PART I

An Introduction

At some time during their history, most companies are likely to face a turnaround situation. Whether they then recover their vitality, continue to stagnate, or disappear depends on whether their management can effect the turnaround successfully. (Bibeault, 1982, p. 1)

A turnaround is a bifurcation point in the life of an organization, a point of system instability, a point at which the organization has to make a choice about its future. (Ashmos & Duchon, 1998, p. 234)

The search for some general strategic principles behind turnaround action is of some significance and considerable scholarly interest. (O'Neill, 1981, p. 1)

Chapter One

A Framework for Understanding Turnaround

> *The history of successful turnarounds provides many lessons for those involved in management.* (Zimmerman, 1991, p. 7)

> *We can learn a lot from studying and analyzing failure. As with any pathology, it shows us what causes death and what to avoid.* (Shuchman & White, 1995, p. 13)

In this introductory chapter, we undertake a series of assignments that are intended to illuminate the broad topic of turning around failing organizations. We begin with a short section that delineates the two guiding principles that furnish the rationale for the book and overviews some of the conceptual fuzziness we confront on our journey to understanding. The second section lays out the model of organizational turnaround that provides the scaffolding for the entire volume—a design that is forged from the raw material provided by leading academics and practitioners in the fields of organizational decline and recovery. Next, we highlight three key concepts at the heart of the model—decline, failure, and turnaround. We close with an introduction to some key themes that resurface throughout the book. In Chapters 2 and 3, we unpack the symptoms and causes of organizational decline and failure.

Setting the Stage

The process of inducing major and sustained improvements in companies that are stagnating is of fundamental and lasting importance. (Grinyer & McKiernan, 1990, p. 131)

Nothing illuminates like failure. (Smith, 1963, p. 13)

Rationale

Although these studies generally are couched in the language of business and management, the issues addressed are in many ways common to any human endeavor. (Crandall, 1995, p. 17)

Two principles provide the rationale for this volume. The first is that understanding should precede evaluation and action. What makes this point so salient is that nearly all the turnaround literature in education leaps from problems (e.g., failure) to solutions (e.g., adoption of whole-school reform models) with remarkably little effort to understand the reasons schools and districts are failing. At best, solution strategies are grounded in some macro-level theory of action about reform, for example, that competition via markets (e.g., choice) will encourage (or force) failing schools to improve, and if they do not, they will find their warrant to continue operations in question if not withdrawn outright. At worst, they are unanchored answers that somehow get linked with a pressing problem (decline) with little evidence to believe that they will be effective in spear-heading a turnaround in a school or district.

Our second guiding rationale is that PreK–12 education can learn a good deal about how to successfully turn around failing schools by carefully studying work afoot in other industries and organizations. Specifically, a large and growing body of literature is now available that helps us see how churches, hospitals, universities, government entities, for-profit firms, and nonprofit organizations have successfully and unsuccessfully engaged recovery efforts. Yet these insights are conspicuous by their absence from the education turnaround literature. Indeed, there is an insularity and parochialism in the turnaround literature in education that is as arrogant as it is ill advised. Our message is that there are lessons from turning around other institutions (e.g., the New York City Police Department) that

can help us more effectively undertake recovery work in failing schools. This book is dedicated to ferreting out these lessons.

Current State of Understanding

> *Public service turnaround is a topic of huge practical significance.* (Boyne, 2004, p. 102)

In this section, we examine three topics that inform our understanding of turnarounds writ large. We provide a note on the importance of investigating turnarounds. We discuss the level of conceptual clarity in the literature. And we portray the state of research knowledge on turnarounds.

Importance

We start by providing an obvious corollary from our remarks on the rationale for this volume. That is, since "most companies will experience severe adversity" (Zimmerman, 1991, p. 27) or "downturns in performance at some time in their lives" (Ford, 1985, p. 770), there is a good deal to be learned from studying turnarounds, from decline through recovery or failure. Or, as Hambrick and Schecter (1983) capture it, "turnarounds are of increasing relevance" (p. 23). To begin with, "studying failure to avoid failure . . . make[s] a lot of sense" (Bibeault, 1982, p. 7)—"the lessons learned in failure temper the personal character and abilities of us all" (p. 7). Indeed, a number of turnaround scholars and turnaround managers underscore the place that studying failure can play in the learning process. For example, Sutton, Eisenhardt, and Jucker (1986) maintain that "lessons of quality can be learned by examining failures" (p. 29). "Examining success," they assert, "encourages imitation. But examining failure encourages invention" (p. 29). And turnaround specialist Bibeault (1982) declares that "those of us entrusted with the management of a . . . business have a particular responsibility to learn from the past mistakes of others" (p. 7). Second, there is much knowledge to be gleaned from "the study of attempts to rescue failing organizations" (O'Neill, 1986b, p. 80). Finally, considerable wisdom can be culled from investigations of successful turnaround efforts (e.g., Bratton & Knobler, 1998; Gerstner, 2002).

The broad goal of all of this work is to understand the turnaround phenomenon. Specific objectives include developing strategies for

"predicting failure" (Argenti, 1976, p. 122), "preventing failure before it occurs" (O'Neill, 1981, p. 19), and addressing decline and failure once the virus of organizational deterioration has spread: "We are interested in what management can do to spot and avoid declines in the first place, or turn the firm around once a decline is experienced" (Schendel, Patton, & Riggs, 1976, p. 3). The aim is the development of "some useful preventative or curative ideas" (Argenti, 1976, p. 122), "social turnaround principles" (Zimmerman, 1991, p. 289), and productive "enactment strategies" (Chesley & Huff, 1998, p. 178)—methods and insights that "are as applicable to service providers as they are to manufacturers" (Zimmerman, 1991, p. 289) and to the government sector as to the private sector.

The importance of studying and learning from turnarounds is heightened when we add the knowledge that today, despite the claims that "the history of turnarounds is an encouraging one" (Zimmerman, 1991, p. 7), "any organization can be rescued from a death spiral and then rise higher than it has ever been before" (Rindler, 1987, p. 222), and "despite impressive examples of recovery, the majority of turnaround efforts fail" (Chesley & Huff, 1998, p. 178). Specifically, the literature reveals that "traditional turnaround efforts result in failure far more often than in success" (Pearce & Robbins, 1993, p. 613) and that "most attempts to save a severely troubled business do not succeed" (Shuchman & White, 1995, p. 16). According to Slatter (1984), on average about one in four companies "manage[s] successful recovery" (p. 19; see also O'Shaughnessy, 1995, p. 5). Shuchman and White (1995) peg the success rate even lower, at about 10% (p. 16).

Conceptual Clarity

Wherever one looks in the turnaround literature, ideas and concepts appear somewhat opaque, and even "simplistic and sterile" (Greenhalgh, 1983, p. 232). As we report in more detail later, there is considerable ambiguity about the concepts at the heart of the turnaround literature. Speaking about *decline,* for example, Whetten (1988a) observes that "there is little agreement in this literature on the definition of organizational decline" (p. 33): "Confusion exists about the definition of organizational decline. The conceptual boundaries of decline . . . have been neither consensual nor clear" (Cameron, Sutton, & Whetten, 1988, p. 5) nor "consistent" (Cameron, Kim, & Whetten, 1988, p. 208). The failure to distinguish between organizational and

environmental decline adds still another "source of confusion" (p. 208) to the literature on decline.

Turning to financial distress, a concept at the heart of *failure,* Renn and Kirk (1993) disclose that "there is no generally accepted definition of the term or a precise consensus as to what it means. Nor is there any recognized or reliable litmus test that can be applied to reveal a failing financial condition" (p. 20). Moreover, Anheier and Moulton affirm that "failure is a relative concept" (1999b, p. 273), that "failure is relative to notions of success as well as to organizational maintenance . . . [and] failure implies an underlying question that analysts must bring to the forefront: a failure for whom?" (1999a, p. 14). And, as we see later in this section, these same analysts exercise considerable discretion in "choos[ing] from a wide array of performance referents" (Short, Palmer, & Stimpert, 1998, p. 171) in arriving at an understanding of failure.

Redirecting the spotlight to *turnarounds,* Slatter (1984) concludes that "there is no hard-and-fast definition of what constitutes a turnaround situation" (p. 13); there is "no single definition" (p. 18). Shuchman and White (1995) deepen our understanding of this condition when they disclose that a "review of the literature in this field shows that there is no unifying theory of turnarounds, no common taxonomy or classification system or even a universally accepted lexicon of terms" (p. 14). On the backside of turnarounds, Slatter (1984) also divulges that "it is difficult to define what we mean by corporate recovery" (p. 15). According to Lohrke and Bedeian (1998), all this "vagueness in terminology has arguably obscured both the essential turnaround processes being implemented and the successfulness of the ensuing results" (p. 10). Likewise, "the definition of organizational death is not without its difficulties" (Hager, Galaskiewicz, Bielefeld, & Pins, 1999, p. 53), and its links with organizational failure are not always clear (Meyer & Zucker, 1989).

Crispness of understanding is also blurred because academics and practitioners in the turnaround field employ a large assortment of terms to cover overlapping sections of the same intellectual terrain, sometimes without helping travelers see the uniqueness of each parcel and the boundaries between and among the sections. For example, the turnaround literature is laden with concepts such as stagnation, performance downturn, troubled firm, financially distressed organization, insolvency, collapse, retrenchment, inertia, unhealthy institution, and so forth that cross back and forth among themselves (Argenti, 1976).

Seeds of confusion have also been sown to some extent because all these "phenomena are semantic (rather than natural) classifications" (Chowdhury & Lang, 1993, p. 14). They necessitate "judgment" (p. 14). Also, scholars have pulled together knowledge of turnarounds from "varied settings" (Lohrke & Bedeian, 1998, p. 10) and from organizations "facing varying conditions of decline" (p. 10). The operationalization and measurement of these concepts in varied research studies have also contributed to conceptual fuzziness (Cameron, Kim, & Whetten, 1988; Cameron, Sutton, & Whetten, 1988).

Strength of Research Foundations

Perhaps a good summative statement on the scholarship on turnarounds would read as follows: "While turnaround management is drawing increased attention from researchers and managers alike" (Chakraborty & Dixit, 1992, p. 345), and "in spite of the interest in reversing decline, the topic of turnaround has not been subjected to the rigors of systematic research as often and as carefully as the subject's importance demands" (O'Neill, 1986b, p. 80): "The ecology of organizational decline looks more like a desert than a horticultural showplace" (McKelvey, 1988, pp. 399–340). As Greenhalgh (1983) relates, "decline is possibly the least understood of the important organizational phenomena" (p. 265). Or more recently from Boyne (2004), "despite its huge practical significance the sources of organizational failure and recovery have received scant attention by public management researchers" (p. 102). Indeed, analysts reveal how researchers and practitioners "seem to have been drawn to think almost exclusively about strategic planning for strong firms—to the detriment of knowledge building on the management of troubled or declining businesses" (Pearce & Robbins, 1993, p. 614). Until recently, "organizational researchers and theorists have based their perspectives of organizations on assumptions of growth, and decline has been ignored as a phenomenon" (Cameron, 1983, p. 361): "Researchers have instead given most of their attention to organizations that are adapting well" (Greenhalgh, 1983, p. 234). Business schools in particular "have long neglected the subject of turnarounds" (Goldstein, 1988, p. 44), and until relatively recently, "very few books [were] written on the important subject of business turnarounds" (Goldstein, 1988, p. vii). Argenti (1976) first surfaced these points in his state-of-the-art portrait around 1980:

> There are few serious writers in this field. The fashion in management literature for the past two decades has been to concentrate on go-go performance and how to achieve it. While it was right that this should be so, and it still is, it is nevertheless extraordinary that so little should have been written about failure and how to avoid it. (p. 22)

> If a manager wishes to learn the rudiments of business finance, or the details of a sales incentive scheme, or the principles of merger planning, or the mathematics of linear programming, he may consult a dozen different books, attend a dozen different lectures, consult a dozen different experts. If he wishes to know about failure and its symptoms or causes, its prevention or cure, his choice is negligible. (p. 3)

To be sure, it is only in the last quarter century that "organizational decline and turnaround emerge[d] as subjects of systematic research" (Ford, 1985, p. 770) and the problems of the "striking lack of any integrated framework for the subject" (Argenti, 1976, p. 49) in play around 1980 began to be addressed (Cameron, Kim, & Whetten, 1988). And "although there has been an increase in scholarly interest and writing on the subject of organizational mortality or failure, little of this has dealt systematically with nonprofit organizations" (Hager et al., 1999, p. 51). More to the point here, "little academic theory or evidence on public sector organizations is available to help national bodies and local service providers in their quest for turnaround strategies" (Boyne, 2004, p. 97).

While we have progressed beyond the "rudimentary knowledge of the pathogenesis of failure, its diagnosis and its prognosis" (Argenti, 1976, p. 169) that characterized the field 30 years ago, the turnaround area is still plagued by a number of important problems. "The paucity" (Cameron, Kim, & Sutton, 1988, p. 207) of the overall research base has already been highlighted, resulting in a "state of the art in theory and research [that] appears to be quite primitive" (Greenhalgh, 1983, p. 234). As with research in many new domains of study, "the literature [here] is uneven, and to a large extent, noncumulative" (Cameron, Kim, & Sutton, 1988, p. 207): "The large majority of published studies on this subject are theoretical treatises, proposed frameworks, descriptions of the experiences of single organizations or individuals, or analyses of demographic trends"

(Cameron, Whetten, & Kim, 1987, p. 126). The extant body of research is not especially impressive (Boyne, 2004). For example, there are few "large scale studies of multiple organizations experiencing decline" (Cameron, Whetten, & Kim, 1987, p. 126). "Integration of the research has also been lacking" (Lohrke & Bedeian, 1998, p. 4). For all of these reasons, "empirical studies of turnaround contain many contradictory results" (Boyne, 2004, p. 98), and "the study of business turnaround is without a unifying theory to guide its advancement" (Pearce & Robbins, 1993, p. 614).

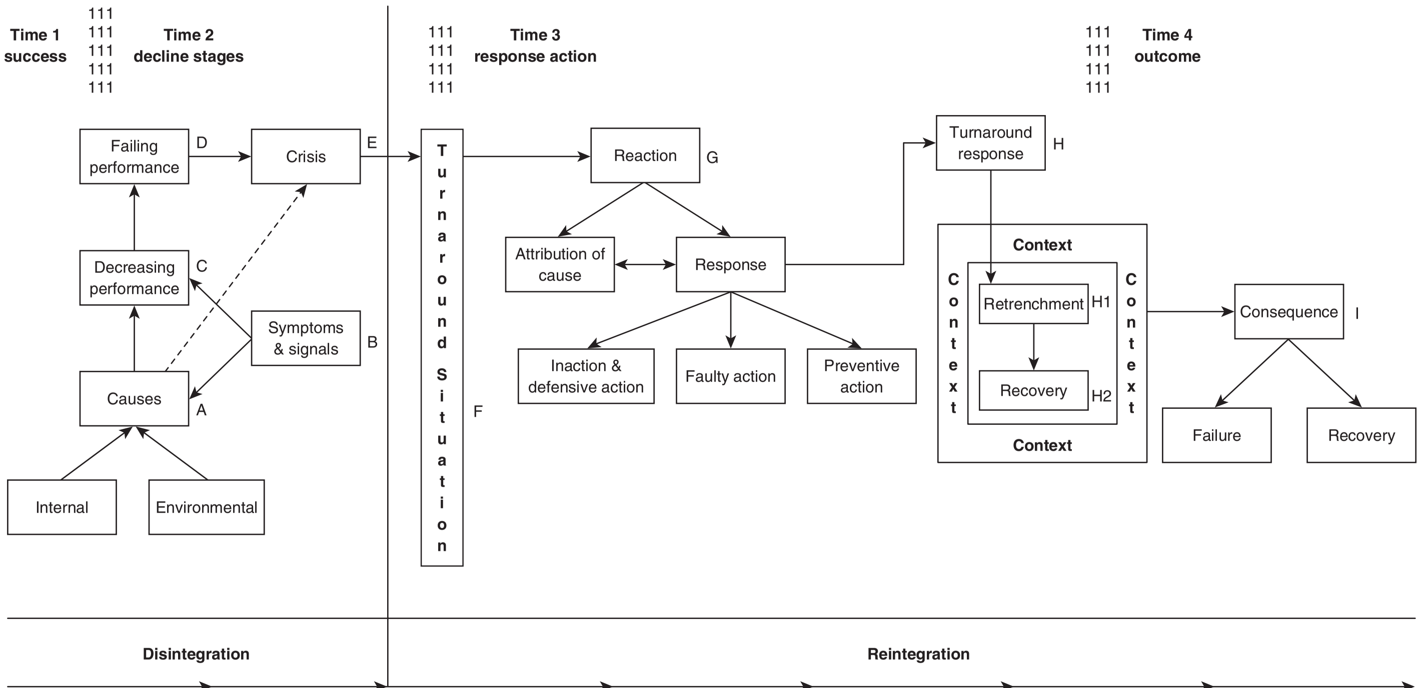
Not surprisingly, while the skill to turn around failing organizations is no longer seen "as a sort of black magic" (Bibeault, 1982, p. xv) and we have progressed beyond "folklore on how to revive poorly performing businesses" (Hambrick & Schecter, 1983, p. 231), the literature still "offers practicing managers limited guidance for reversing or turning around a decline in a firm's performance" (Lohrke & Bedeian, 1998, p. 4): "Few consistent prescriptions are currently available in extant turnaround research" (Lohrke & Bedeian, 1998, p. 16), beyond the general notion that "the key to successful turnarounds is the visible hand of management" (Bibeault, 1982, p. 3).

The Turnaround Framework: An Overview

> *The turnaround process occurs after a period of decline [and] the literature on failure exhibits some clues about the nature of the decline process.* (O'Neill, 1981, p. 18)

A portrait of the turnaround narrative chronicled in the remainder of this volume is presented in Figure 1.1 (see also Armenakis & Fredenberger, 1998, p. 41; Ford, 1983, p. 15; and Pearce & Robbins, 1993, p. 624). In the model, time flows from left to right. At the top of the figure, that flow unfolds across four time zones. Period 1 represents a state of success, or at least stability. Period 2 encompasses the time when the factors that push an organization into a turnaround situation begin to occupy center stage. Period 3 includes the time when actions in response to decline, failing status, and crisis that are designed to stabilize the organization are brought into play. Period 4 is the end game in the turnaround narrative, either recovery or death. Looking at the bottom of Figure 1.1, we see that Period 2 can be described as the disintegration phase in the turnaround story, while Period 3 represents the attempted reintegration/regeneration phase of the turnaround process.

Figure 1.1 Model of Organizational Turnaround



Turning to the dynamics of the model, the story begins at the lower left-hand corner [A] when a factor or set of factors (i.e., causes) from the organization's environment or from inside the institution pushes the organization onto the path of decline. Symptoms [B] with the potential to alert managers to the presence of problems, if not to the actual nature of the causes of the downturn, are generally visible here. These warning signals are also in play through the decline process itself. Decline [C] is defined as important decreases in performance, a condition that creates additional problems and often minor crises in the organization. Unchecked or responded to inappropriately [C→D] (e.g., faulty action), decline continues through somewhat predictable stages until performance, and the institution, can be characterized as failing [D]. Failing performance in turn produces a crisis [E], and the organization finds itself in a turnaround situation [F], a condition that has critical consequences for the organization and its members.

All previous management interventions—to alleviate symptoms, to tackle causes, or to address initial decline—were undertaken to prevent the firm from reaching a turnaround situation. Now management action is employed in an attempt to save the organization by implementing a turnaround strategy. The starting point is reaction to the troubled state of affairs [G], beginning with the attribution of causes and carrying through to responses—either potentially damaging responses (e.g., blaming and scapegoating) or more productive endeavors that we can label the turnaround strategy [H].

Turnaround strategy generally features action on two fronts, retrenchment actions [H1] to address immediate, often life-threatening, problems and recovery activities [H2] designed to restore the health of the organization. The recovery stage of turnaround is itself comprised of two dimensions, efficiency or operational actions and entrepreneurial or strategic actions. As can be seen in the square surrounding the phases of the turnaround response in Figure 1.1, context, defined in an assortment of ways, is a critical variable in the turnaround equation. Finally, turnaround activities are linked to outcomes [I]: the restoration or stabilization of the formerly troubled firm or failure, the inability of the organization to recover and survive.

Disintegration and Turnaround: Key Elements

Stagnation and turnaround is a significant topic in policy research.
(Schendel & Patton, 1976, p. 241)

> *Organizations that get into trouble do not cope with the serious internal challenges created by change.* (Bibeault, 1982, p. 17)

> *Organizations fail and they fail in important ways.* (Clarke & Perrow, 1999, p. 179)

Disintegration

Decline

As seen in Figure 1.1, disintegration is the period leading up to the turnaround situation, the time in which the organization confronts problems, begins to decline, and becomes a failing entity. As conveyed earlier, decline and failure as "area[s] of conceptual and empirical scholarship" (Meyer, 1988, p. 411) date from the tail end of the 1970s (Meyer, 1988; Whetten, 1988a). Starting with Greenhalgh's (1983) admonition that "a first priority for researchers . . . is to develop a satisfactory operational definition of organizational decline" (p. 266), we observe that scholars have begun to offer "a wide variety of possible definitions" (Cameron, Sutton, & Whetten, 1988, p. 5) and have started to conceive of the concept in a multitude of ways. On the first issue, the following are representative examples of definitions of organizational decline:

> Organizational decline is a condition in which a substantial, absolute decrease in an organization's resource base occurs over a specified period of time. (Cameron, Kim, & Whetten, 1988, p. 209)

> Organizational decline [is] a deterioration in an organization's adaptation to its microniche and the associated reduction of resources within the organization. (Cameron, Sutton, & Whetten, 1988, p. 9)

> Decline is a stage in which external and internal needs are not appropriately met and signals warning of the need for a change are ignored. (Weitzel & Jonsson, 1989, p. 93)

> [Organizational decline is a] downturn in organizational size or performance that is attributable to change in the size or qualitative nature (shape) of an organization's environmental niche. (McKinley, cited in Sutton, 1990, p. 208)

> Decline [is] a pattern of decrease over time in a firm's internal resources as measured by an index of internal resource munificence. (D'Aveni, 1989, p. 598)

On the second front, conceptualizations of the concept, Cameron, Sutton, and Whetten (1988) and Weitzel and Jonsson (1989) provide helpful summaries. According to Cameron, Sutton, and Whetten (1988), decline can be "characterized as shrinking markets and increased competition, as budget cuts, as workforce reduction—especially layoffs, as loss of legitimacy, maladaptation to a shrinking environment, stagnation, and deteriorating and unsatisfactory organizational performance that causes members and clients to become disgruntled" (p. 6). Similarly, Weitzel and Jonsson (1989) assert that decline can be

> conceived of as (1) a reduction in some organizational size measure (e.g., market share, asset(s), (2) a stage in the organization's life cycle, (3) internal stagnation, or inefficiency, (4) a failure to recognize warning signals (internal or external) about changes needed to remain competitive, and (5) a failure to adapt or change to fit external environmental demands. (p. 94)

For purposes of organization, it is productive to partition decline into two principal meanings. Here we observe that decline is used first "to denote a cutback in the size of an organization's workforce, profits, budget, clients, and so forth. In this case, an organization's command over environmental resources has been reduced as the result of either decreased competitive advantage . . . or decreased environmental munificence" (Whetten, 1988b, p. 153). This "lack of growth" (Levine, 1978, p. 317) perspective attends to two issues, "decline as stagnation and decline as cutback" (Weitzel & Jonsson, 1989, p. 93). Stagnation reflects the inability to grow or move forward (see Whetten, 1988a, 1988b). In the private sector, it denotes sluggish movement on the resource front. In the public sector, it refers to "stalled social structures" (Anheier & Romo, 1999, p. 241): "Decline as stagnation is evidenced by organizations that are bureaucratic, passive, and insensitive" (Weitzel & Jonsson, 1989, p. 93). Stagnant organizations become "bureaucratic and passive as evidenced by their insensitivity to new product developments, workers' interests, and customers' preferences" (Whetten, 1988b, p. 153).

Decline as cutback indicates a "reduction of internal resources" (Cameron, Sutton, & Whetten, 1988, p. 9), the "subtract[ion] of levels of resources at one point in time from levels at a later point in time" (p. 8). It refers to "decreasing internal resource munificence over time with respect to two critical resources: financial and human resources" (D'Aveni, 1989, p. 578). "Financial deterioration" (Renn & Kirk, 1993, p. 14), in turn, has been operationalized in an assortment of ways: declines in revenues (Cameron, Kim, & Whetten, 1988; Cameron, Whetten, & Kim, 1987) and/or sales (Grinyer, Mayes, & McKiernan, 1988); downward turns on "return on equity" (Lubatkin & Chung, 1985, p. 27) or "return on total assets" (Lohrke & Bedeian, 1998, p. 8) or "invested capital" (Barker & Duhaime, 1997, p. 21); "deteriorating profits" (Bibeault, 1982, p. 10); reductions in "net income" (O'Neill, 1981, p. 1); and "decreases in budget" (Whetten, 1988a, p. 33). Without delving into specific measures, it is clear that financial distress means a "substantial negative slope in a resource curve over a specified period of time, not just a slight depression" (Cameron, Kim, & Whetten, 1988, p. 209). Resource decline is also associated with "decreases in the number of organizational personnel" (Ford, 1980, p. 590). Or as Greenhalgh (1983) observes, workforce size is a "leading candidate to operationalize decline" (p. 266).

The second meaning of decline highlights "reduced adaptation to the organization's environment" (Greenhalgh, 1983, p. 267; also Sutton, 1990): "In this definition, decline is defined as the opposite of successful adaptation" (Weitzel & Jonsson, 1989, p. 92). That is, "decline occurs when an organization becomes less adapted to its environment" (Barker & Patterson, 1996, p. 2), is "out of step with its environment" (Sutton, Eisenhardt, & Jucker, 1986, p. 28), and is "unable to adjust to environmental changes" (Cameron & Whetten, 1988, p. 46). Greenhalgh (1983) provides the following synopsis of the environmental adaptation definition of decline:

> Organizational decline is viewed as deterioration in the organization's adaptation to its environment. Decline occurs when the organization fails to maintain the adaptiveness of its response to a stable environment, or when it fails to either broaden or increase its domination of a niche which has diminishing carrying capacity. (p. 232)

These organizations "become incapable of maintaining resiliency" (Cameron & Whetten, 1988, p. 46). They "are unable to compete successfully for a shrinking resource base" (Whetten, 1988a, p. 34) as the environmental niche contracts, or they "fail to shift into new activities" (p. 34) in a redefined niche.

Scholars of turnarounds also establish the boundaries of decline as a concept by attempting to separate it from related concepts. For example, Cameron, Sutton, and Whetten (1988) posit that "decline can be distinguished from . . . retrenchment" (p. 8). D'Aveni (1989) also shows that decline is not a synonym for "downsizing organizational operations" (p. 578). Relatedly, and as we discuss in more detail below, analysts reveal that decline is a relative term. For example, moving downward in absolute terms while holding one's place (e.g., in terms of market share) in a declining industry does not register as decline for a specific firm. Finally, Cameron, Sutton, and Whetten (1988) assert that "decline can be distinguished from turbulence, scarcity, and organizational ineffectiveness" (p. 8).

Before drilling more deeply into the literature on decline, a few notes are in order to set up our discussion of failing schools in the last part of the book. First, for organizations, "decline can be based in an industry contraction or be grounded in firm-specific problems. Industry contraction-anchored decline occurs when a firm's industry shrinks in size or munificence. . . . Firm-based decline usually occurs when a firm exists in a stable or growing industry but is maladapted, performing worse than the average for the industry" (Barker & Duhaime, 1997, p. 18). Second, periods of significant change and evolution, for example, the shift from an industrial to a postindustrial world, "impose greater risks of decline than periods of stability" (Bibeault, 1982, p. 22). Third, public organizations are less subject to the dynamics of decline than are private firms, especially large public organizations (Cameron, Whetten, & Kim, 1987): "Organizational dysfunctions of decline appear to be greater in privately controlled organizations" (p. 136). Fourth, at its core, decline is linked to managerial action or inaction. That is, "decline begins when an organization fails to anticipate or recognize and respond to any deterioration of organizational performance that threatens long-term survival" (Weitzel & Jonsson, 1989, p. 94).

Because decline and failure are "very relative term[s] and do not exist in the abstract" (Goldstein, 1988, p. 7), analysts contextualize definitions through presentations of measures of decline. For

example, Cummings (1988) proposes that "decline can be defined as [an] aspirational comparative" (p. 418). Here the metric is how well the organization performs relative to how well the organization should perform.

Also, as noted above, decline can be assessed by the place a firm enjoys vis-à-vis other firms in the same industry (Grinyer, Mayes, & McKiernan, 1988; O'Neill, 1981), "competitive decline" (Pearce & Robbins, 1993, p. 616), or "declines relative to industry performance" (Pearce & Robbins, 1994b, p. 410). For example, in his study of turnarounds in the banking industry, O'Neill (1981) reported that "when a bank's net income increased at a lesser rate than industry net income, the bank's performance for that year [was] recorded as a decline" (pp. 1–2). Cameron, Sutton, and Whetten (1988) come at the industry performance issue from a slightly different angle. They assert that "if an organization is part of an industry characterized by shrinking consumer demand, it cannot be described as 'declining' if it is maintaining sales by increasing its market share" (p. 7).

Less comprehensively, "decline can be conceived relative to other organizations . . . that fall within a set of relevant comparisons" (Cummings, 1988, p. 418). Finally, and as a special case of judging decline against one's own performance, there is the concept of "decline as stagnation" (Cameron, Whetten, & Kim, 1987, p. 135) and "decline as stalemate" (Anheier & Romo, 1999, p. 242). Based on research by Whetten and Cameron and other colleagues who find that "the negative attributes . . . associated with decline are actually characteristics of both stable and declining organizations" (Cameron, Whetten, & Kim, 1987, p. 135), analysts sometimes hold that decline can be conceptualized as plateaued performance.

Turnaround analysts also address the issues of decline speed and stages of decline. On the topic of rate of decline, or what Cameron and Zammuto (1988) describe as "the continuity with which decline occurs" (p. 120), reviewers report the presence of both "gradual decline and sudden decline" (D'Aveni, 1989, p. 579): "That is, a decline in the availability of resources can occur suddenly or there can be a sustained, continuous decline in resource availability" (Cameron & Zammuto, 1988, p. 120). Reviewers also suggest that "while failures can be abrupt and sudden [see Figure 1.1] . . . they typically involve a drawn out process characterized by various attempts to rescue the organization" (Anheier & Moulton, 1999b, p. 277) and they follow a "long downward path" (Argenti, 1976, p. 149)—although

there are hints in the literature that the speed with which organizations may be hitting the skids may be on the rise (Goldstein, 1988).

Scholars of decline and failure—disintegration in Figure 1.1—depict the phenomena as phased or staged, in terms of distinct periods in the march to finding oneself in a turnaround situation (Castrogiovanni, Bahga, & Kidwell, 1992; Shuchman & White, 1995; Weitzel & Jonsson, 1989). They also make the point that interventions in the earlier stages are easier to engage and, if done well, more likely to be efficacious than if applied when the downward spiral has gained momentum (Hegde, 1982; Lorange & Nelson, 1987): "As with cancer, the earlier the recognition, the higher the probability of survival. Early recognition is critical because, without it, a company may survive but never flourish again" (Bibeault, 1982, p. 82)—"the earlier the stage that the turnaround symptoms are properly diagnosed, the better the probability of achieving a successful prognosis" (Sloma, 1985, p. 34). In a related vein, scholars maintain that a sharp decline leading to crisis is more likely to trigger turnaround efforts than will slow stagnation (Schendel & Patton, 1976; Zimmerman, 1991).

Sutton (1990) and his colleagues (Cameron, Sutton, & Whetten, 1988) model a two-step process of organizational decline, one "first characterized by deterioration of adaptation to the microniche, and then followed by reduction of resources in the organization" (p. 208). Castrogiovanni, Bahga, and Kidwell (1992) present a five-stage model of decline:

> The "blinded" stage (stage 1) is the time when the weaknesses start to surface, although their effects on profits are not yet felt. In the "inaction" stage (stage 2), these problems persist and initial declines in profits occur. During the "faulty action" stage (stage 3), both weaknesses and profit declines continue, and the duration and severity of these problems make it clear to most observers that the business is in trouble. Eventually, problem severity may increase to a "crisis" stage (stage 4) of decline, and finally to a "dissolution" stage (stage 5). (p. 28)

Goldstein's (1988) model posits decline (and failure) unfolding through four phases:

> Companies, then, move through several stages on their way to failure. The first stage encompasses faulty management decisions

> or failure to respond to change that weakens its strategic position. [In] the second stage of decline, operational and financial symptoms become clearer. Sales slip further as more customers are lost; advertising, promotion, and new product development may be cut back; morale within the organization dips, and the financially weak company begins to experience more chronic economic difficulties. This second stage is best characterized by a shift from positive, long-term thinking to a preoccupation with short-term operational problems. As the company advances to the third stage, it shifts to a defensive position. Losses mount, inventories dwindle, credit is curtailed, and cash flow becomes increasingly scarce. Finally, the company enters the fourth and terminal stage—a point from which few recover. (p. 34)

Failure

We begin our short discussion of failure with the same caveat we surfaced when examining decline, that is, "failure is a relative term" (Richards, cited in O'Neill, 1981, p. 20):

> No two people think of "failure" in precisely the same terms. A firm can be characterized as a managerial failure, financial failure, or legal failure. Although these terms are sometimes used interchangeably, they have distinctively different meanings. A company can be a managerial failure long before it is a financial failure. And it can linger as a financial failure without ever becoming a legal failure. (Goldstein, 1988, p. 4)

We also observe that "any definition of corporate failure rests on expectations about the future" (Reich & Donohue, 1985, p. 53). Starting there, in this text, and in Figure 1.1, we use failure in two ways. First, failure means "failing," the reality that the enterprise has crossed some organizational performance line in the sand and that unless conditions change fairly dramatically, the firm will cease to function. Failure here "means protracted periods of poor profits and eroding market share" (Miller, 1977, p. 43); it "represents a situation where the realized rate of return on invested capital is significantly and continually lower than prevailing rates on similar investments" (Bibeault, 1982, p. 9), a situation "when the company does not earn an adequate return on risk capital" (Argenti, 1976, p. 49). It includes what Goldstein (1988) identifies as "managerial failure, . . . when

the company fails to live up to its own potential" (p. 6) as well as "financial failure, . . . when the enterprise has chronic and serious losses or when the organization becomes insolvent with liabilities disproportionate to the assets" (p. 6). This is what we label in Figure 1.1 as a "turnaround situation."

Second, failure means "failed" and usually implies "the death of the organization" (Zammuto & Cameron, 1985, p. 236). In Figure 1.1, this is the end result of an unsuccessful turnaround effort. Here we "refer to a company whose performance is so poor that sooner or later it is bound to have to call in the receiver or cease to trade or go into voluntary liquidation" (Argenti, 1976, p. 6).

Meyer (1999) reminds us that there are at least three "dimensions of organizational failure" (p. 40): "(1) *technical* failure, or the inability to achieve and maintain economic efficiency in required transactions; (2) *political* failure, or the inability to achieve and maintain legitimacy among strategic constituencies; and (3) *cultural* failure, or the inability to achieve and maintain ideological bases" (p. 210). Thus failure can be a "matter of economic efficiency, . . . or low organizational performance on goal attainment" (Anheier & Moulton, 1999b, p. 279), or political dynamics. In a similar vein, Anheier and Moulton (1999b) maintain there are

> . . . four relatively distinct approaches to the study of failure. The first approach, *organizational* studies, looks at creation, growth, decline, and death as part of the organizational life cycle and emphasize the "fit" between organizational management and performance on the one hand and environmental conditions and changes on the other. According to the *political* perspective, organizations are seen as primarily political, rather than economic, entities that compete for advantages within a larger political economy inhabited by different institutions and constituencies. Legitimacy serves as the major explanatory variable in understanding organizational failures. In the *cognitive* approach, we emphasize aspects of definitions and perception of failure and focus on cultural blueprints and dispositions for declaring and managing breakdowns and other organizational catastrophes. Finally, the *structural* approach locates failures in the social fabric or relational patterns of organizations and institutions and stresses the combinatorial logic underlying different failure tendencies. (p. 273)

Miles (1980), in turn, argues that "we can think of failure with respect to a number of referents: (1) the organization's *form,* (2) the organization's *goals,* and (3) the organization's external *environment*" (p. 441). And finally, according to Arogyaswamy, Barker, and Yasai-Ardekani (1995),

> Decline, if unabated, leads to three consequences: (1) the continual erosion of external stakeholder support, (2) growing internal inefficiencies, and (3) deteriorating internal firm climate and decision processes. A declining firm fails when the combination of these consequences both exhausts the firm's financial resources and causes creditors to withdraw support from the firm. (p. 498)

Scholars of turnaround also shed light on the extent of organizational failure in both of the ways the term is employed herein. They declare (1) that "most organizations, at some time in their lives" (O'Neill, 1981, p. 17) "experience downturns in performance" (Ford, 1985, p. 770); (2) that success is often "fleeting, . . . that success and failure are terms distanced only by time" (Goldstein, 1988, p. 2); (3) that there are many "businesses with 'glass jaws'" (Goldstein, 1988, p. 4)—"that failures are quite common" (Khandwalla, 1983–1984, p. 6), "that failure is more common than success" (O'Neill, 1981, p. 17), and "that business failure and near failure are frequent occurrences" (Miller, 1977, p. 43); (4) that organizational failures are on the rise (Shuchman & White, 1995; Silver, 1992); (5) that new organizations (e.g., charter schools) are particularly receptive to the failure virus; indeed, "well over half of all failures are companies that are less than five years old" (Argenti, 1976, p. 50), and "about 90% of new businesses formed in a given year will fail within five years" (O'Neill, 1981, p. 17); (6) that, not surprisingly, failure is "greatest in periods of recession and slow economic growth" (Slatter, 1984, p. 18); and (7) that within certain industries "corporate casualties can often be found in stunning numbers" (Goldstein, 1988, p. 2). In summary, "the grim reaper of business is alive and well . . . [and] the corporate half-life is becoming shorter" (p. 1).

We close with perhaps an obvious point but one that needs to be underscored nonetheless. That is, there are real costs and "tragic consequences" (Khandwalla, 1983–1984, p. 7) associated with these "poignant business dramas" (Bibeault, 1982, p. 9), costs most visible in terms of "human suffering" (p. 8).

Turnaround

> *The economic and social costs of such failures warrants [sic] an explanation of how such losses may be prevented and how declining firms may be made healthy again—in other words, how declining firms may be turned around.* (Arogyaswamy & Yasai-Ardekani, 1997, p. 3)

> *In today's environment of technological change, shifting economies, and increased competition, many firms encounter performance declines that can eventually lead to failure and dissolution. Therefore, developing an understanding of how some firms recover from declining performance is an important task for researchers interested in improving organizational effectiveness.* (Arogyaswamy, Barker, & Yasai-Ardekani, 1995, p. 493)

> *Turnarounds exist in an infinite variety of shades and hues.* (Sloma, 1985, p. 13)

In this section, we surface the turnaround concept while reminding the reader that the balance of the book is devoted to a comprehensive exploration of this phenomenon. After a few introductory notes, we furnish a three-part framework to help the reader understand turnarounds. We then turn the spotlight on two key dimensions of turnarounds—performance measures and processes.

Notes

We begin by positioning the reader in the model presented in Figure 1.1. That is, at this point in the narrative, decline has led to the emergence of a "failing company" (Slatter, 1984, p. 13), one usually confronted by a fairly severe crisis. The message here is that "an earnings crises" (Schendel, Patton, & Riggs, 1976, p. 8) or "a severe performance failure is first necessary to motivate turnaround action" (Schendel & Patton, 1976, p. 237) and that "recovery is about the management of firms in crisis" (Slatter, 1984, p. 13). We then layer in the knowledge that this state is actually fairly "widespread" (Schendel, Patton, & Riggs, 1976, p. 4). Or as Chan (1993) asserts, "failing corporations are as much a fact of life as death and taxes" (p. 29), and "the turnaround opportunity should be recognized as a normal part of everyday business life" (Goodman, 1982, p. 9).

Zeroing in on individual organizations, scholars report that "exogenous events cause performance to deteriorate . . . sooner or later in almost all organizations" (Meyer & Zucker, 1989, p. 23): "Most companies during their lifetimes are likely to confront disaster in the absence of willed change. That is, they need a turnaround" (O'Shaughnessy, 1995, p. 3). Scanning across organizations, analysts maintain that each year a good percentage of firms "must perform an organizational turnaround" (McDaniel & Walls, 1998, p. 132). Bibeault (1982) and Boyle and Desai (1991) peg that percentage in the 20 to 30 range, while Goodman (1982) and Schendel and his colleagues (1976) insinuate that it could be even higher.

Consistent with what we reported in our treatments of empirical work on disintegration in general and on decline in particular, we discover that the research base on turnarounds is informative, or "illustrative" (Reich & Donahue, 1985, p. 9), but not deeply developed (Silver, 1992). In particular, given the long-term nature of the turnaround process (discussed below), the infrequent use of longitudinal investigations is troublesome. So too is the regular use of study designs that examine turnarounds "without regard to the causes of the decline" (Barker & Duhaime, 1997, p. 17). Also problematic is a focus on turnaround success "without a sample of turnaround failures for comparison purposes" (Khandwalla, 1983–1984, p. 37). The summative theme here reads as follows: "Despite nearly two decades of turnaround research" (Arogyaswamy, Barker, & Yasai-Ardekani, 1995, p. 493), "there have been few systematic studies on turnaround" (O'Neill, 1986a, p. 167). Thus "the literature offers little in the way of a framework for orchestrating a business turnaround" (Robbins & Pearce, 1992, p. 288) or "mechanics for turning around sick complex organizations" (Khandwalla, 1983–1984, p. 8). As a consequence, "there are many unanswered questions about what characteristics set turnaround firms apart from firms which continue to decline and eventually fail" (Arogyaswamy, Barker, & Yasai-Ardekani, 1995, p. 493) and an inadequate understanding of "the distinct means by which a firm might turn around" (O'Neill, 1986a, p. 167).

Framework

Turnaround as condition. Academics and practitioners help us see that turnaround can be conceptualized in three somewhat overlapping

ways. To begin with, turnarounds are often depicted as a "condition" (Armenakis, Fredenberger, Cherones, & Field, 1995, p. 231) or "situation" (Shuchman & White, 1995, p. 17). Second, turnaround is portrayed "as a process" (Short, Palmer, & Stimpert, 1998, p. 155) of returning a troubled firm to health or "attempt[ing] to reverse declining performance" (Barker & Patterson, 1996, p. 306). Finally, turnarounds are pictured as "a consequence, or end state, of successful strategic actions" (Short, Palmer, & Stimpert, 1998, p. 155), as pictures of "firms that have reversed their decline" (Oviatt & Bruton, 1994, p. 130).

Much of the literature addresses turnaround as a condition or situation. Here, turnaround defines "firms in decline" (Oviatt & Bruton, 1994, p. 130) and companies facing a "crisis requiring action" (Kierulff, 1981, p. 490)—those with records of "poor performance" (Hambrick & Schecter, 1983, p. 234), "declining profitability" (Bibeault, 1982, p. 81) or "poor profit pictures" (Slatter, 1984, p. 15), financial troubles (Kierulff, 1981; Silver, 1992; Sloma, 1985), or "hardships" (Chan, 1993, p. 29), "a deteriorating strategic position" (Oviatt & Bruton, 1994, p. 130), "a lost sense of direction" (Crandall, 1995, p. 9), plummeting sales (Goldston, 1992), "excessive liquidation problems" (Bibeault, 1982, p. 2), or "loss of legitimacy" (McDaniel & Walls, 1998, p. 146). Of special significance in this volume is this last point; that is, for professional organizations, "indicators of a need for a turnaround are likely to be indicators of the status of the profession or the professional organization with respect to its legitimacy" (p. 146).

Turnaround as situation "involves a number of negative forces, a general lack of resources, and exceptional time pressures" (Bibeault, 1982, p. 3). There is also a "threat for survival" (Arogyaswamy, Barker, & Yasai-Ardekani, 1995, p. 497): "Survival as a major participant in the industry [is] at stake" (Zimmerman, 1991, p. 23), "the very existence of the company is threatened" (p. 19). Indeed, "in most turnaround strategies . . . the time criticality of the firm's situation is quite severe. There is some imminent danger to survival" (Hofer, 1980, p. 21). Thus in a turnaround situation, "there is no alternative but for the firm to take major measures to alter the long-run potential of the company" (Grinyer, Mayes, & McKiernan, 1988, pp. 130–131).

Historically, "turnaround situations have been discussed either in terms of the areas of organizational performance to be improved or the time criticality of the turnaround situation" (Hofer, 1980,

p. 20). According to Zimmerman (1991), the following criteria "establish a company as a turnaround candidate" (p. 23):

1. *Profitability has declined* from the previous four-year average for a period of at least one year and profitability should not only be low but slipping.

2. *Profitability is either negative or significantly below the industry average* and there are instances when other competitors are clearly able to achieve higher profit rates selling similar products.

3. *Real revenue levels (revenue levels adjusted for inflation) have declined.*

4. *Market position is deteriorating* as represented by a loss in market share, a decline in the number of key distributors or dealers, or price erosion in the company's products.

5. *Investors, board members, or managers* express concerns regarding the condition of the company, and initiate actions in response to these concerns. These concerns commonly coincide with a deterioration in the company's cash position to the point that satisfaction of cash obligations is difficult. (pp. 23–24)

In addition, the following representative definitions of this first conception of turnaround (i.e., condition or situation) have been furnished over the last quarter century:

> We use the term here to refer to those firms or operating units . . . whose financial performance indicates that the firm will fail in the foreseeable future unless short-term corrective action is taken. (Slatter, 1984, pp. 13–14)

> A turnaround situation is defined as one in which business performance is persistently below some minimally acceptable level. (Hambrick, 1985, p. 10-2)

> A turnaround candidate could be defined as a company or business entity faced with a period of crisis sufficiently serious to

> require a radical improvement in order to remain a significant participant in its major industry. (Zimmerman, 1991, p. 23)
>
> Businesses whose sales and profits have fallen off precipitously and who are considered to be less of a factor in their primary business than they were five years ago [are] true turnaround candidates. (Goldstein, 1988, pp. ix–x)
>
> A turnaround situation exists when a firm encounters multiple years of declining financial performance subsequent to a period of prosperity. (Pearce & Robbins, 1993, p. 623)
>
> We define a turnaround situation as one where a firm suffers declining economic performance for an extended period of time and the actual level of firm performance is low enough that the survival of the firm would be threatened without performance improvement. Thus, by definition, firms in turnaround situations are sustaining resource losses that will cause the firm to fail if unabated. (Arogyaswamy, Barker, & Yasai-Ardekani, 1995, p. 497)
>
> A business turnaround is a situation in which the organization's performance is deemed unacceptable and organizational change is initiated in order to produce improvement quickly. (Armenakis et al., 1995, p. 231)
>
> A turnaround situation is characterized by financial failure and the imminent collapse of a company. (Boyne, 2004, p. 98)

Turnaround as process and consequence. Turnaround is also discussed in terms of "strategic change" and "a new strategic era" (O'Neill, 1986b, p. 87). It is represented as the process of moving from a troubled state to organizational stabilization, the "journey" (Stewart, 1984, p. ix) of the "survival of a troubled company" (Finkin, 1987, p. 57), or, as Barker and Mone (1998) report, "a concerted and organized effort . . . to respond to the firm's performance problems" (p. 1239), to their "firm-threatening performance declines" (Barker & Duhaime, 1997, p. 13). In this context, turnaround refers to "action taken to prevent the occurrence of . . . financial disaster" (Sloma, 1985, p. 11), to "a situation being changed" (Goodman,

1982, p. xix), and to "processes that move the organization from an unacceptably low level of performance to an acceptable level of performance" (McDaniel & Walls, 1998, p. 145).

Finally, turnaround is rendered as an end state, as "recovery" (Schendel, Patton, & Riggs, 1976, p. 3) or as "dramatic performance improvement" (Hegde, 1982, p. 292)—as "a substantial and sustained positive change in the performance of a business," a "regain[ing] of financial strength" (Stewart, 1984, p. 19), and as "sustainable recovery" (Slatter, 1984, p. 118) or the state of being able to make "above average profits in the long term" (p. 118). According to this third perspective (i.e., turnaround as consequence or outcome), a turnaround is "achieved" (Goodman, 1982, p. 110) when "objective indicators of decline [are] arrested" (Henderson, 1993, p. 331) so that "indicators of health predominate over indicators of disease" (Khandwalla, 1983–1984, p. 8). It occurs when "the once-threatened firm's economic performance returns to a profitable level that is . . . sustained over a long period" (Arogyaswamy, Barker, & Yasai-Ardekani, 1995, p. 497) and the institution is revitalized or "restored to a former vitality or brought to new life" (Crandall, 1995, p. 9). Turnaround here is seen "as the art of the possible" (Goodman, 1982, p. 20): "It means to produce a noticeable and durable improvement in performance, to turn around the trend of results from down to up, from not good enough to clearly better, from underachieving to acceptable, from losing to winning" (Goodman, 1982, p. 4). It occurs "when a firm that has experienced sustained performance deterioration is not only able to arrest further decline and avert failure, but is also able to rejuvenate and become healthy again (Arogyaswamy & Yasai-Ardekani, 1997, p. 3) and "sustain that high relative performance over a reasonable period of time so that [it] is now regarded as outstanding in its industries" (Grinyer, Mayes, & McKiernan, 1988, p. 2).

Measures

Since turnarounds "must be judged by improvement in hard performance indicators" (Khandwalla, 1983–1984, p. 39), measurement is an important dimension of attempts to stabilize a failing organization. While handicapped by the knowledge "that organizational performance lies largely ahead" (Meyer, 1999, p. 198), by the fact that analysts "differ with respect to the way they define performance" (O'Neill, 1986a, p. 167), and by the realization "that there exists no

universal performance measure or threshold level" (Hambrick & Schecter, 1983, p. 235), measurement nonetheless is at the heart of turnarounds (Contino & Lorusso, 1982).

One aspect of the measurement algorithm is "*what* gets counted." Many analysts maintain that managers should employ "a broad array of measures" (Renn & Kirk, 1993, p. 25) "against a broad array of industry and business developments and trends" (Short, Palmer, & Stimpert, 1998, p. 172); that is, they should privilege "a multidimensional view of performance" (Hambrick & Schecter, 1983, p. 247). A review of the turnaround literature reveals the prevalence of an assortment of high-profile measures. Specifically, Chowdhury and Lang (1993) underscore that "return on investment has been the primary performance variable in most strategy research on decline and turnaround" (p. 11; also Hofer, 1980). Other well-known measures include "change in net income" (Schendel & Patton, 1976, p. 236), "return on invested capital" (Arogyaswamy & Yasai-Ardekani, 1997, p. 5), "return on assets" (Barker, Mone, Mueller, & Freeman, 1998, p. 65), "market share" (Hambrick & Schecter, 1983, p. 238), "stock market price" (O'Neill, 1986a, p. 167), "sales growth" (Schendel & Patton, 1976, p. 237), and "survival" (O'Neill, 1986a, p. 167).

Some examples of efforts to operationalize these measures follow. Barker and his team (1998) identified turnaround manufacturing firms based on the following dynamics:

1. Three consecutive years of declining return on assets (ROA). This declining performance also occurred after a base year (year before the decline) when the firm's ROA was above its industry's average.

2. During this three-year decline, the firm's performance had to become low enough to cause losses (i.e., negative ROA).

3. The three decline years were followed by three years of increasing ROA with performance in the best year (Year 6) being profitable (i.e., positive ROA). (p. 65)

Schendel and his colleagues (1976) employed the following rubric:

Downturn Phase: Four years of uninterrupted decline in net income as normalized by Gross National Product (GNP) growth.

> Upturn Phase: Four years of increase in net income with allowance for a two-year deviation between the downturn and upturn phase. Again, net income was normalized by GNP growth. (p. 3)

Slatter (1984) operationalized turnaround

> as a firm whose "real" profit before tax (measured in 1970 prices) had declined for three or more successive years; and a successful turnaround was defined as a firm whose real profits before tax increased in four out of the following six years. (p. 19)

Robbins and Pearce (1992), in turn, provide this understanding:

> Two successive years of increasing ROI and ROS followed by: absolute, simultaneous declines in ROI and ROS for a minimum of two years, and (2) a rate of decline in ROI and ROS greater than industry average over this two-year period. (p. 295)

And the following formula for the downturn phase of the turnaround is offered by Shuchman and White (1995):

- Two or more years of substandard ROI
- Three or more years of sub-GNP growth in income
- Two or more years of 10% or more decline in net profit
- Performance in earnings consistently below the industry standard and regularly below 10% (p. 17)

Another dimension of measurement, and one visible in the operationalizations just reviewed, is the issue of "*how*" the "what" (e.g., profits) gets assessed, or what Short, Palmer, and Stimpert (1998) label measurement "referents on standards of comparison" (p. 154). According to the Short (1998) team, "referents are especially key to the turnaround process because they generate discussion frames that set the stage for strategic action" (p. 154). Common referents include comparisons to (1) a firm's own goals (p. 158) or "historical record" (O'Neill, 1986a, p. 168), (2) to the "performance of competitors" (Short, Palmer, & Stimpert, 1998, p. 154), or to (3) industry norms (O'Neill, 1986a; Robbins & Pearce, 1992), "standards," (O'Neill, 1986a, p. 168), or "averages" (Robbins &

Pearce, 1992, p. 293)—"factors specific to a particular industry" (Short, Palmer, & Stimpert, 1998, p. 159) or "strategic rival groups (p. 158). Our review here directs us to the following conclusion: "Both internal and external referents may be important in interpreting performance outcomes" (p. 157).

The final elements in the measurement equation address the *criteria* to be attached to the referent, whether absolute or relative standards are engaged and how much counts for success—or failure. Absolute standards specify set levels of outcomes, while relative standards define success in "terms of improvement" (Khandwalla, 1983–1984, p. 11). In their investigation, Hambrick and Schecter (1983) characterized a turnaround as successful if it "achieved an average ending return on investment (in years three and four) of at least 20 percent. An unsuccessful turnaround was defined as a business whose ending ROI [return on investment] was still less than 10 percent (even though it might have improved significantly" (p. 238). Thus they employed an absolute criterion and set the bar (i.e., the how much is needed) at 20 percent.

Process

Stages and time. In later chapters, we devote considerable space to exploring the process of turning around failing organizations in general and failing schools in particular. Here we foreshadow that analysis. We start by noting that a number of leading turnaround analysts conceptualize turnaround in terms of stages or "sequences of moves" (Hambrick & Schecter, 1983, p. 235). For example, Bibeault (1982) concludes that turnarounds flow across five stages: "the management change stage, the evaluation stage, the emergency stage, the stabilization stage, [and] the return-to-normal-growth stage" (p. 92). Sloma (1985) depicts four stages in the turnaround process: cash crunch, cash shortfall, quantity of profit, and quality of profit. Building from the work on turnaround stages, we employ a two-phase model of turnaround in this book: retrenchment and recovery (see Figure 1.1).

Researchers also have discovered (1) that "the amount of time required for a turnaround is of interest [for] its practical significance" (Hambrick & Schecter, 1983, p. 235) and (2) "that turnarounds go on for very long periods" (Zimmerman, 1991, p. 191), although "smaller companies usually do not take as long to turn around" (Dewitt, Harrigan, & Newman, 1998, p. 24). Therefore, while

acknowledging the need to address pressing problems, turnaround managers need to "adopt a long term focus" (O'Neill, 1986b, p. 87). For example, in the study by Schendel and his colleagues (1976), "the average length of the downturn phase was 5.2 years [and] the average length of the upturn was 7.7 years" (p. 4), for a total of nearly 13 years. In his investigation, Bibeault (1982) discovered that the average period of decline was 3.7 years and that the average length of the upturn recovery period was 4.1 years, a total of nearly 8 years for the turnaround process. Pearce and Robbins (1994a) uncovered a peak-to-peak cycle of 10 years with an average recovery phase or "average turnaround timetable [of] three to four years" (p. 96). O'Neill (1986a) found a peak-to-peak cycle of seven years in the banking industry, while Zimmerman (1991) pegged the upturn recovery phase at "about 4 years" (p. 191) and Hofer (1980) placed it in the three-year range. The summative statement on this issue has been nicely laid out by Goodman (1982): "Because the remedies needed in a turnaround usually involve conditions that have existed for years, all concerned must recognize that a successful and durable turnaround takes time" (p. 113).

Strategy. Strategy in turnarounds is the "what" in "what is happening in the organizations as they experience and react between Time 1 and Time 2" (Whetten, 1988b, p. 157). It is the unfolding of "the fundamentals of crisis management" (Silver, 1992, p. 6). Strategy almost always includes "a number of responses" (Grinyer, Mayes, & McKiernan, 1988, p. 65) in an effort "to put the organization on a new growth plan" (Taylor, 1982–1983, p. 12). According to scholars in this area (Ackley, 1989; Khandwalla, 1983–1984), "there are two broad types of turnaround strategies . . . strategic and operating" (Hofer, 1980, p. 20) (see Figure 1.1):

> Strategic turnarounds can be divided into those that involve a change in the organization's strategy for competing. 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. (p. 20)

Inside this framework, we learn that "turnarounds are usually about cutting direct costs, reducing overload, fixing quality and

customer service problems, and pricing and marketing strategically" (Finkin, 1987, pp. 8–9).

As we will see in great detail in later chapters, this differentiation of turnaround into phases "is useful because . . . it suggests that differing and different management actions are appropriate to each" (Sloma, 1985, p. 34). Exploration of these stages assists us in three ways: (1) it helps to identify which "responses to failure differentiate between the turnarounds and the non-turnaround firms" (Boyne, 2004, p. 98), (2) it aids us in patching together "a process for saving [a] troubled company" (Silver, 1992, p. 92), and (3) it informs management of the knowledge needed to conduct turnarounds (Bibeault, 1982).

Success. We open here with an important restatement of the obvious for turnarounds: "Where specific corrective action is taken by management, the outcome can be either successful or unsuccessful. Where recovery is accomplished, the firm is described as a successful turnaround. Attempts at recovery may, however, be unsuccessful" (Slatter, 1984, p. 15). Also, we remind the reader that "successful adaptation . . . can be known only retrospectively, not prospectively" (Ford & Baucus, 1987, p. 377).

On the downside, unsuccessful attempts at turnaround can lead to "corporate collapse" (Argenti, 1976, p. 2) or organizational "death" (Hager et al., 1999, p. 52). It can also result, surprisingly perhaps, in what Meyer and Zucker (1989) call "permanent failure—the combination of high persistence and low performance" (p. 22). This condition, which we suggest has relevance for the schooling industry, occurs when "performance is subordinated" (p. 19) to other matters or, we argue, performance becomes defined in less than standard ways. The point here is that "some declines are permanent" (Levine, 1978, p. 323) and that "organizational failure does not always equal organizational death" (Anheier & Moulton, 1999b, p. 278).

On the upside, since "the goal of turnaround is to restore financial health" (Sloma, 1985, p. xiii), "a turnaround begin[s] at that point when management's actions start to improve the financial performance of the firm" (Slatter, 1984, p. 74). According to Zimmerman (1991), the following "two attributes are crucial to turnaround success: low-cost production and product differentiation" (p. 251). In particular, "increased acceptance in the marketplace" (Barker et al., 1998, p. 62) is a hallmark of "most turnarounds" (p. 62). To these

attributes, Stewart (1984) adds "improved return on investment" (p. 19). In addition, for many organizations, especially public institutions, "survival depends upon achieving social legitimacy or credibility" (Chaffee, 1983, p. 11). And, as Zimmerman (1991) reminds us, to count, recovery must be "a lasting event" (p. 26).

Somewhat more concretely, analysts and managers provide the following definitions and portraits of successful turnaround. According to Zimmerman (1991),

> [W]hether the turnaround [is] successful center[s] around three necessary conditions: a return to profitability, a substantial improvement in profitability, and an overall improvement in market positions—all lasting at least several years and resulting in a measurably better situation for the company with respect to these criteria. More specifically, a turnaround was classed as successful if the following were achieved:
>
> 1. *Profitability improved from the levels of the period of crisis for a period of at least several years.*
>
> 2. *Profitability was positive.*
>
> 3. *Market position was significantly strengthened* either by increasing market share or by successfully concentrating on an important subset of the market. (pp. 30–31)

From Slatter (1984),

> . . . sustainable recovery involves achieving a viable and defensible business strategy, supported by an adequate organization and control structure. It means that the firm has fully recovered, is making "good" profits and is unlikely to face another crisis in the foreseeable future. (p. 15)

Barker and Duhaime (1997),

> . . . define a successful turnaround to be when a firm undergoes a survival-threatening performance decline over a period of years but is able to reverse the performance decline, end the threat to firm survival and achieve sustained profitability. (p. 18)

For Anheier and Moulton (1999b), success can "be defined as the ability of a social structure to keep relational elements indicative of failure at random levels" (p. 286). And returning to Zimmerman (1991),

> The general proposition advanced here is that a successful business turnaround involves improving the company's position as a low-cost provider of increasingly differentiated products and services, along with the nurturing of an appropriate turnaround organization which is competent, possesses industry-oriented technical expertise, and employs a general sense of fair play in dealing with employees, creditors, suppliers, shareholders, and customers. (pp. 11–12)

Themes

In these final pages of our introduction to turnarounds, we overview an assortment of themes and findings that we deepen throughout the book. It is important to acknowledge at the start that while there is evidence that "it is possible for troubled companies to turn around" (Zimmerman, 1991, p. 11), we know that these "changes do not happen automatically" (Thurow, 2003, p. 250) and that "not all turnaround situations are recoverable" (Slatter, 1984, p. 115; also Lubatkin & Chung, 1985). Neither is it appropriate to assume that turnaround efforts are in the best interest of all troubled organizations. Sometimes "those with a stake in the organization [would be] better served" (Hofer, 1980, p. 31) if the organization were allowed to die.

There is also considerable support for the claim that "turnarounds may vary in nature" (Khandwalla, 1983–1984, p. 8) and that "no two [turnaround] firms are alike" (Grinyer, Mayes, & McKiernan, 1988, p. 129; also Baehr, 1993). Because firms "decline in many ways" (Harrigan, 1988, p. 130) and because "the particular mix of causes of the relative decline are different" (Grinyer, Mayes, & McKiernan, 1988, p. 63), "no two turnaround situations are ever exactly alike" (Finkin, 1985, p. 24)—"there are different ways to respond" (Harrigan, 1988, p. 130), and "no precise pattern of approach is satisfactorily applicable to every case" (Finkin, 1985, p. 24). Indeed, Hegde (1982) reminds us that

> turnaround actions tend to be multi-dimensional, multi-pronged efforts; and turnaround strategy tends to be built around eliminating the cause of sickness. There may be no one best turnaround strategy for it may, at least in part, have to be tailor-made to each specific situation. (p. 302)

There "is no universal panacea for all organizational ills; each turnaround strategy has to be tailored to a unique company situation" (Chan, 1993, p. 29): "There [is] no single road to success" (Harrigan, 1988, p. 131), and "many innovative ways of retrieving the value of a firm's assets [have been] found" (p. 131). Each "firm seeking to reverse a decline in performance faces several alternatives" (Lohrke & Bedeian, 1998, p. 4).

> Successful turnaround treatment is a tailored, customized restorative program. While some symptoms may be shared by different stages of turnarounds, effective treatment is dependent upon accurate differentiation and selection of only those that are relevant to our specific patient. (Sloma, 1985, p. xiii)

Thus "there are different types of turnaround efforts" (O'Neill, 1986a, p. 168) and "multiple turnaround strategies" (Khandwalla, 1983–1984, p. 12).

Concomitantly, we are discovering that there are "some common features" (Grinyer, Mayes, & McKiernan, 1988, p. 129) and "some common elements that are present in successful turnaround strategies" (Chan, 1993, p. 29). "General patterns" (Harrigan, 1988, p. 131) are discernible, and there is some evidence that these commonalities extend across industries and sectors of the economy (e.g., service and manufacturing). We are also learning that some responses, although contextually dependent, "are more (or less) successful than other responses" (Harrigan, 1988, p. 130).

We also know that there is only a small window of opportunity available to firms in turnaround situations (Sloma, 1985), and "time is of the essence" (Hambrick, 1985, p. 10-3). Relatedly, by the turnaround point in the game, "turnaround managers basically get one round of moves. . . . There is no slack; there is no organizational resilience" (Hambrick, 1985, p. 10-3): "Successful turnarounds involve making bold moves in short times" (Rindler, 1987, p. 171).

If there is anything close to a law in the literature on turnarounds, it is that context is critical to recovery efforts. Age of the firm, size, type of industry, history, and a dozen other issues shape decline and turnaround (Oviatt & Bruton, 1994; Zimmerman, 1991). For example, on one of these context dimensions, Sloma (1985) informs us that "a relationship exists between the stage of the severity of the turnaround and the scope, timing, and nature of the remedial action that can (should) be taken" (p. 34). As with all the topics in this section, we explore the topic of context in greater detail in later chapters.

Somewhat unexpectedly, but consistent with the school improvement literature, successful turnarounds often look worse than unsuccessful ones in the early stages of the recovery process. As Zimmerman (1991) discovered, "during the principal periods of crisis, the best companies quite often looked worse, and the worst companies quite often looked better. It was only after several years that the superior effort of the successful firms enabled them to look better statistically" (p. 280).

On the management side of the story, we know that the leader's "response . . . is often the decisive factor in determining whether a firm dies early or goes on" (Bibeault, 1982, p. 17). There is also evidence that "turnarounds call for a different way of thinking and different types of action than do other strategic situations" (Hambrick, 1985, p. 10-2). Information is also emerging that because "a turnaround situation is an abnormal period in any company's history" (Bibeault, 1982, p. 1), "new and different problems must be surmounted in order to turn around a declining organization, . . . that coping with decline generally requires solutions not contained in organization's repertoires, and that managers' instinctive responses may exacerbate problems" (Meyer, 1988, p. 412): "In a state of crisis, the usual adaptive responses are inadequate to achieve balance" (Silver, 1992, p. 35) and "business as usual does not suffice" (Finkin, 1985, p. 14). "Management approaches [that are] unique and distinctly different" (Bibeault, 1982, p. 1) are called for—"the mode of operation in a recovering situation is often quite different from that described in the standard management textbooks" (Slatter, 1984, p. 13).

The literature also illustrates that this is arduous work, that a turnaround "is difficult to undertake" (Grinyer, Mayes, & McKiernan, 1988, p. 128): "Under conditions and assumptions of decline, the ponderables, puzzles, and paradoxes of organizational management take on new complexities" (Levine, 1978, p. 317). Turnaround work

is "a complex task involving many characteristics and the balancing of competing claims. There are no single easily attainable recipes" (Grinyer, Mayes, & McKiernan, 1988, p. 128). Indeed, there is general acknowledgment that "successful turnaround performance requires technical management knowledge and human energy of a higher order" (Bibeault, 1982, p. 3) and that "of all the challenges confronting top managers, achieving a successful turnaround is surely one of the most difficult" (Short, Palmer, & Stimpert, 1998, p. 154): "Trying to make substantial improvements in a troubled company [is] . . . a trying test for management" (Bibeault, 1982, p. 2). Stress and strain are commonplace, and "management by 'thrashabout' [can] become the order of the day" (Sloma, 1985, p. 28): "Too often managers are under pressure to do something—anything quickly. The hazard . . . is that the pressure to find an attractive redirection, a plausible answer is accepted as the plan instead of the 'best' solution" (Dewitt, Harrigan, & Newman, 1998, p. 23). And as Sloma (1985) reminds us, "getting a turnaround program underway is far less important than getting the *right* turnaround program started" (p. 27). Clear focus, "ruthless adherence to objectives" (Bibeault, 1982, p. 3), alignment of efforts (Hofer, 1980), and high-quality implementation (Slatter, 1984) are the keys for turnaround managers.

Three additional insights (themes) from the turnaround literature merit notice. First, as should be clear from our analysis of turnaround measures, "losses [are] not required to be a turnaround candidate" (Oviatt & Bruton, 1994, p. 130). Deterioration and stagnation of results are the real "distinguishing characteristics of a turnaround candidate" (p. 130). Second, there are real costs to the organization in turnaround work, or as Grinyer, Mayes, and McKiernan (1988) inform us, "most sharpbends . . . have a harsh side to them" (p. 132)—lines of activity are dropped, resources are reallocated, and jobs are lost. Third, while we discuss successful turnaround as an end state, it is instructive to remember that (1) it is difficult to mark "when a full recovery has occurred" (Fredenberger, Lipp, & Watson, 1997, p. 169) and (2) end states begin to unravel as soon as they are created. Environments continually evolve, and internal dynamics are in constant flow. Therefore, there is no guarantee that adjustments today "will solve the company's problems thereafter" (Grinyer, Mayes, & McKiernan, 1988, p. 134): "Turnarounds are never permanent. Constant vigilance is required to remain competitive" (Zimmerman, 1991, p. 263).