, when demand falls maintaining or increasing the level of sales will be inevitably at the expense of other companies' sales. Thirteen authors out of fourteen. emphasised falling demand as a cause of decline. Declining market demand was the most frequent cause of companies' performance decline in Thain and Goldthorpe (1989) and Grinyer et al.(1990) while, Gething (1997) found that change in market demand was the cause of decline in 68% of his sample.

1.4.1.3 Input price increase

Under the input category, Slatter and Lovett (1999) include the price of commodity products such as raw material, interest rate, foreign currency prices and property prices as cause of decline. Pandit (2001) emphasised wages and raw material cost as cause of decline while other authors such as Thompson (2001) included it under cost disadvantages. Input price increases push a company's profit margin down; financially, one of the most common indicators of a company's profit rate is its gross profit margin (II), which is the difference between total revenue (TR) and Total Cost (TC), divided by Total Cost (TC):

II = (TR – TC)/TC

In another way:

II= {(Unit Price* Unit Sales) – (Unit Cost*Unit Sales)}/ (Unit Cost* Unit Sales).

In this context, Hill and Jones (1995) discussed that to maximise the gross profit margin for any given company compared with its competitor's one of the following must occur:

- The company's unit price must be higher than its competitors and its unit cost must be equivalent to its competitors.
- The company's unit cost must be lower than its competitors and its unit price must be equivalent to its competitors.
- The company must have both a lower unit cost and a higher unit price than its competitors.

Higher cost found to be the most frequent category of decline in Schendel et al. (1976) sample while it represented 30%, 20% in Slatter (1984) and Gething (1997) respectively.

1.4.2 Internal causes

Internal causes can be described as those controllable factors inside companies such as production, finance and marketing. If these factors are managed well, they will be a source of the companies' competitive advantage; the Japanese companies are well-known for their production techniques which gave them the advantage to enter and dominate different markets. However, these factors are a potential threat when they are mismanaged.

1.4.2.1 Poor management

A common reason for companies to find themselves in a declining situation is poor management (Chan, 1993; Pandit, 2001). Unqualified strategic leader or sometimes a qualified autocratic strategic leader represents poor management where, negligence and costly key decisions are features of their management. Furthermore, poor management may take the form of unbalanced expertise at the top (for example, too many accountants), lack of strong middle management, and a failure by the board of directors to monitor management's strategic decisions (Hill & Jones, 1995). Table 4 shows that all the authors identify poor management as a cause of decline. Slatter (1984) found that an inadequate strategic leader was the major cause of decline in 73% of his sample; this result has been reinforced by Gething (1997) whereby poor

management accounted for 84% of his sample. Some authors such as Pandit (2001) went so far as to argue that the root of companies' performance decline must be poor management.

1.4.2.2 Poor financial control

Poor financial control can be manifested in an inability to manage the company's cash flow, inability to allocate costs between products, inability to know which product/s considered being profit centre and inability to monitor the company's performance. Poor financial control considered to be one of the most frequent causes of decline in Slatter's (1984) sample and accounted for 75% of his sample. This result has been reinforced by Gething (1997) who found that poor financial control was a cause of decline in 60% of his sample .

1.4.2.3 High cost structure

Companies are considered to be at a cost disadvantage when their costs are higher than their competitors. The source of high costs could be wages, manufacturing process and raw materials. In this context, Slatter and Lovett (1999) distinguished between different sources of cost disadvantage:

- Inability to take advantage of economies of scale.
- Absolute cost disadvantages.
- Management style and companies' structure can be source of cost disadvantages.
- Operating inefficiencies due to lack of investment.

Slatter (1984) found that high cost structure is a cause of decline in 35% of his sample while Gething (1997) reported 56% of his sample cite high cost structure as a cause of decline.

1.5 Competitive advantage

A recent stream of research has related companies' performance to their competitive advantage, however, accumulating evidence of a strong relationship between competitive advantage and business performance has been found (Karnani, 1984; Day & Wensely, 1988 and Grant, 1991) cited in Anna Kaleka (2002). In this context, businesses fail or their performance decline when they fail to remain competitive (Richardson et al., 1994 and Pandit, 2001). For the purpose of this study, a company achieves competitive advantage when it creates more value for customers, more than its rivals. Because competitive advantage has been associated with business performance, the question is where does competitive advantage come from?

The resource-based view (RBV) which is currently the dominant theoretical perspective in strategy literature suggests that unique firm competencies provide competitive advantage (Coates & McDermott, 2002 and Chuang, 2004). However, competencies can be created by exploiting the company's resources and capabilities (Pandit, 2001; O'Regan & Ghobadian, 2004). Resources refer to tangible resources (equipment, plant, geographic location...etc) and intangible resources (brand, reputation, patents, organisational routine...etc) (Hill & Jones, 1995; Pandit, 2001).

While, Capabilities is the process of learning and accumulating new skills in order to deploy and coordinate different resources (Teece et al., 1997) cited in Coates & McDermott (2002). Their is arelation between resources and capabilities, competencies, competitive advantage and performance. The basic idea is that deploying and exploiting a company's resources and capabilities will bring about distinctive competencies from which competitive advantage arise. This competitive advantage will yield superior performance, however, nothing lasts for ever, competitors will catch up in somehow and the company's competitive advantage may diminish and its performance will definitely decline. Once this has happened, the company's management must realise that their resources and capabilities have

become obsolete, therefore, the existing resources and capabilities must be rejuvenated and new one must be developed to regain the company competitive advantage. In RBV perspective, Coates & McDermott (2002) contend that resources must meet the following condition to yield distinctive competencies:

- It must provide opportunities for the firm
- It must differ from the company competitor's resources
- It must be difficult to imitate

1.6 Triggers for change

Some authors focused on the level of performance deterioration required to trigger change while others focused on the form of the trigger. Schendel and Patton (1976) found that great performance decline is necessary to trigger change and their argument has been reinforced by Taylor's (1982/3, p. 13) when he stated that:

> Necessity is the mother of invention. It often requires a crisis to stimulate new initiatives, and to persuade boards of directors to take radical measures and to accept new approaches which they would not normally be prepared to consider (Cited in Pandit, 2001)

Grinyer et al. (1990) discussed the form of the triggers for change. Their findings are summarised in Table 5. As shown in the table, the most frequent form of trigger for change is new chief executive whereby 55% of Grinyer et al. (1990) sample cited this form.

Form of the trigger	% of firms citing this factors
Intervention from external bodies	30
Change of ownership or the threat of such change	25
New chief executive	55
Recognition by management of problems	35
Perception by management of new opportunities	10

Table 4 Triggers for change Adapted from Grinyer et al. (1990, p. 120) (Cited in Pandit, 2001)

2. Turnaround strategies

Corporate turnaround strategies have become crucial for the survival of ailing companies. A turnaround strategy has been defined as the necessary set of actions that when implemented will halt a declining performance situation (Gowen III et al., 2002). Cater and Schwab, 2008, P. 32 define turnaround strategies as " a set of consequential, directive, long- term decision and action targeted at the reversal of perceived crisis that threatens the firm's survival". However, turnaround is not taken for granted because the feasibility of successful turnaround is a function of different factors such as the severity of crisis, causes of decline. Different company's decline may refer to different factors; therefore, we expect to see different emphasis on the strategies required to turnaround the ailing companies. Furthermore, other factors may influence the chosen turnaround strategies such as the leadership vision, the company national culture, and the degree of stakeholders support. When companies' performance decline, recovery may or may not be viable. Slatter and Lovett (1999); Thompson (2001) argue that the possible successful recovery depends on several factors. These are presented in the following sub-sections.

1- Causes of decline

Usually, many different kind of causes contribute to the declining situation as discussed in the previous chapter. The question is Can the causes of failure be tackled successfully? Some causes are easier to tackle within a relatively short time, these are internal causes which are under the management control such as production problems, marketing problems and poor financial control. Other causes are more difficult to be tackled and need a longer time, these are external causes which are not under the

direct management control such as falling demand and intense competition. In this context, Slatter and Lovett (1999) stress that companies suffering from internal causes are much easier to recover than those suffering a declining situation due to external factors.

2- The industry attractiveness

The more attractive the industry the easier for ailing companies to recover. The attractiveness of any given industry is determined by many factors such as the industry growth rate, the degree of market segmentation, the rate of technological change, the strengths of competitors,...etc. In this context, Porter's five forces model is valuable in analysing industry attractiveness as shown in chapter two.

3- Attitude of stakeholders

Stakeholders are any individual or group capable of affecting and being affected by the action and performance of an organisation such as banks, employees, government, trade unions ...etc (Thompson, 2001). In any turnaround situation the support of various stakeholders has a crucial impact on the recovery viability. In this context, Slatter and Lovett (1999) argue that if the shareholders act to change management before the firms reach the crisis zone, recovery may be achieved simply. Other stakeholders who have a crucial impact on companies' recovery are creditors especially banks. Today's banks are hesitant to work with ailing companies because they believe that certain industries are in decline and therefore, companies within those industries cannot be recovered (Scherrer, 2002). Thus, the role of the turnaround management is to negotiate the payment of the bank's outstanding loans and to convince them that the business is viable for a successful turnaround.

4- Severity of the crisis

Many authors such as Hofer (1980), and Slatter and Lovett (1999) considered the severity of crisis as a significant factor shaping any appropriate recovery actions. For instance, Hofer (1980) argues that small changes such as cost reduction can affect recovery positively where the crisis facing the company is not severe. However, the more sever the crisis the more dramatic changes such as asset reduction and market reorientation are required (Cited in Pandit, 2001). Figure 2 represents Hofer (1980) argument.

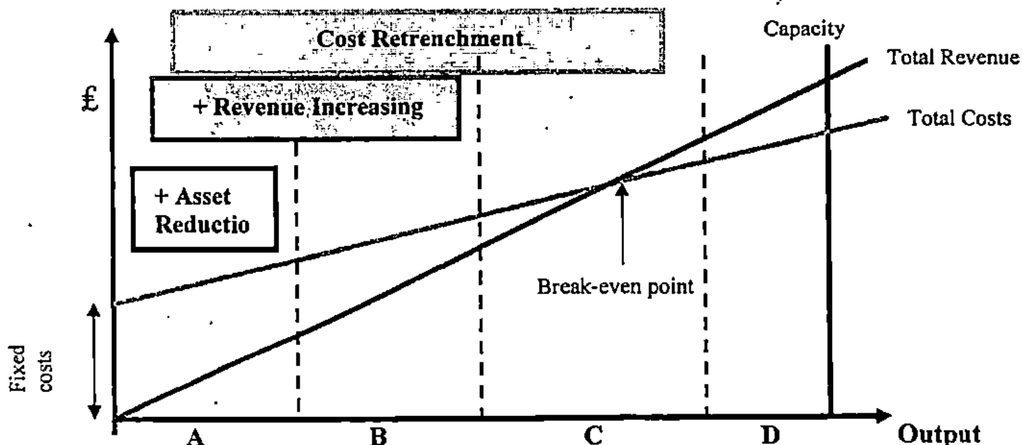

Figure 1: The relationship between the severity of crisis and the appropriate turnaround actions (adapted from Hofer, 1980, p. 27) cited in (Pandit, 2001, p. 39)

According to this figure, the most severe situation is when the firms operate in corridors A. In this case, the firm needs to adopt the three identified strategies: Asset reduction, revenue generating, and cost retrenchment in order to get to corridor D. Corridor D represents the point where the company's revenue is more than its total costs. Likewise, the firm in corridor B is in a less severe situation compared to corridor A, therefore, the strategies required to reach the break-even point are cost reduction and revenue generating. In corridor C, the firm is close enough to reach the break-even point, and this could be achieved by adopting cost reduction solely.
Slatter and Lovett (1999) argue that the severity of crisis is a function of the causes of decline and timing; however, they distinguished between different types of crisis such as cash crisis and profit crisis. In their view, each type of crisis situation requires different strategies to tackle it.
It is not an easy process to judge how severe the turnaround situation is; how can we measure the severity of situation? Because severity of turnaround situation is a function of causes of decline and time, any suggested measures should reflect these two dimensions. Nevertheless, the bigger the company the more likelihood of recovery success. How could somebody imagine that global big names such as Coca Cola, GE, Sony, IBM, Toyota, Unilever, McDonald's, Microsoft, ...etc will disappear from the market because of crisis situation. Statistically it could happen, but practically, these companies live on crisis and are able to transform themselves to any direction irrespective of how severe the crisis and the resources required to overcome it.

2.1 Types of recovery

The likelihood of possible recovery varies from one company to another and is determined by the factors discussed above. Slatter and Lovett (1999) described four possible outcomes after adopting turnaround strategies, and these are illustrated in Figure 2

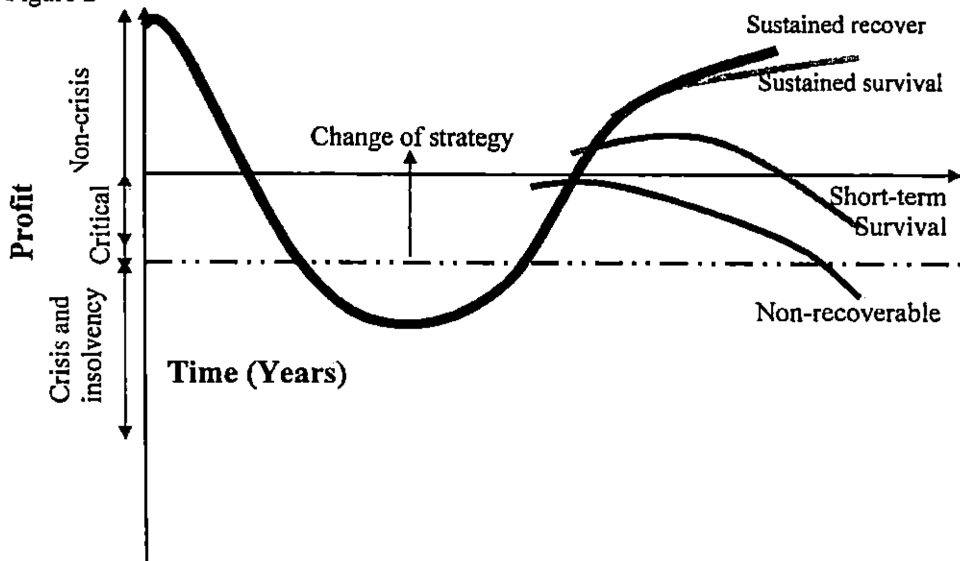

Figure 3 Types of recovery Adapted from Slatter and Lovett (1999).

1. Non-recoverable: Slatter and Lovett (1999) argue that these firms can not survive even in the short term. The early strategies of turnaround which aims to stabilise

the business are more likely to fail. This situation is more likely to happen where ailing businesses suffer from some or all of the following:

- The business is not competitive any more due to severe price competition from lower-cost producers.
- Sharp decline in market demand.
- The business's assets are indivisible which means that the business is single-planet and often focus (single product). Firms in this situation can not divest assets to generate cash flow and their access to further resources is limited.

I would argue that the non-recoverable situation is more applicable to small and midsize businesses rather than big businesses. Big companies have the resources and capabilities to fund any potential opportunity, diversify, refocus and reposition themselves and in some cases redefine the competitive rules and shift the market demand toward new products and services.

2. **Short-term survival**: Slatter and Lovett (1999) suggest that firms in this category may have succeeded in implementing the turnaround's operation strategies which usually aim to cut costs and generate revenue in the short-term. Nevertheless, these companies will eventually fail and go into insolvency because they ignored the other half of the turnaround which focuses on growth strategies and create new competitive advantage.
3. **Sustained survival**: Firms in this category have achieved successful turnaround, nevertheless, external factors such as industry decline and limited resources restrict further growth. Financially, companies in this category have stopped bleeding and become profitable, but their current performance is still below their main competitors, industry average or their past performance before the declining stage. To do a little more, these companies need to look for new resources, new opportunities and new ideas to achieve sustained recovery.
4. **Sustained recovery**: This stage is the dream of any ailing company. Companies in this category have achieved a genuine and successful turnaround (Thompson, 2001). It is the main objective of every declining business and it is the last stage of a successful turnaround. Businesses which have reached this stage have fully recovered, making reasonable profits and unlikely to face such crisis again in the foreseeable future (Slatter and Lovett, 1999).

Where the causes of decline are internal, sustained recovery is more achievable because those internal causes are controllable and can be changed in a relatively short-time. Where the causes of decline are external, achieving sustained recovery is far more difficult because those causes are not controllable; therefore, tremendous effort and time are required.

2.2 Definitions of corporate turnaround

Corporate turnaround is operationalised in the literature as performance decline followed by performance improvement (Schendel et al., 1976; Robbins and Pearce, 1992) cited in Harker (1996). However, corporate turnaround has been defined by many authors; For instance, O'Neill (1986) defined turnaround as a situation where three years decline in net profit in comparison with the industry average followed by at least two out of the following three years when net profit is greater than the industry average (Cited in Pandit, 2001).

Brandes and Brege (1993, p. 92) proposed that turnaround is "a process that takes a company from a situation of poor performance to a situation of good sustained performance" cited in Harker (1996). Slatter and Lovett (1999) used the turnaround term to refer to those companies whose financial performance indicates that the company will fail sooner or later unless short-term corrective action is taken.

2.3 Turnaround situation and performance measure

Firms experience turnaround situations when performance criteria are sufficiently depressed to warrant turnaround efforts. These circumstances have been variously defined by executive perceptions or by financial measures of firm performance (Robbins and Pearce, 1992, p. 307). In any turnaround study the chosen participants have to have encountered a turnaround situation. To have experienced a turnaround situations Robbins and Pearce (1992) argue that the firm has to meet the following conditions: Two successive years of increasing ROI and ROS followed by:

1. Absolute, simultaneous declines in ROI and ROS for a minimum of two years.
2. A rate of decline in ROI and ROS greater than the industry average over this two years period.

Harker (1996) also used financial criteria to choose his sample from the Australian engineering industry but in slightly different way. His sample's member had to meet two conditions:

1. Two years decline in performance (contribution to profit/loss) in absolute terms and relative to industry (sales) performance followed by;
2. At least two years increase in performance in absolute and relative terms.

Chowdhury and Lang (1996) used ROI as a primary measure of financial performance in their sample which had to meet three selection criteria:

1. They had to have a two years ROI decline.
2. The average pre-tax ROI for these two consecutive years had to have gone below 10%.
3. The performance decline of these firms had to have been independent of the performance of the industry in which they operated.

In recent studies, Mazumder and Ghoshal (2003) used different financial ratios as indicators of performance decline and turnaround situations such as Debit-Equity Ratio (D/E), Return on Networth (post tax) (RONW), Net sales/Total assets and Net profit/ Net Sales. Francis and Pett (2004) used (ROI) as a financial measure of turnaround situations and their sample's members had to meet the following performance criteria:

- Two consecutive years of (ROI) above the risk-free rate of return.
- At least three consecutive years of (ROI) below the risk-free rate.
- At least one year within the three years of decline with a negative net income.

The dominant measures of performance in turnaround studies are financial in their nature; for example, Robbins and Pearce II (1992) used Return On Investment (ROI) and Return On Sales (ROS) in their study of American textile firms that had encountered a turnaround situation. Chowdhury and Lang (1996) used (ROI) as indicator for their sample selection; while, Harker (1996) used contribution to profit/loss relative to industry sales in his study of Australian heavy engineering industry. Other authors used Return on Total assets (ROA) as a financial measure (Pandit, 2001). However, other financial measures have been used as indicators for turnaround situation such as Return on Capital Employed (ROCE) and Pre-tax profit. These two indicators have been used by Pandit (2001) in his study of IBM UK.

In this context, Slatter and Lovett (1999) and Pandit (2001) argue that defining turnaround situation on the basis of financial measures alone is not reliable. Growth oriented companies may show profit while at the same time being in a severe cash-crisis. Therefore, the profit picture of the turnaround situation should be several years of successively lower profits leading to a loss situation and a cash-flow crisis (Slatter and Lovett, 1999).

In order to tackle the problem of using financial indicators solely in defining the turnaround situation, Zimmerman (1989) used a human judgment such as a general agreement among stakeholders to judge whether the company has been turned around or not, while, Robbins and Pearce (1992) require agreement from one of the company's executives that a turnaround had occurred (Cited in Pandit, 2000). A new set of researchers such as Castrogiovanni and Bruton (2000) constructed a subjective measure of performance by using a panel of academic evaluators such as industry experts, stock analysts, and business writers.

There is explicit disagreement among turnaround researchers concerning the issue of performance; different authors used different financial performance indicators. However, another set of researchers argued that financial indicators solely are inadequate to judge whether a firm is in a turnaround situation or not. They required a human judgment by stakeholders or academic evaluators to confirm turnaround situations.

2.4 Turnaround strategies

Many authors such as Hill and Jones (1995); Thompson (2001); Wheelen and Hunger (2002) considered turnaround strategies as a part of recovery strategies or restructuring process. For instance, Hill and Jones (1995, p. 302) state that: "*An integral part of restructuring, therefore, is the development of a strategy for turning around the company's core or remaining business areas*", While, Thompson (2001, p. 635) states that: "*Retrenchment and turnaround strategies are often collectively called recovery strategies*".

Are companies restructuring themselves only in declining situations? Is retrenchment different from turnaround or part of it? The disagreement between authors on the content of turnaround strategies led to misunderstanding turnaround strategies; for example, we cannot consider a healthy and profitable company that adopted one kind of retrenchment strategies such as cost reduction to be in a turnaround situation. While, cost reduction strategy in declining situations is considered to be a part of turnaround strategies.

(Schoenberg, Collier & Browman 2013)found that six turnaround strategies were consistently identified in the literature as effective in helping firms make a sustained recovery from a period of performance decline. Four of these relate to the content or main objectives of the turnaround, namely cost efficiencies, asset retrenchment, a focus on the firm's core activities and building for the future. The remaining two relate to accompanying change processes required for implementation: reinvigoration of firm leadership and corporate culture change. While (Beeri, Itai & Navot, Doron, 2014) research exposes a further interesting relationship between TMS and recovery in poorperforming
local authorities. Some poor performers improve their rankings while others persistently
stagnate. Yet, both groups appear to implement TMS to a large and, more often than not, similar
extent

Turnaround strategies have been categorised by different researchers in different ways. Schendel et al. (1976) first proposed that the selection of appropriate turnaround strategies is a function of causes of decline. The authors distinguished between two sets of turnaround situation: the first results from poor strategy and the second results from poor operations. They proposed a list of strategies to overcome each turnaround situation (Cited in Robbins and Pearce, 1992).

Hofer (1980) first suggested that the selection of appropriate turnaround strategies is a function of the severity of a turnaround situation. His main idea is that different

degrees of crisis require different degree of cost and asset reductions. Both Schendel (1976) and Hofer (1980) and other authors (Bibeault, 1982; Hambrick, 1985) tended to categorise turnaround strategies as either "operating" or "strategic" (Cited in Robbins and Pearce, 1992; Chowdhury and Lang, 1996). Operating turnaround strategies are geared toward generating immediate revenue such as cost cutting or asset reduction. While, strategic turnaround strategies considered the potential growth strategies such as diversification or vertical integration (Chowdhury and Lang, 1996).
Hofer (1980) and Hambrick (1983) cited in Chowdhury and Lang (1996) categorised turnaround strategies as "efficiency strategies" and "entrepreneurial strategies". Efficiency strategies are focused on better uses of organisational resources, while entrepreneurial strategies are more market-oriented concerned with growth and revenue generation or targeting new and different market-niches (Woo and Cooper, 1981; Cameron, 1983; Hambrick and Schecter, 1983) cited in (Chowdhury and Lang, 1996). However, Cost-cutting and assets reduction, as strategies to improve efficiency, are recommended to precede entrepreneurial strategies (Chowdhury and Lang, 1996). This indicates how important the "efficiency strategies" are as an initial stage for successful turnaround.
In his study of textile companies in US, Robbins and Pearce (1992) found that retrenchment is absolutely necessary to achieve turnaround and firms should retrench regardless of the severity of situation. The major contribution of their study is assuring that retrenchment is the initial stage of any successful turnaround. In a recent study, Sudarsanam and Lai (2001) categorised turnaround strategies into four categories:

- **Managerial restructuring**: This means removal of Chairman or chief Executive officer (CEO) or Managing Director (MD). Table 4 in Chapter 3 shows that all the authors identify poor management as a major cause of decline, therefore many turnaround situations required new leadership. Grinyer et al. (1988) found that more management change was associated with firms who achieved turnaround in their sample than a non-recovered one (Cited in Sudarsanam and Lai, 2001). This supports Chan (1993) findings who found that replacement of CEO is crucial step for successful turnarounds, and this confirms Cassells (1992) argument that a change of management or CEO is one of the recovery strategies. The logic behind the removal of leadership is that s/he was responsible of the failure; therefore it is very unlikely that s/he can turnaround the company. Furthermore, leadership change will send a strong message to stakeholders (especially banks and creditors) that something is being done to turnaround the business, thus, their support will continue (Slatter and Lovett, 1999; Sudarsanam and Lai, 2001).

Operational restructuring: This covers cost rationalisation, Lay-offs, closures and integration of business units. The aim of these strategies is to improve efficiency, and generate cash flow and profit improvement by reducing direct costs and slimming overheads (Slatter, 1984) cited in Sudarsanam and Lai (2001). Five strategies have been recommended by Slatter and Lovett (1999) to generate cash, reduction of debtors, extension of creditors, reduction of stock, stopping planned expenditures, and short-term financial support.

- **Asset restructuring**: This includes divestment of subsidiaries, management buy-outs (MBOs), spin-offs, sale and lease-back, and other asset sales. Asset restructuring covers asset divestment and asset investment:
  - Asset divestment: Where the short-term strategy is to generate cash asset divestment is crucial. This strategy includes divestment of subsidiaries/divisions.

The aim is to get rid of non-profit generating assets, non-core assets or even profitable assets for the purpose of generating further cash.

- Asset investment: It incorporates both internal capital expenditures and acquisition. Capital expenditures are designed to achieve efficiency and improve productivity such as building new plants and machinery.

Financial restructuring: "is the reworking of a firm's capital structure to relieve the strain of interest and debt repayments and is separated into two strategies: equity-based and debt-based strategies" (Sudarsanam and Lai 2001, p. 187). Equity-based strategies include dividend cuts or omission and equity issues. Firms in turnaround situation tend to adopt such strategies to overcome their liquidity problems or to comply with debt agreement. Debt-based strategies refer to the extensive restructuring of company debt. Debt restructuring can take the form of interest or principal reduced, maturity extended, or debt-equity swap.

Castrogionanni and Bruton (2000), and Sudarsanam and Lai (2001) findings do not seem to support the view presented by Robbins and Pearce (1992) that retrenchment is the appropriate initial stage in every situation or context. In their study of 46 acquired distressed firms, Castrogionanni and Bruton (2000) found that retrenchment may not be a universal initial stage in the business turnaround process. They also found that the majority of non-retrenching firms in their sample experienced successful performance.

Sudarsanam and Lai (2001) found that recovery and non-recovery firms adopted very similar turnaround strategies but their strategic choice differed over time. Firms who had achieved successful turnaround focused on entrepreneurial strategies such as investment and acquisition to lead them out of trouble, whereas, failed turnaround firms were more internally focused on operational and financial restructuring. They argued that retrenchment strategies may be a necessary but not a sufficient condition for sustained recovery for many firms. Chowdhury and Lang (1996) studied the content and the process of turnaround strategies in smaller manufacturing firms. They found that turnaround for a smaller firm is a function of three strategies. The first two (increased employee productivity and disposal of older assets) are operating-related, while the third one is extending accounts payable.

In recent study, Gowen III & Tallon (2002) have summarised turnaround strategy actions in four categories action typology:

1. Revenue generation strategies: include raising product prices, increasing cash discounts to customers, and loosening customer credit criteria (Sloma, 1985) cited in Gowen III & Tallon (2002, p. 229).
2. Product/market refocusing strategies: include the elimination of unprofitable products, and changes in marketing practices in terms of channels of distribution, sales regions, and sales representatives.
3. Asset reduction strategies: include liquidation of inventory, equipment, physical plant, and divestment of a subsidiary and/ or product line.
4. Productivity improvement strategies: include inventory control, improving quality, investment in new machines or plant and workforce motivation.

The above discussion indicates that there is a set of strategies associated with turnaround; however, different terminologies have been used to describe these strategies by many authors. For instance, the term retrenchment when used by Robbins and Pearce (1992) refers to cost and asset reductions used by other authors such as Hofer (1980). Furthermore, these set of turnaround strategies have been classified into different categories such as "Efficiency", "operation", "Strategic" and "entrepreneurial" by other different authors. In this context, it is quite difficult to

classify specific sets of moves associated with the turnaround process as efficiency or entrepreneurial moves, for example, under which category can we classify managerial restructuring move? Is it efficiency or entrepreneurial move?

There is explicit agreement between authors on common turnaround strategies such as cost reduction, divestment, and investment. However, some turnaround strategies which have been considered by many authors have been ignored by the others. For example, a new strategic leader is considered a crucial action by Chan (1993); and Sundarsanam & Lai (2001) but has been ignored by Gowen III & Tallon (2002). This may indicate that the degree of adopting some turnaround strategies depends on other factors such as the culture of where the company operates, size of the company and the severity of situation.

2.5 Stages in turnaround process

Bibeault (1982) distinguished between two stages for turnaround process: primary stage and advanced stage. In the primary stage the aims of ailing companies are survival and achievement of positive cash flow. The appropriate strategies to achieve these objectives are retrenchment activities such as divestment, product elimination and head count cuts. The advanced stage of turnaround is geared towards growth and development. The appropriate strategies to achieve these objectives are acquisition, new product, new market, and increase market penetration (Cited in Robbins and Pearce, 1992).

Grinyer et al. (1988) found that the appropriate turnaround strategies to achieve a sharply improved level of performance were operational, followed by administrative and strategic (Cited in Robbins and Pearce, 1992). While, Robbins and Pearce (1992) argue that companies' turnaround can be achieved through a two stage process: retrenchment and recovery. In this context, Robbins and Pearce (1992) argue that firms may continue to pursue profitability through their retrenchment strategies with an essentially unaltered strategy, or it follows the retrenchment stage with growth strategies.

The significant point which emerged from the above discussion is that some researchers such as Grinyer et al. (1988) and Chowdhury and Lang (1996) have highlighted the issue of the first step or the starting point of turnaround process. This means that turnaround is a multistage process, and these stages are overlapped.

Theirs two stages of turnaround that dominate the extant literature:

1- Retrenchment stage: Retrenchment strategies-called sometimes "efficiency" or "operating" strategies-are primarily cost and asset reductions which aim to stop the ailing company's bleeding, stabilize the company's performance, and enhance the stakeholders' confidence in the business. It represents the initial stage of turnaround process and considered to be a short-term strategy.

2- Growth stage: Growth strategies called sometimes "strategic" or "entrepreneurial" strategies and aim to achieve sustained recovery. The strategies adopted in this stage are product development, market penetration, diversification, acquisition...etc. It represents the second stage of turnaround process and considered to be a long-term strategy.

It is explicit that the turnaround process starts in a retrenchment stage and is followed by the growth stage, however, the overlap between the two stages allows ailing companies to pursue efficiency and growth strategies together. The emphasis on each strategy depends largely on the causes of decline and the severity of turnaround situation.

Robbins and Pearce (1992) proposed a valuable model of turnaround process that represents the relationship between four variables that influence the turnaround

process a shown in Figure 5. This model shows that retrenchment strategies are the initial stage of turnaround process regardless of the causes of decline, however, the degree of retrenchment depends on the causes of decline. The more severe the turnaround situation the more retrenchment is required.

This model links the causes of decline to the nature of turnaround strategies; when the vast majority of causes of decline are internal we expect more emphasis on efficiency strategies. Likewise, when the vast majority of causes of decline are external we expect more emphasis on growth strategies.

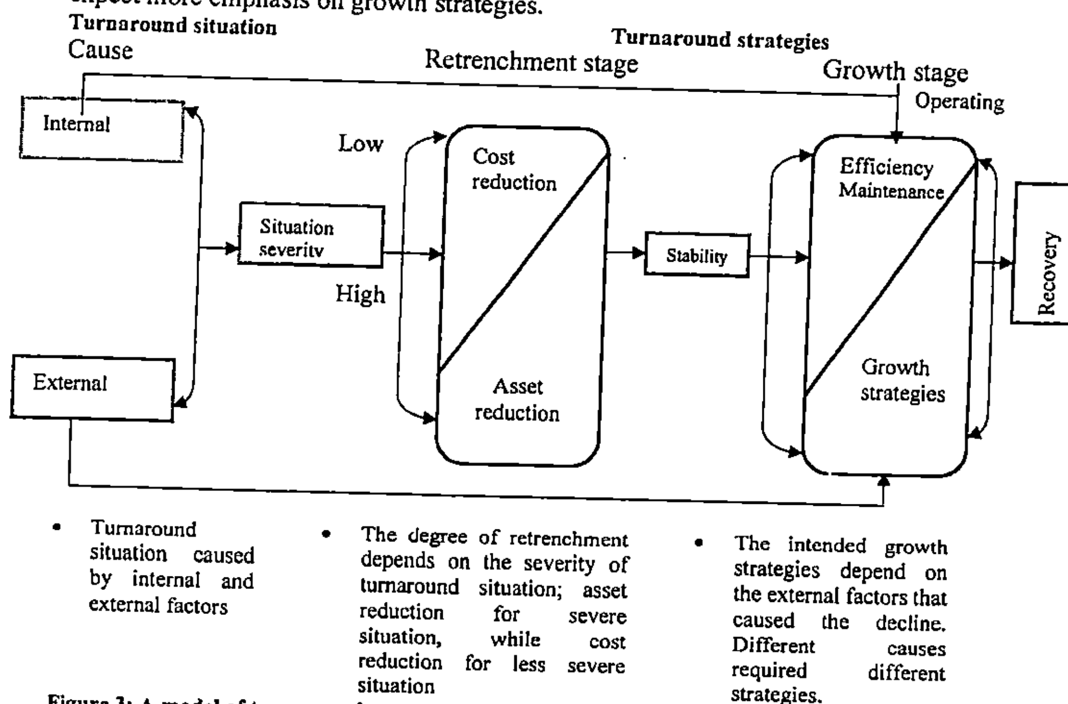

Figure 3: A model of turnaround process (Adapted from Robbins and Pearce (1992, p. 291).

In the study of turnaround strategies undertaken by several US-based firms that compete on a global basis and represent diverse industries, Chan (1993) concluded that successful turnarounds share a common pattern of decisions, and he identified four action steps towards turnarounds that were prevalent among his sample: Realise need for turnaround, Replace CEO, Cut costs, Revfocus and reinvest.

2.6 Turnaround strategy results

Ailing companies may or may not recover, however, the outcome of successful turnaround strategy actions should stop the company's bleeding and achieve sound profit. The turnaround results can be a mixture of improvements in gross profit margin, sales growth, employee morale, ROI, new product development, return on capital employed (ROCE),… etc.

Conclusion and further research

The aim of this research was to identify what are business decline symptoms and causes and which strategies have been identified by scholars and associated with turnaround situation. The research highlighted the issue of confusion between symptoms and causes of decline and the subject of how to determine the causes decline. Two lines of thought that considered the company's failure and decline have been discussed: external/internal category of causes of decline and the loss of

competitive advantage as the main cause of decline. Furthermore, this research revealed that the most common strategies which associated with turnaround situation were cost reduction, divestment, investment, CEO replacement, refocusing/repositioning. These strategies have been classified in different categories such as "Efficiency", "operation", "Strategic" and "entrepreneurial" by different authors.

In order to establish a comprehensive theoretical framework of business decline and turnaround strategies more research is required in the form of qualitative and quantitative studies to provide in depth understanding of these phenomena and to identify commonalities among businesses. The concept of resource-based view (RBV) and the current dominant theory of dynamic capabilities (DC) would provide new lenses to explore and investigate corporate decline and turnaround strategies.

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