

MANAGERIAL RESPONSES TO DECLINING PERFORMANCE: TURNAROUND INVESTMENT STRATEGIES AND CRITICAL CONTINGENCIES

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ABSTRACT

To provide additional insight into managerial processes associated with declining performance, the authors develop a continuum of turnaround investment strategies that creates a common language for use in turnaround research. Building on this continuum, the authors then identify critical contingencies that can affect the efficacy of specific turnaround strategies. Finally, the authors derive strategic implications for managers, as well as offer suggestions for future turnaround research.

In formulating a sound strategic plan, it is generally held that a firm should assess its internal strengths and weaknesses in relation to the external opportunities and threats it faces (Meyer, 1991; Summer et al., 1990). The logic underlying this

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reasoning is straightforward. On the one hand, unless a firm is fully aware of its strengths, it may not avail itself of opportunities to further develop them. Conversely, unless a firm regularly assesses its weaknesses, it may be unprepared to effectively counter unanticipated environmental threats. In this latter instance, a firm may well encounter a decline in performance and, at the extreme, find that it has even jeopardized its continued existence.

In such circumstances, a firm seeking to reverse a decline in performance faces several alternatives. For instance, it may decrease investment in its product lines in an attempt to reduce costs and improve profits (e.g., Robbins & Pearce, 1992). Alternatively, it may choose to sell off or divest one or more of its operating units (e.g., Graham & Richards, 1979). A third alternative involves attempting to increase revenue by investing heavily in marketing or research and development (R&D) in an attempt to turn around through new marketing or product innovations (e.g., Hofer, 1980). As a fourth alternative, the firm may choose to diversify into new industries to apply its strengths in more promising markets or to reduce dependence on a declining industry (e.g., Zammuto & Cameron, 1985).

The research literature is replete with studies investigating the ability of firms in turnaround situations to identify and capitalize on marketplace opportunities and, in turn, reestablish previous performance levels (Hoffman, 1989; Pearce & Robbins, 1993). Additionally, limited research has focused on the role of top managers in such situations (e.g., Barker & Patterson, 1996; Stanwick, 1992). Despite these efforts, the strategic management literature offers practicing managers limited guidance for reversing or turning around a decline in a firm's performance. Moreover, this guidance has not only been inconsistent, but at times contradictory (e.g., Arogyaswamy, Barker, & Yasai-Ardekani, 1995).

This state of affairs has seemingly developed for at least two reasons. First, the strategy literature lacks an agreed upon vocabulary with agreed upon meanings for describing efforts to reverse or turn around a firm's performance (Pearce & Robbins, 1993). Consequently, conceptual clarity has been lacking as researchers have found it difficult to incorporate individual studies into an organized and understandable body of knowledge. Such confusion has also made it difficult to communicate credible recommendations to practicing managers. Second, turnaround research has been conducted in a variety of settings (Arogyaswamy et al., 1995). To date, however, integration of this research has been lacking. This lack of integration can be attributed to the absence of a coherent framework that can serve to compare turnaround findings (cf. Zammuto & Cameron, 1985).

The purpose of this paper is to explicitly address these shortcomings. First, to standardize terminology, we draw on the research literature to develop a turnaround strategy classification scheme. By including a full range of turnaround strategies, as well as specific strategies within this range, this scheme offers greater breadth and depth than previous classifications. Next, building on this more encompassing classification scheme, we then identify three critical contingencies (i.e., environmental factors, decline severity, and top management

characteristics) so as to develop a comparative basis for examining turnaround results. To conclude, we highlight implications for both managers and future turnaround research.

EXISTING TURNAROUND STRATEGY CLASSIFICATIONS

In general, turnaround research has primarily focused on realigning a firm's internal strengths and weaknesses to the external opportunities and threats it faces. In this respect, a firm's overall turnaround strategy can be analyzed with regard to its *competitive*, *political*, and *investment* substrategies (Hofer & Schendel, 1978). A firm's *competitive strategy* is defined by the competitive weapons (i.e., cost leadership versus product/service differentiation; Porter, 1980) and competitive scope (i.e., broad versus narrow; Zammuto, 1988) that its top managers employ to realize a competitive advantage. *Political strategies* involve the efforts of top managers to enhance a firm's competitive advantage by enlisting the support of key stakeholders (Freeman, 1984; MacMillan, 1978). Finally, a firm's *investment strategy* is reflected in its top managers' decisions about functional area (e.g., marketing, R&D, production) or product-line resource commitments (Hofer & Schendel, 1978).

Although, as Hofer and Schendel (1978) observe, overall strategies may be analyzed with respect to each of these substrategies, previous turnaround research has principally contrasted varying levels of resource commitment in an effort to compare alternative investment strategies.¹ Moreover, these alternatives have generally been operationalized within three strategic spheres: *retrenchment*, *innovation*, and *growth*.

Retrenchment

Retrenchment encompasses not only reducing investments in functional areas such as marketing, R&D, and production, but may also include divesting or liquidating unprofitable units in an effort to generate cash. Some studies have found that declining firms must initially retrench to stabilize their financial health prior to making long-term strategic adjustment (e.g., Bibeaault, 1982; Pearce & Robbins, 1993). This finding seemingly reflects the time pressures inherent in a typical turnaround situation and the need to restabilize existing operations before changes in a firm's strategic direction can be achieved. Other studies, however, have concluded that such actions can be detrimental to a firm's turnaround success (e.g., Schreuder, Van Cayseele, Jaspers, & De Graff, 1991). This especially appears to be the case where a decline in performance prompts a firm to either sell its most valuable (i.e., critical) assets or so severely reduce investments in its functional areas that it can no longer operate effectively. Whereas these actions may enable a

firm to stay afloat in the short term, the detrimental consequences for its long-term recovery would seem obvious (Barker & Mone, 1994).

Innovation

Innovation involves seeking new-market opportunities and experimenting with new products. It entails not only responding to, but creating environmental trends. As an strategic alternative, innovation is logically best suited for dynamic and growing environments with untapped new-product and new-market opportunities. To exploit such environments, investment in functional areas such as marketing and R&D is needed to stimulate demand and produce new products, respectively. It is perhaps the failure to recognize this point that accounts for mixed findings relating to innovation as a turnaround strategy. Whereas some researchers (e.g., Hofer, 1980; O'Neill, 1986) have found that keeping innovation at high levels helps turn around declining firms, others (e.g., Hambrick & Schechter, 1983) report that innovation is unsuccessful in turning around firms where market shares are relatively fixed, as would be the case in slow-growth or mature markets.

Growth

Growth as an investment strategy seeks to improve a firm's declining performance through diversification into new industries. As with retrenchment and innovation, conflicting results exist regarding growth as a strategy for reversing a firm's declining performance. Schendel, Patton and Riggs (1976) found that for over half the declining firms they studied, increasing either product or geographic diversification was associated with successful turnaround. In contrast, Zimmerman (1989) found that such changes in strategic direction were negatively related to turnaround. Such disparate results may well be explained by factors such as differences in decline severity as well as top-management qualifications.

Summary

Although a firm's turnaround efforts may be analyzed with respect to competitive, political, and investment substrategies, previous research has principally focused on contrasting investment alternatives. In turn, these alternatives have generally been operationalized within three strategic spheres: retrenchment, innovation, and growth. Mixed findings with respect to the comparative efficacy of these alternatives, however, offer scant guidance for turning around a declining firm's performance. Inspection of the turnaround literature suggests that one reason for these mixed results may be that researchers have used different classification schemes for establishing whether retrenchment, innovation, or growth were being attempted as an investment strategy. As shown in Figure 1, a wide range of terms have been employed to represent different managerial actions associated with vary-

<i>Turnaround Study</i>	<i>Turnaround Strategy</i>		
	<i>Retrenchment</i>	<i>Innovation</i>	<i>Growth</i>
Schendel, Patton, & Riggs, 1976	Strategic response	Operating response	Strategic response
Hofer, 1980	Segmentation or Niche	Decreased costs/ Decreased assets	Revenue increasing
Hambrick & Schechter, 1983	Selective product/ market pruning	Asset and cost surgery	Strategic turnaround
Melin, 1985	International niche		
O'Neill, 1986	Cutback		New markets
Arogyaswamy, 1992		Cutback/Efficiency/ Cost retrenchment	Growth
Robbins & Pearce, 1992		Asset retrenchment	Rejuvenation
Morrow & Busenitz, 1993	Retrenchment		Non-retrenchment
Barker & Duhaime, 1997	Strategic change		Strategic change

Figure 1. Turnaround: Investment Strategies

**Table 1. Review of Performance and Decline
Severity Measures Used in Previous Turnaround Research**

Schendel, Patton, & Riggs, 1976	Four years of uninterrupted decline in net income normalized by GNP	Four years of increasing net income, normalized by GNP, with allowance for a two year deviation between decline and recovery
Schendel & Patton, 1976	Sub-GNP growth in income	Greater-than-GNP growth in income
Graham & Richards, 1979	Return on total assets below return available from long-term U.S. Treasury bonds	Improving return on total assets
Hofer, 1980	Major declines in financial or market position Proximity to break-even point noted as a measure of decline severity	Regaining financial health or market position
O'Neill, 1981	3 consecutive years of net income growth at a slower rate than average industry net income growth	3 years of net income growth greater than average industry net income growth
Bibeault, 1982	3 years of sustained, but not necessarily monotonic, decline in net income About 80% of sample also suffered one or more years of losses	Large increase in profit margins and sales
Hambrick & Schechter, 1983	Average pretax ROI less than 10%	ROI greater than 20%
Ramanujam, 1984	ROI decline for four years and ROI at some point falling below 5%	ROI greater than 5%
Melin, 1985	Severe profit deterioration	Survival of shakeout

O'Neill, 1986	Not specified	Not specified
Pant, 1986	ROA in lowest 25% of industry for 2 years	ROA in top 25% of industry in years 7 and 8
Zimmerman, 1986	Financial decline, increasing customer complaints	Return to profitability
Zimmerman, 1989	Decline in profit, negative profit or profit below industry average, decline in revenue, increasing stakeholder concerns	Increase in revenue and profit, positive profit, stronger market position
Arogyaswamy, 1992	Negatively sloped regression line for four years for return on invested capital, net income margin, and change in cash flow	Positively sloped regression line for four years for return on invested capital, net income margin, and change in cash flow. Return on invested capital in the first and last two years of study was positive
Robbins & Pearce, 1992	2 years of increasing ROI and ROS followed by: (1) absolute declines in both ROI and ROS for a minimum of two years (2) rate of decline in ROI and ROS greater than industry average over two year period. Altman's (1988) Z-score also included to measure decline severity	(1) At least two consecutive years of absolute increases in ROI and ROS at a rate greater than industry average (2) Return to predownturn ROI and ROS levels
Stanwick, 1992	3 years of decreasing value for Altman's Z-score and a Z-score less than 3.00 for each year	3 years of increasing value for Altman's Z-score and a Z-score of at least 3.00 for the last year of turnaround
Morrow & Busenitz, 1993	3 years of decreasing return on average investment	Absolute change in return on average investment from the year 3 to year 4
Oviatt, Bruton, & Shrader, 1994	2 years of ROI less than half of industry average in firm's primary industry	3-year average ROI greater than 3-year industry average
Francis & Pett, 1996	2 years of ROI above the risk-free rate of return followed by: (1) at least 3 years of ROI below the risk-free rate (2) at least one year of negative net income	2 years of ROI above the risk-free rate
Lohrke, 1996	3 years of return on invested capital below the risk-free rate and 3 years of declining slack Altman's (1988) Z-score also included to measure decline severity.	3 years of return on invested capital above the risk-free rate and 3 years of increasing slack
Barker & Duhaime, 1997	At least 3 consecutive years of return on investigated capital lower than 6-month U.S. Treasury bill rate, at least one year of negative income, Altman's (1988) Z-score below 3.00 for at least one year	Return on invested capital above U.S. Treasury bill rate Assets, employees, and normalized sales still greater than 50% of predownturn levels

ing strategy classifications. Such vagueness in terminology has arguably obscured both the essential turnaround processes being implemented and the successfulness of the ensuing results. For instance, the term “asset retrenchment” can involve altering either investment in a firm’s functional areas or the number of market segments in which it competes. The actions required to do one or the other are quite different, however, as are their expected outcomes (cf. Hoskisson & Hitt, 1994).

Vagueness in the turnaround processes actually undertaken is likewise confounded when such processes are studied in varied settings. For example, firms facing imminent bankruptcy encounter different demands than those simply under performing their industries (Winn, 1993). As noted in Table 1, however, extant turnaround research has included firms facing varying conditions of decline.

Other contingencies, such as environmental and top management characteristics, may also be important in understanding the appropriateness of varying investment strategies. The following section offers a turnaround strategy classification scheme that addresses both terminology and contingency issues.

A TURNAROUND INVESTMENT STRATEGY CLASSIFICATION

From a turnaround perspective, investment strategies are largely reflected in top managers’ decisions about functional area or product-line resource commitments. Building on this foundation and drawing on the research literature, a comprehensive turnaround investment strategy continuum can be proposed. This continuum is shown in Figure 2.

Figure 2 essentially proposes a five-point continuum of turnaround investment strategies. At one end of the continuum, a *domain-consolidation* strategy involves reversing a firm’s declining performance by divesting unprofitable product-lines or services and refocusing on a select set of core activities (Zammuto & Cameron, 1985). For example, facing the threat of bankruptcy, Bethlehem Steel divested 16 major operations including a plastics company and steel distributor to refocus on its core steel business (Miles, 1989). On the opposite end of the continuum, a *domain-creation* strategy involves adding new product-lines or services by moving into new market niches or transferring existing skills to new industries (Haveman, 1992). For example, facing increasing competition, declining revenues, and escalating labor costs, American Can Company diversified into financial services and eventually transformed itself into Primerica Corporation, a leading insurance provider (Derdak, 1988). These end-points, thus, encompass the complete range of “divest” to “growth” options (cf. Gupta & Govindarajan, 1984).

Located between these anchors are the counter options of either increasing or decreasing investments within a firm’s present operational domain. As an option, *domain offense* involves reallocating resources by increasing investments in functional areas such as marketing and R&D in an effort to enhance sales and, thus,

Extant Turnaround Strategy Classification	Retrenchment		Innovation		Growth
	Domain Consolidation	Domain Defense	Status Quo	Domain Offense	
New Turnaround Strategy Classification	Divestment of unprofitable product-lines or services to refocus on core activities	Decreasing investment in some business functions to reduce costs	No resource allocation adjustments or changes in operational domains or product-lines or services	Increasing investment in some business functions to enhance sales	Investment in new product-lines or services to diversity into new market niches or industries
Definition					
<i>Critical Contingencies:</i>					
Environmental Mummification	Low in a particular segment	Low	High	High	High in new segment
Managerial Discretion	High	Low	Low	Low	High
Decline Severity	High	High	Low	Low	Low / High
TMG Skills	Internal	Internal	Current	External	Support

Figure 2. Turnaround: Investment Strategy Continuum

market share and profitability. For example, finding itself trapped with a gas-guzzling product line during an oil crisis, Chrysler launched its more fuel efficient K car model to stem the company's financial decline (Iacocca, 1983). As an alternative option, *domain defense* involves reallocating resources by either reducing investments in functional areas (e.g., marketing or R&D) or by disposing of inefficient assets (e.g., obsolete plant and equipment).² For example, facing possible financial disaster in the North American automobile industry, General Motors streamlined its operations by downsizing its hourly work force and headquarters staff as well as adopting more efficient practices such as centralized inventory purchasing (Taylor, 1994).

The continuum's mid-point marks a *status quo* strategy that reflects a "wait out the storm" mentality. It involves not making any resource allocation adjustments or changes in operational domains or product-lines or services. Environmental discontinuities are seen as temporary and short-lived. Profits may have fallen, sales decreased, and competition increased. In response, employees must simply accept interim controls and try harder. Budgets may be tightened or quality standards strengthened. This strategy reasons that "business as usual" can be resumed when the storm is over. For example, one study of successful turnaround firms found that 16 percent recovered primarily because of business cycle improvements (Bibeault, 1982).

The turnaround investment strategy continuum depicted in Figure 2 overcomes four principal shortcomings in extant classification schemes. First, being based on previous studies of how firms reverse declining performance, it builds on both the theoretical and empirical foundations from strategic management literature. Second, the continuum positions firms according to a general, as well as specific strategy classification. Thus, a firm attempting retrenchment can be more specifically characterized as following a domain-defense strategy, focusing primarily on reallocating resources by decreasing investments in specific functional areas. Alternatively, a second firm attempting retrenchment can be characterized as following a domain-consolidation strategy, focusing primarily on reversing declining performance by divesting unprofitable product-lines or services and refocusing on a select set of core activities. Such a distinction is important given the different managerial and performance implications inherent in each strategy.

Third, the continuum encourages researchers to explore the entire spectrum of possible turnaround investment strategies, ranging from domain consolidation to domain creation. The continuum also recognizes that some firms may actually opt to maintain the status quo when faced with declining performance. Finally, the continuum can accommodate analysis of both single-industry firms attempting turnarounds in their respective industries and multiple-industry firms attempting turnarounds in selected market segments. It, thus, can be used to consider both business- and corporate-level turnaround efforts.

CRITICAL CONTINGENCIES

Because turnaround investment strategies are likely to vary in effectiveness according to a firm's individual circumstances, a consideration of critical contingencies is required (Hofer, 1980). Figure 2, therefore, also identifies three such contingencies: (a) environmental factors operating within a firm's general and task environments, (b) severity of a firm's decline, and (c) nature of a firm's top-management group. Each of these contingencies is discussed below.

Environmental Factors

The impact of environmental factors operating within a firm's general and task environments has long been a focus of strategy research (e.g., Dess & Beard, 1984; Dill, 1958; Emery & Trist, 1965; Hrebiniak & Joyce, 1985). Prior turnaround studies, for instance, have examined the effects of industry growth-rate (Pant, 1986; Ramanujam, 1984), as well as industry life-cycle stage (Hambrick & Schechter, 1983) on firm performance. Both factors have been shown to influence a firm's success (Hofer, 1980).

Although a firm's general and task environments can be conceptualized along a variety of dimensions (e.g., Aldrich, 1979), environmental munificence (Castrogiovanni, 1991; Dess & Beard, 1984; Keats & Hitt, 1988) and managerial discretion (Finkelstein & Hambrick, 1992; Hambrick & Abrahamson, 1995; Hambrick & Finkelstein, 1987) are logically of particular relevance to turnaround efforts. Indeed, *munificence*—the extent of an environment's resource availability and capacity to support growth (for a review, see Castrogiovanni, 1991)—is the most common environmental factor investigated in turnaround studies (e.g., Arogyaswamy et al., 1995; Bibeault, 1982; Hambrick & Schechter, 1983; Morrow & Busenitz, 1993; Pant, 1986; Ramanujam, 1984). As would be expected, an increasing industry growth-rate associated with an expanding customer base and a leveling of competitive intensity, has been shown to be positively related to successful turnaround (Ramanujam, 1984).

Referring to Figure 2, the appropriateness of specific turnaround investment strategies can be directly related to industry resource availability and growth rate (i.e., environmental munificence). Specifically, a domain-offense strategy, in which resources are reallocated to increase investments in functional areas (such as marketing and R&D) in any effort to enhance sales and, thus, market share and profitability, has been found to be related to successful turnaround in highly munificent environments (Hofer, 1980). Conversely, a domain-defense strategy, in which resources are reallocated by either reducing investments in functional areas or by disposing of inefficient assets, has been found to be related to successful turnaround in less munificent environments (Robbins & Pearce, 1992). Additionally, firms implementing a domain-consolidation strategy would logically divest from environments exhibiting low munificence whereas those implementing a

domain-creation strategy would be expected to move into environments exhibiting high munificence (Zammuto & Cameron, 1985).

Managerial discretion, a second environmental factor of particular relevance to turnaround efforts, represents the degree of decision latitude present in an industry (Hambrick & Finkelstein, 1987). For example, a utility company's top managers must contend with regulatory constraints that allow fewer strategic choices than their counterparts in a computer software company (Finkelstein & Hambrick, 1992). Thus, referring again to Figure 2, a logical relation between the degree of managerial discretion available to the top managers in an industry and the appropriateness of a turnaround investment strategy would appear present. For instance, whereas domain consolidation, in which a firm divests unprofitable product-lines or services and refocuses on a core set of activities, represents a possible turnaround alternative, it may not always be appropriate. Industry- or market-segment exit barriers (such as severance contracts or non-marketable assets) may make divestitures prohibitively expensive even though a firm's performance has appreciably declined (Duhaime & Grant, 1984; Porter, 1980). Thus, the performance implications of domain consolidation as a turnaround investment strategy may well be a function of the degree of decision latitude present in an industry or market segment. Similarly, a firm facing low managerial discretion would also be constrained in its ability to implement a domain-creation strategy, requiring the introduction of new product-lines or services into new market niches or the transferring of existing skills to new industries. Consequently, a firm facing low managerial discretion would often be limited to implementing turnaround strategies within its present domain (i.e., domain-defense, status quo, or domain-offense strategies).

Severity of Decline

A second critical contingency to consider is the severity of decline experienced by a firm. Decline severity is important because it is associated with the degree to which a firm's survival is threatened (Pearce & Robbins, 1993). As noted in Figure 2, in low severity situations of declining sales or shrinking margins, a firm may have the resources to implement a domain-offense or domain-creation strategy. For example, the firm may be able to implement a domain-offense strategy by increasing investments in such functional area activities as marketing to promote increased sales (Hofer, 1980). Alternatively, the firm facing low severity may have the resources necessary to implement a domain-creation strategy and move into more promising industries (Zammuto & Cameron, 1985).

In high severity situations, such as potential bankruptcy, more drastic turnaround actions may be required. A firm may find it necessary to implement domain-defense actions such as eliminating employees and activities that do not directly produce customer value, reducing inventory, and so on. At the extreme, a domain-consolidation strategy, in which entire product lines or services are divested or discontinued in an effort to improve profitability and cash flow, may be

required (Freeman & Cameron, 1993; Hambrick, 1985). Additionally, a single-business firm facing high severity situations may find it necessary to implement a domain-creation strategy in order to move out of a declining industry (Harrigan, 1980; Zammuto & Cameron, 1985).

Top-Management Group (TMG)

A third critical contingency that can likewise influence turnaround success is the nature of a firm's top-management group. Being the individuals that monitor and evaluate environmental forces and trends and, in turn, make necessary decisions for dealing effectively with a firm's environment, a TMG plays a central role in determining goods and services to emphasize, markets to penetrate, opportunities to develop, and technologies to exploit (Cyert & March, 1963). At the same time, TMGs differ across firms and over time in talents, motives, and interpretations of environmental forces and trends (Hambrick, 1989).

A growing body of research has shown that the interaction between the nature of a firm's top-management group and the firm's strategy can influence its performance (Gupta, 1988; Hambrick, 1987; Szilagyi & Schweiger, 1984; Thomas, Litschert, & Ramaswamy, 1991). In particular, to the extent a firm's TMG possesses talents appropriate for implementing a particular strategy, the greater the likelihood that the strategy will be successful and the firm's performance will increase (Michel & Hambrick, 1992).

With reference to Figure 2, the appropriateness of a TMG's talents may vary depending on the turnaround investment strategy it implements. For example, Hofer (1980) contends that "a strategist/entrepreneur should be chosen if a high-growth, strategic turnaround is to be pursued, whereas a hard-nosed, experienced cost-cutter would be more appropriate if an operating turnaround with a major cost reduction effort is to be pursued" (p. 26). Empirical evidence does, indeed, support the importance of an alignment between TMG talents and the success of actions taken to make a firm's strategy a reality. To wit, Schendel and Patton (1976) have shown that firms following similar turnaround strategies, but varying in the nature of their TMGs, enjoy different degrees of success.

It has been suggested that TMG members develop diverse talents that may be critical to strategy implementation depending on varying functional, company, and industry backgrounds (Hitt, Ireland, & Palia, 1982; Miles & Snow, 1978; Snow & Hrebniak, 1980). With reference to Figure 2, TMGs with dominant backgrounds in internally-oriented functional areas (e.g., production) have been found to effectively implement domain-defense strategies (Govindarajan, 1989). Similarly, TMGs with dominant backgrounds in externally-oriented functional areas (e.g., sales) have been found to effectively implement domain-offense strategies (Gupta & Govindarajan, 1984; Gutherie, Grimm, & Smith, 1991; Thomas et al., 1991). Finally, TMGs with dominant backgrounds in support functions (e.g.,

finance or law) have been found to effectively implement domain-creation strategies (Michel & Hambrick, 1992; Song, 1982).

CONCLUSION

Given the growing importance of organizational turnaround, it is critical to develop an understanding of processes associated with reversing a firm's declining performance. To provide additional insight into these processes, we developed a continuum of turnaround strategies that creates a common language for use in turnaround research. We also discussed important contingencies that may affect turnaround success. Whereas other contingency factors may also affect a firm's performance, we have highlighted those that have received the most attention in turnaround research.

Implications for Managers

Because strategic management is an applied field, the ultimate focus of strategy research is to provide guidance to managers so that they can improve their firm's performance (Summer et al., 1990). As noted, however, few consistent prescriptions are currently available in extant turnaround research.

We provide managerial insights into two areas. First, we discussed the entire range of strategic possibilities in turnaround from domain-consolidation to domain-creation strategies. Because turnaround research has focused primarily on the relationship between domain defense and performance (Arogyaswamy et al., 1995; Pearce & Robbins, 1993), we provide insight into additional strategic options that managers may choose when attempting a turnaround.

Second, we synthesized prior research to highlight important contingencies that can affect the efficacy of alternative turnaround strategies. Specifically, we discussed the importance of environmental characteristics, decline severity, and TMG skills. Knowledge of these factors may help top managers choose a turnaround strategy that has a higher probability of success given their firm's current situation. Additionally, insights into the importance of TMG skills may help in decisions such as assembling a TMG to reverse a firm's declining performance.

Implications for Researchers

To build on current turnaround findings, researchers need to speak a common language and consider critical contingencies that can affect research results. As noted, however, studies have often employed different terms and investigated firms in different situations. A common language is important to communicate both findings to other researchers and prescriptions to managers. The continuum

in this chapter facilitates building this common language to aid comparison and synthesis of research investigating specific turnaround strategies.

We have also noted critical contingencies that should be considered in future turnaround research. Studies have examined firms operating in a variety of environments, facing varying levels of decline severity, and having different TMG skills. When conducting future studies, all these contingencies need to be considered. For example, future studies need to measure the environmental munificence and discretion for sampled firms or conduct single-industry studies (e.g., Robbins & Pearce, 1992) to help control for these factors. Additionally, studies need to more explicitly consider decline severity in sampled firms. Firms facing decline have usually been defined as firms in trouble, often facing problems that threaten their existence. Studies, however, have sometimes employed performance definitions that do not coincide with this definition. For example, a common operationalization has been to examine firms with two to three years of declining profitability, a problem that most firms will face sometime during their existence (Ramanujam, 1984). Consequently, future studies need to explicitly consider severity by including measures such as threat of bankruptcy (e.g., Altman's Z-score), proximity to performance benchmarks (e.g., risk-free rate of return) or decline in organizational slack (e.g., increasing debt). Accounting for these contingencies will help determine the efficacy of particular strategies in specific situations.

In conclusion, the critical nature of a decline in a firm's performance requires that managers make quick and informed decisions about how to turn a firm around. We present a framework that promotes a common vocabulary for discussing these issues and highlights critical contingencies that can affect the successfulness of turnaround efforts. We hope that these efforts will help promote additional research that leads to consistent prescriptions for managers facing turnaround situations.

NOTES

1. See Bibault (1982) and Arogyaswamy et al. (1995) for examples of political turnaround strategies.
2. Note that Ford (1985) labeled this as an "efficiency" strategy. Additionally, "domain defense" was originally employed by Miles (1982) to refer to a political strategy of enlisting key stakeholder support. However, because of the wide spread use of Miles and Snow's (1978) "defender" (i.e., efficiency) strategy in organizational research, "domain defense" has increasingly been employed to designate a firm's strategy of focusing on efficiency within its current domain (e.g., Ketchen, Thomas, & McDaniel, 1996).

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