Operations and marketing managers’ perceptions of turnaround strategies and corporate decline: An applied study

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Abstract

The study investigated the impact of turnaround strategies on the recovery from corporate decline in Jordanian manufacturing. The results indicated that the organizational performance of declined firms can be improved by utilizing the following turnaround strategies- (1) Revenue generation, (2) Product/market refocusing, (3) Asset reduction, and, (4) Productivity improvement

Keywords: corporate decline, turnaround strategies, Jordan

Introduction

Turnaround strategies are the set of reform strategies that can be used as the recovery of a firm’s financial performance, after showing deterioration over a time period. In today’s uncertain business environment, global economic crisis, extended economic boundaries, growth of e-commerce, and rapid changes of information technology, turnaround strategies are becoming very critical for success and recovery from corporate decline. Organisational performance decline is an expected situation facing organisations, as they usually practise their activities in turbulent environments. The fall of a firm in poor performance reflects a severe problem with its management or a drastic change in its environment.

How should managers respond in such circumstances? Organisations are strategically advised to do strategic analysis to see how they can maintain, develop, and sustain the competitive advantage that should be continuously developed based on improvements of organisational performance. To this end, it could be stated that declining firms should increase their abilities to meet their stakeholders’ expectations and to recover from decline situations. To recover from decline, organisations need to take turnaround strategies into action by addressing declining firm’s core problems which affect organizational performance.

Literature review: Corporate decline and turnaround strategies

Corporate decline is a result of a firm's organizational performance reduction over specific periods of time. In the line with Jas and Skelcher (2005), the common causes of decline according to Scherrer (2003) include the following (management by exception rather than flexible planning; delegation without inspection control; no feedback review or reinforcement; vertical organization chart where there is little, if any, interaction among departments; managers with responsibility for more than five direct reports;, employees with more than one boss; chain of command broken when employees deem it necessary; formal communications not used; over-reliance on management by objectives; senior managers' abuse of outside activities and company perks; marketing the wrong product and/ or in wrong markets; aging production techniques; and inadequate understanding of customers' needs).
Organizations need flexibility to cope with uncertainty and avoid corporate decline. When they fail to respond may end up in complete failure (Serra et al., 2013). The big challenge that may face organizations is the link between decline situation and turnaround strategy that is appropriate for the severity of the situation. In one the earliest works on corporate decline, Hofer (1980) highlighted the following question: How can management pinpoint the right turnaround strategy when it is needed—and make it work? Similarly, a central question in the research has been the examination of why and how some organizations are able, and others are not, to begin a turnaround in a crisis situation and make it succeed (Lamberg and Pajunen, 2005). This dilemma acts as a motivation for managers and researchers to identify and predict the causes of business decline and to understand the factors behind this decline. In this regard, (Bruton, et al., 2003) argue that the firm needs to understand the principal cause of its decline since its response needs to be geared to the nature of the problem that created that decline.

A turnaround strategy has been defined as the master plan of actions necessary to reverse a declining internal or environmental business situation (Gowen III and Tallon, 2002). This definition is similar to the one set by Furman and McGahan (2002) in which they define the term turnaround as a change in business segment profitability from the lowest quintile among all businesses in a specific year to the highest quintile among all businesses in any subsequent year covered in the dataset. Lohrke et al. (2004) represent decline and turnaround operationalizations in terms of performance measures as follows in Table 1.

**Table 1: Representative decline and turnaround operationalizations. Adapted from Lohrke et al. (2004)**

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability</strong></td>
<td>Decline and turnaround are defined based on a firm’s profitability. Firms decreasing and increasing profitability relative to historical company levels for a set time period (e.g. three years) are in decline and turnaround situations, respectively.</td>
</tr>
<tr>
<td><strong>Profitability relative to an objective financial benchmark</strong></td>
<td>Decline and turnaround are defined based on whether a firm’s profitability exceeds or falls short of an objective financial benchmark (e.g. 5% return on investment or the risk-free rate). Firms that have returns less and more than the benchmark are in decline and turnaround situations, respectively</td>
</tr>
<tr>
<td><strong>Proximity to bankruptcy</strong></td>
<td>Decline and turnaround are defined based on a firm’s proximity to bankruptcy. Firms facing increased and decreased bankruptcy risk are in decline and turnaround situations, respectively.</td>
</tr>
<tr>
<td><strong>Slack resources</strong></td>
<td>Decline and turnaround are defined based on a firm’s level of financial cushion (i.e. slack). Firms having decreasing and increasing slack levels are in decline and turnaround situations, respectively.</td>
</tr>
<tr>
<td><strong>Expert panel/business press</strong></td>
<td>Decline and turnaround are defined by experts outside a firm (e.g. stock analysts, consultants, academicians). Firms receiving decreasing and increasing performance ratings are in decline and turnaround situations, respectively.</td>
</tr>
<tr>
<td><strong>Stakeholder opinion</strong></td>
<td>Decline and turnaround are defined from a stakeholder (e.g. employees, stockholders or local community) perspective. Firms facing withdrawn and renewed stakeholder support are in decline and turnaround situations, respectively.</td>
</tr>
</tbody>
</table>

Turnaround situations are governed by a mix of preconditions that are often described in metaphors or as syndromes, because they are so complex, severe and urgent. The need for turnaround strategies is not new; most business ventures face trouble and decline somewhere in their life cycle (Pretorius, 2008). One of the earliest and most impressive and interesting work on turnaround strategies is the one done by Hofer (1980) who identifies two broad types of turnaround strategies that may be used for dealing with organizational decline: strategic and operating. Strategic turnarounds can be divided into those that involve a change in the organization's strategy for
competing in the same business and those that call for entering a new business or businesses. Operating turnarounds are usually of four types, none of which require changing the firm's business level strategy. These emphasize: increasing revenues, decreasing costs, decreasing assets, or a combination effort. However, turnaround strategies are not only necessary for recovery from decline but also for building good reputation. In the case study prepared by Kaul (2012) about Lenovo and corporate reputation, the author raises the following questions that should be answered in order to improve the reputation of Lenovo India: What strategies should be adopted to build reputation, redefine perceptions, and gain market share in India? Was Lenovo India poised for growth? Similarly, Abebi (2012) highlights the role of environmental scanning and strategy formulation processes in an organizational decline context. He examined two major questions: first, is there a relationship between executive environmental attention patterns and corporate turnaround performance during organizational decline? and, second, does the degree of environmental dynamism moderates the relationship between executive environmental scanning emphasis and corporate turnaround performance? Such questions can help organizations to suggest what turnaround strategies can be taken into action to improve organizational performance.

In their review for the literature on corporate decline and turnaround strategies, Schoenberg et al. (2013) outline six effective turnaround strategies that can be used for the recovery from corporate decline. Four of them relate to the content of the turnaround, namely: cost efficiencies, asset retrenchment, a focus on the firm’s core activities and building for the future and two relate to accompanying change processes required for implementation: reinvigoration of firm leadership and culture change. Other authors i.e. (Malmendier et al., 2011, Cassell et al., 2012, Serfling, 2014) investigated the role of strategic relationship in managing the financial function by addressing the effect of managerial traits and CEO age on corporate financial policies and investments. In this context, Haron et al. (2013) concluded that the success of the corporate turnaround appeared to be attributable to an effective leadership style that was able to motivate and support the employees whilst making strategic changes to the organization’s capital, financial well-being and operations.

According to Gowen III and Tallon (2002), the traditional literature for turnaround strategy actions can be summarized by a four category action typology: revenue generation, product/market refocusing, asset reduction, and productivity improvement. The actions of these strategies are summarized in Table 2.

<table>
<thead>
<tr>
<th>Revenue generation turnaround actions</th>
<th>Product/market refocusing turnaround actions</th>
<th>Asset reduction turnaround actions</th>
<th>Productivity improvement turnaround actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Raising product prices</td>
<td>• Elimination of unprofitable products, customers, channels of distribution, sales regions, or sales representatives</td>
<td>• Immediate cash flow</td>
<td>Cost cutting such as reducing expenses, e.g., marketing and sales cost</td>
</tr>
<tr>
<td>• Increasing cash discounts to customers</td>
<td>• Major retrenchment</td>
<td>• Major retrenchment</td>
<td>Operating cures</td>
</tr>
<tr>
<td>• Loosening customer credit criteria</td>
<td>• Divestiture “strategic cures”</td>
<td>• Divestiture “strategic cures”</td>
<td>Greater plant capacity utilization,</td>
</tr>
<tr>
<td>• Market share domination</td>
<td>• Liquidation of inventory, equipment, or physical plant</td>
<td>• Divestiture of a subsidiary, product line, or holdings.</td>
<td></td>
</tr>
</tbody>
</table>

3. Research objectives, model, and hypotheses
The aims of this research can be summarized as follows:
1. Determining the causes of corporate decline, turnaround situations, and turnaround strategies in the context of Jordanian Manufacturing Companies

2. Examining the managers’ perceptions of turnaround strategies that declining firms need to take into action in response to corporate decline situations. The research model depicted in Figure 1 is designed to address the managers’ perceptions of the relationship between turnaround strategies (independent variables) and improvement of corporate organizational performance.

![Research Model Diagram]

**Figure 1: The research model**

**Research hypotheses**

Based on the research model the following hypotheses are formulated:

1. **Revenue generation** as a turnaround strategy contributes to improvement of organizational performance by recovering from corporate decline.
2. **Product/market refocusing** as a turnaround strategy contributes to improvement of organizational performance by recovering from corporate decline.
3. **Asset reduction** as a turnaround strategy contributes to improvement of organizational performance by recovering from corporate decline.
4. **Productivity improvement** as a turnaround strategy contributes to improvement of organizational performance by recovering from corporate decline.

**Research methodology**

The entire population that comprises all manufacturing companies listed in Amman stock exchange market was chosen as the sample of this study. The respondents of this study are executives with titles of operations manager, plant manager, financial manager, and marketing manager. A total of 360 questionnaires were distributed to the targeted executives. 234 usable questionnaires were returned. The target sample that consisted of 234 managers was used to collect the responses from executive with title of operations manager (n = 82); plant manager (n = 57); and marketing manager (n = 95). These usable responses represented a response rate of 65%. The responding firms cover a wide range of manufacturing activities including electronics, engineering products, electric, chemical,
 текстилов, кожевенных и швейных изделий, стекла и керамики, машиностроения, горнодобывающей промышленности, пищевой и напитков, папирусной и картонной промышленности, и фармацевтической и медицинской продукции.

Таким образом, было собрано и обработано данные о корпоративной убыточности. Метод доставки и сбора данных включал в себя личное опросное анкетирование, который был открыт для участников. Этот метод позволяет корректировать вопросники, что улучшало поток ответов. В опросном анкетировании использовалась семибалльная шкала Люкерт для обеспечения большего удобства в ответах участников. Ответы участников были проверены на основании семибалльной шкалы Люкерт, где 1 означало, что участники сильнее всего не согласны, 7 означало, что они сильнее всего согласны с тем, что измерялось в рамках данного исследования.

Данные, результаты и обсуждение

Все факторы, которые были включены в вопросники, имеют среднее значение больше 5. Эти данные приводят к выводу, что в целом, участники согласны с тем, что корпоративная убыточность может быть вызвана факторами, упомянутыми в вопросниках.

В отношении организационных показателей, как видно на Таблице 3, все показатели имеют среднее значение больше 5. Этот результат является доказательством того, что участники согласны с тем, что все показатели организационного успеха были повлияны на стратегии конкурентоспособности. Эти значения близки друг к другу, что доказывает, что они тесно связаны между собой, например, увеличение объема продаж приводит к увеличению доли рынка, потока наличности, прибыльности и возврату инвестиций. Одновременно, улучшение качества и запуск новых продуктов критически важны для поддержания и развития конкурентного преимущества компании.
Table 3: Means and standard deviations of performance measures

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume</td>
<td>5.64</td>
<td>1.13</td>
</tr>
<tr>
<td>Cash flow</td>
<td>5.57</td>
<td>1.17</td>
</tr>
<tr>
<td>Profitability</td>
<td>5.56</td>
<td>1.13</td>
</tr>
<tr>
<td>New product development</td>
<td>5.55</td>
<td>1.28</td>
</tr>
<tr>
<td>Market share</td>
<td>5.53</td>
<td>1.14</td>
</tr>
<tr>
<td>Product quality</td>
<td>5.53</td>
<td>1.21</td>
</tr>
<tr>
<td>Return on investment</td>
<td>5.51</td>
<td>1.18</td>
</tr>
</tbody>
</table>

5.3 Hypothesis testing
The results of hypothesis testing are summarised in Table 4. It was noted that the improvement of organizational performance in the target sample is significantly affected by adopting one or more of the following turnaround strategies.

- Revenue generation
- Product/market refocusing
- Asset reduction
- Productivity improvement

Table 4: Summary of the research hypotheses (H1-H4) and their results

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>t-value</th>
<th>Sig</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue generation as a turnaround strategy contributes to improvement of organizational performance by recovering from corporate decline.</td>
<td>4.453</td>
<td>.000</td>
<td>Rejected</td>
</tr>
<tr>
<td>Product/market refocusing as a turnaround strategy contributes to improvement of organizational performance by recovering from corporate decline.</td>
<td>2.965</td>
<td>.003</td>
<td>Accepted</td>
</tr>
<tr>
<td>Asset reduction as a turnaround strategy contributes to improvement of organizational performance by recovering from corporate decline.</td>
<td>6.980</td>
<td>.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Productivity improvement as a turnaround strategy contributes to improvement of organizational performance by recovering from corporate decline.</td>
<td>9.336</td>
<td>.000</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

The results of this study are also in line with results emerged from previous work. Frost and Joson (1998), for instance, studied the corporate decline in four electric utilities from New Zealand and the Philippines and they found a number of factors that lead to corporate decline such as: inadequate financial control; inadequate working capital; government interference in decision making; union interference over external hiring, contracting and other personnel matters; poor management; and the inability of management to effectively answer criticism of the public.

The results of this study are in consistent with the findings of the empirical work done by Pandit (1998) who examined the turnaround of the British Steel Corporation (BSC) over the period 1974-89 where the following causes of decline were found in BSC over the period 1974-1989:

- Cyclic decline in market demand
- Secular decline in market demand
- Poor management
- Increase in competition/poor marketing

However, it could be concluded that determining the cause(s) of corporate decline can help management find the best way to recover from failure and decline. In this study, it was found that the decline of organizational
performance is affected by a number of management attributes such as: poor management information systems, Problems in teamwork, employees with more than one boss, and dysfunctional organizational culture. In this context, Boyne (2006) considers the poor leadership as an internal cause of corporate decline. This conclusion indicates that top management usually is responsible for the outcomes of the firm’s financial decline. Therefore, there is a need for replacing new top management in order to take the right turnaround strategies into action in response to decline of organizational performance.

Managerial implications

This research is an attempt to identify the causes of corporate decline experienced in the manufacturing companies classified in Amman stock exchange market as a public shareholding companies. Utilizing the findings of this study, however, can help top management make sense of causes of corporate decline that reduce organizational performance and what turnaround strategies that are required to recover from decline. More specifically, the findings of this study make explicit the following practical implications.

1. Customers are viewed as a main driver of change in business environment. Therefore, in a turbulent environment, organizations should not only focus on the financial measures, but also on non-financial measures of performance. Any lack in understanding customers’ expectations and preferences, will results in declining the organizational performance. Organizations should communicate with customers periodically to receive constructive feedback that help in formulating and implementing the marketing and operations strategies on one side, and to respond effectively and efficiently to changes in business environment, particularly, the changes associated with customers’ needs, preferences, and expectations.

2. Management should determine the major causes(s) of corporate decline and check whether the decline resulted from internal or external factors or both.

3. To improve organizational performance and recover from corporate decline, managers are advised to use one or more of the following turnaround strategies:
   - Revenue generation,
   - Product/market refocusing,
   - Asset reduction,
   - Productivity improvement.

4. All inside and outside stakeholders should be kept informed about corporate decline in terms of symptoms, causes, and the proposed turnaround strategies to recover from decline.

Limitations and future directions

The sample was limited to the Jordanian manufacturing companies classified in Amman stock exchange market public shareholding companies. Thus, it is not representative of global industry and therefore the findings are not generalizable as the study excluded the Jordanian manufacturing companies that are not classified in Amman Stock Exchange.

The above mentioned limitations should be viewed as opportunities for future research. Much work needs to be done on the empirical research. The following directions are suggested for further research.

1. Conducting more empirical investigations to identify the extent that causes and outcomes of corporate decline are linked to the global financial crises.

2. More research is required to investigate the top managements’ perceptions of corporate decline in the declining firms that cover a wide range of manufacturing and service activities.

3. Examining the impact of turnaround strategies on organizational performance in the service sector.

References


8