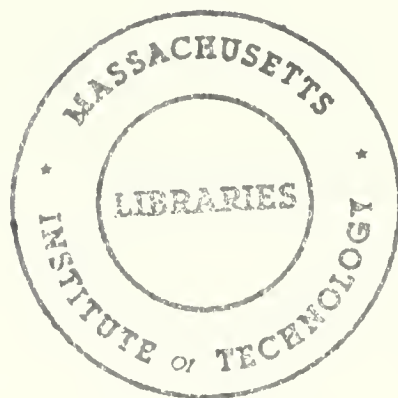
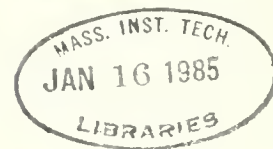
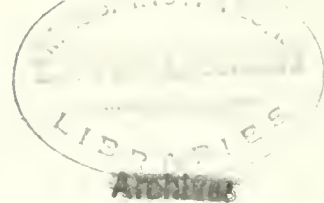


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Turnaround Strategies for Businesses as a
Function of Their Competitive Characteristics

by

R. A. Thietart

October 17, 1984
Revised 12/11/84

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Abstract

Failing industries, poor business performance, lagging productivity, and remedies for such problems such as revitalization, rejuvenation, innovation and adaptation are fashionable topics nowadays. However, few studies have dealt comprehensively with the actions which could help in turning poorly performing businesses into healthy ones. Most of the analyses to date have either focused on the firm as a whole or on some very specific types of businesses. Also, the qualitative methodologies used in some studies have yielded results which are difficult to generalize.

The objective of the present research is to evaluate the effectiveness of alternative turnaround strategies in achieving market share, cash flow and ROI objectives. This study is made on different low performance businesses clustered as a function of the nature of the business --consumer durable, consumer non-durable, capital goods, raw and semi finished materials, components for finished goods, supplies and other consumer products-- and their competitive characteristics --entry and exit barriers, industry characteristics, suppliers' and customers' bargaining power, businesses' competitive strength.

A sample of approximately 220 turnaround candidates is drawn from the PIMS data base. A cluster analysis is run to identify natural groupings of homogenous businesses. For each of the six groups of turnaround candidates, linear regression models are estimated to study the impact of turnaround actions on three performance criteria. The actions studied include organizational decentralization, reorientation of the marketing effort, product differentiation, asset divestiture, efficiency improvement and vertical integration.

The research indicates that the effectiveness of a given turnaround strategy depends on the nature of the firm's objective --market share, cash flow or ROI-- and that these strategies are contingent upon the nature and the competitive characteristics of the business.

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Introduction

The recent story of Chrysler's successful turnaround highlights the potential for carefully conceived strategic action to dramatically improve a business situation. Chrysler's chairman, Lee A. Iacocca, when he first came to the poorly performing company --Chrysler lost nearly 3.5 billions between 1978 and 1981-- found it plagued with the same maladies as those troubling firms today. These include poor product quality, low productivity, and weak competitive position (Iacocca, 1983). A short time later, the situation had completely changed. The company, in the second quarter of 1984, was making a profit of 803 million dollars.

Iacocca is part of a group of men including McPherson of Dana, Romney from AMC, Wilson of Memorex or O'Green at Litton that Kanter (1983) would call the "change masters". A case study of what they did would certainly provide interesting insights into the appropriate actions to choose in order to get troubled businesses back on the track of profitability and growth. However, looking at these peoples' decision problems, we find that the business characteristics, the competitive situation and the strategies which they adopted show some similarities as well as some important differences. In order to keep track of this variety and to be able to generalize the results, it is essential to undertake a more extensive investigation of successful turnarounds.

Despite the importance for the business community of such a problem, few extensive studies of this subject have been undertaken

(Bibeault, 1982; Hambrick and Schecter, 1983; Hofer, 1980; Khandwalla, 1984; Schendel and Patton, 1976; Schendel, Patton and Riggs, 1976; Starbuck, Greve and Hedberg, 1978). Bibeault (1982) surveyed 81 turnaround situations and determined from interviews with CEOs the characteristics of successful turnarounds. Hambrick and Schecter (1983) using the PIMS data base for studying mature industrial products found that diverse turnaround strategies were possible and that they depended partly on contingency factors. Hofer (1980) examined 12 low performance firms. He argued that two types of turnaround exist --strategic and operating-- and that their appropriateness depends on the firm's strategic and operating health. Khandwalla (1984) looked at turnarounds in nine public and private firms. He emphasized the importance and the role of a powerful change agent as being the necessary condition for a successful turnaround. Schendel, Patton and Riggs (1976) studied compustat data on 54 poorly performing firms which subsequently improved their position. They identified a mix of organizational, marketing, technical, and strategic variables as being the key to successful turnarounds. Finally, Starbuck, Greve and Hedberg (1978) suggested that the change of the top managers coupled with rejuvenating moves in terms of product, technology, operations and people was very efficient.

These different studies stress the existence of several turnaround actions: strategic, operational, organizational, and economic. Some of them have also pointed out the importance of various contingent factors: market share, level of capacity utilization, proximity to breakeven. However, no extensive account has been made of such factors as entry and exit barriers, industry characteristics,

suppliers' and customers' bargaining power, business competitive strength. These different factors are analyzed in the industrial economics and strategic management literature (Andrews, 1971; Bain, 1956; Caves and Porter, 1976; Harrigan, 1980; Porter, 1980; Scherer, 1980; Uyterhoeven, Ackerman and Rosenblum, 1973). They are shown to influence the competitive situation and, as a consequence, the strategies firms should implement.

In the same vein, the firm's strategic behavior may also vary depending on its goal. The pursuit of a long term objective, such as market share, has a different strategic implication than the pursuit of short term goals such as cash flow or ROI (Norburn and Miller, 1981; Stonich, 1981). Organizational goals and performance measures are multivariate and hierarchical in nature. A tradeoff often exists between long term and short term goals. Thus, goals of market share, cash flow, and ROI should be analyzed.

To the best of our knowledge, no comprehensive analysis has yet been performed on the relationships between turnaround strategies, goals, competitive and environmental characteristics for several types of businesses (consumer durable, consumer non durable, capital goods, raw and semi finished materials, components for finished goods, supplies and other consumable products). In this research, we analyze the efficiency of different strategies for turning around poorly performing businesses. The efficiency criteria are market share, cash flow and ROI. The businesses are of several kinds: consumer, industrial, raw material and components. We show that turnaround strategies are not unique but depend on business characteristics, on the competitive situation and on goal orientation.

Methodology

Several phases of analysis are covered in this research: 1) the sample definition; 2) the choice of the performance (dependent) and strategic (independent) variables; and 3) the implementation of the appropriate statistical techniques.

1) The Sample Definition

A sample of approximately 1,800 randomly selected businesses (302 consumer durable products, 308 consumer non durable products, 303 capital goods, 311 raw and semi-finished materials, 314 components for incorporation into finished products, 300 supplies or other consumable products) is drawn from the PIMS data base. The unit of analysis is the business as defined in the data base. This is an operating unit which sells a distinct set of products to an identifiable group of customers in competition with a well defined set of operating units (Schoeffler, 1977). Anderson and Paine (1978) provide a critical analysis of the PIMS data base. Although they voice some concern about the quality of the data, they think that the base is generally of high quality and reliability. However, one major limitation for the present study of turnaround strategies is that the data base does not contain observations over a sufficient number of years to permit a dynamic analysis of environmental characteristics, strategy and performance for each business over time. For that reason, a cross sectional design is preferred over a time series analysis.

o A Contingency Approach

Several recent researches (Hambrick, 1983b; Harrigan, 1980; Hofer, 1975; McMillan, Hambrick and Day, 1982; Miles and Snow, 1978; Miller and Friesen, 1977, 1980; Porter, 1980; Thietart and Vivas, 1984) show the influence of strategic, organizational and environmental dimensions in shaping the business competitive behavior. As a consequence, with respect to the business strategic performance and the competitive environment conditions, the businesses should exhibit a great deal of heterogeneity.

For that reason, cluster analysis of the sample is necessary. Theil (1965), Bass, Cattin and Wittink (1977), Schendel and Patton (1978) stress that aggregation of observations, without accounting for their nature and the underlying models, produces incorrect and misleading results. At a highly aggregate level, the results may be completely different from the real phenomenon observed at a more disaggregated level.

Each business has its own characteristics such as the age of the product, the nature of technological change, the type of customer, the organizational relationship, the production process, and so on. These characteristics permit grouping of the businesses and allow us to infer, for each group, the existence of the same strategic behavior. With this in mind, then, a search for groups of homogeneous businesses in terms of external and internal characteristics is undertaken. To do so, the businesses are divided into six main sets on the basis of

the nature of the business. A cluster analysis (Schlaifer, 1978) is then made to identify the natural groups in each set.

To assess the stability of the groupings, three different clustering methods are used. The first one is the "nearest-neighbor" method which aims to maximize the minimum between-cluster distance. The second one is the "progressive-threshold" method (Wishart, 1969) where the distance from each business to its k'th nearest neighbor sets up a new threshold for ordinary nearest-neighbor mergers. If the business being processed is within the threshold of an already existing cluster it is clustered with it; if not, it becomes the center of a new cluster. After all businesses are analyzed the remaining groups are clustered by the "nearest-neighbor" algorithm. The third method is the "unimodal" method (Gitman and Levine, 1970) which makes two separate analyses of the businesses in order of decreasing density. In the first analysis, points which represent local maxima of the density function are identified. Then, in a second analysis, the method takes the local maxima as cluster nuclei and merges the other point in order of decreasing density according to the nearest neighbor procedure. To select the appropriate number of clusters, the program "Clustr" of the PIMS' AQD statistical package (Schlaifer, 1978) provides a "dendogram", which is a diagram describing the contents of the clusters existing at each stage of the merging process. The businesses in each cluster are listed in order of decreasing density. The inspection of the plot, which gives the number of clusters as a function of a density index, allows

us to empirically determine the level at which the clustering should take place. The three different methods, in some cases, lead to slightly different business clustering. However, the natural groups which are identified are quite stable under the three procedures.

Forty-one contingency variables are used for the clustering. These variables deal with environmental and business-related factors. These variables fall into four main groups:

- 1) Entry and exit barriers;
- 2) Industry characteristics;
- 3) Suppliers' and customers' bargaining power;
- 4) Business competitive strength.

Table 1 gives a summary of the main contingency variables. 32 clusters of homogeneous businesses in term of environment and business-related characteristics are obtained.

o The Turnaround Candidates

Two main criteria are used to identify the "turnaround candidates":

- 1) low profitability;
- 2) declining market share.

The criteria of profitability has been used by Hambrick and Schecter (1983). A criteria of growth has been used by Schendel, Patton and Riggs (1976). In the present research, a business is considered to be a turnaround candidate if 1) the

Table 1

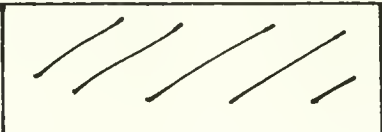
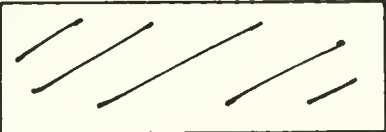
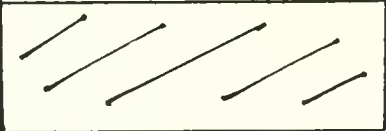
Contingency Variables

Barrier To Entry	Barrier To Exit	Industry Characteristics	Suppliers' Power	Customers' Power	Businesses' Characteristics
o Proprietary Products	o % of Employees Unionized	o Minimum Capacity Addition	o Alternate Source of Supply	o Number of Immediate Customers	o Beginning Market Share
o Distribution Channels	o Shared Facilities With Other Components	o % SIC-Group Value Added/Employee	o Suppliers Integrated Forward	o Immediate Customer Concentration	o Debt/Equity
o Differentiation of Products and Services	o Common Market or Distribution Channels	o % SIC-Group Concentration Ratio	o Suppliers Might Integrate Forward	o Customer Concentration Change	o Newness of Plant and Equipment (Beginning)
o Major Competitor Entering the Market	o Major Competitor Exiting the Market	o Real Market Growth	o % Purchase From 3 Largest Suppliers	o Importance of Auxiliary Services to End Users.	o Capacity Utilization (Beginning)
o Total Assets/Revenue		o Life Cycle Stage	o % Sales to Business, Big-3 Suppliers	o Relative Product Quality (Beginning)	o Relative Product Quality (Beginning)
		o Government Price Controls	o Material Cost Growth	o Relative New Products (Beginning)	o Relative Price (Beginning)
		o Technological Change		o Relative Direct Cost (Beginning)	o Relative Direct Cost (Beginning)
		o Development Time for New Products		o Relative Advertising Expenditures (Beginning)	o Relative Advertising Expenditures (Beginning)
				o Relative Quality of Customer Services (Beginning)	o Relative Quality of Customer Services (Beginning)

ROI, for the first two years under study, is below 50% the group's average ROI; and 2) if the real sales growth, for the first two years under study, is lower than the real market growth, meaning that the business is losing market share (Table 2).

Table 2

Turnaround Candidates Sample

	Real Sales Growth < Real Market Growth	Real Sales Growth >> Real Market Growth
Business' ROI >> 50% Sample's ROI		
Business' ROI < 50% Sample's ROI	Turnaround Candidates	

Because of this very stringent, but necessary, definition of turnaround candidates, many of the clusters which were previously identified had to be eliminated due to lack of sufficient observations.¹ Six groups of homogenous turnaround candidates are kept for statistical treatment. The composition and the characteristics of the groups are shown in Table 3.

¹26 small clusters with less than 22 observations have been eliminated after the turnaround candidates selection.

Table 3
THE 6 GROUPS OF HOMOGENEOUS BUSINESSES

Group	Consumer Durable Products	Capital Goods	Raw or Semi-Finished Materials	Component for Incorporation into Finished Products	Supplies or Other Consumable Products
1	2	3	4	5	6
33	49	27	35	45	28
Group Characteristics	<p>This group is composed of businesses run by large diversified firms involving in mature, low growth, concentrated industry. The businesses have low competitive strengths, small market share and suffer over capacity and low productivity. Direct customers have relative high power. Barriers to exit are high. Competition is stiff.</p> <p>Small Market Share Low Capacity Use Poor Innovation Low Product Quality No Differentiation High Cost and Price Large Size High Unionization High Diversity Low Market Growth Mature Industry Price Control Low Technological Change High Industry Concentration Low Productivity No Exit From the Industry Shared Customers Indirect Distribution Small Suppliers Bargaining Power</p>	<p>This group is composed of businesses run by medium size, diversified firms, non diversified companies. The industry is aging. Risk of obsolescence is important due to the discrete nature of the investment and the high exit barrier. The businesses have an average competitive strength: good service quality, comparable costs and price, high production capacity use. But they have lower product quality and face suppliers with high bargaining power.</p> <p>Average Market Share High Capacity Use Low Product Quality Good Service Quality Average Cost and Price Less Advertising Average Size Mature Industry Average Technological Change No Price Control Large Capacity Addition High Industry Concentration High Industry Productivity Patents High Assets Direct Distribution No Exit From the Industry Low Customers' Concentration Suppliers Bargaining Power Low Customers' Concentration Suppliers Bargaining Power</p>	<p>This group is composed of businesses run by medium size, diversified firms. The industry is maturing and stable with high barrier to entry and relatively low barrier to exit. The competitive strengths are in a low new product, high price. But in terms of diversity, cost, service capacity use, suppliers bargaining power, the businesses characteristics are comparable to and even better than some of the competitors.</p> <p>Average Market Share Average Capacity Use Low Product Quality Higher Price Higher Diversity Average Advertising Average Service Average Size Average Market Growth Mature Industry Technological Change Price Control Low Industry Productivity High Assets High Exit From the Industry Suppliers' Bargaining Power Low Customers' Concentration</p>	<p>This group is composed of businesses run by relatively large and diversified companies. The industry is aging. Growth is very slow and change in technology is inelastic. High barrier to exit and large capacity addition create a risk of instability. Competitive strengths are in the low average: poor product quality, higher price and cost, high suppliers bargaining power.</p> <p>Average Market Share Average Capacity Use Low Product Quality Higher Price Higher Diversity Average Advertising Average Service Mature Industry Large Capacity Addition Low Industry Productivity High Assets Indirect Distribution No Exit From the Industry Suppliers' Bargaining Power Low Customers' Concentration</p>	

2) The Variables

o Dependent Variables

Three dependent variables measuring performance have been selected. These three variables have been selected because:

1) they appear frequently in the literature as measures of performance (Bass, 1969; Buzzell and Wiersema, 1981; Montgomery and Silk, 1972; Hofer, 1980); 2) they are fairly well approximated by a normal distribution in the sample of businesses which are analyzed.

One dependent variable measures the firm's performance in its market. Two others measure profitability.

The dependent variables are:

- % change market share: P_1
- ROI point change (corrected for inflation): P_{21}
- Cash-Flow/Revenue: P_{22}

Correlations between P_1 (market share), P_{21} (ROI) and P_{22} (Cash Flow) are given in Table 4.

Table 4

Correlation Matrix of the Dependent Variables

	P_1	P_{21}	P_{22}
P_1	1	.0038	-.2614
P_{21}		1	.5490
P_{22}			1

The choice of either a market or a profitability criteria as the business objective may be determined by the orientation of the firm. On one hand, building up market share is usually motivated by a long term strategic orientation. On the other hand, increasing cash flow or aiming at a high ROI is motivated by a short term financial objective. The use of these dependent variables provides insight into which strategic actions should be implemented depending on the decision horizon selected.

o Independent Variables

Twelve independent variables² are selected over 51 variables representing different strategic actions. These variables are chosen for the following reasons: 1) they represent the different strategic turnaround actions which are usually recommended in the management literature and by practitioners (organizational decentralization, reorientation of the marketing effort, product differentiation, asset divestiture, efficiency improvement and vertical integration) and; 2) because of their low correlation with one another, and their strong correlation with other variables having the same conceptual meaning (Table 5).

²Some variables are expressed in absolute values ($S_1, S_2, S_7, S_{11}, S_{12}$). Some correspond to changes defined as the difference of the absolute values between periods t and $t-1$ (S_3, S_5, S_6). Finally, % change is defined as $100 [S_t - S_{t-1}/S_{t-1}]$ (S_4, S_8, S_9, S_{10}).

Table 5

Correlation Matrix of the Independent Variables

	S1	S2	S3	S4	S5	S6	S7	S8	S9	S10	S11	S12
S1	1											
S2	.0675	1										
S3	.0026	-.0243	1									
S4	.0025	.0031	-.0121	1								
S5	-.0187	.0147	.0635	.0616	1							
S6	-.0340	-.0329	.0032	.0050	.0851	1						
S7	.0250	-.0223	.0004	-.0338	-.0128	.0310	1					
S8	.0332	.0043	-.0530	.2006	.1011	.0053	-.0047	1				
S9	-.0025	-.0073	0	.2262	.0932	-.0125	.0155	.2433	1			
S10	-.0138	-.0121	-.0377	.4976	.0390	.0305	-.0081	.1354	.1396	1		
S11	.0807	.0024	-.0371	-.0011	-.0207	-.0468	.0666	-.0111	-.0355	-.0441	1	
S12	.0400	.0995	-.0054	.0032	-.0187	-.0114	.0749	.0155	-.0054	-.0274	.1689	1

The twelve independent variables are:

- o Organizational Decentralization:
 - % purchased from company (S_1)
 - % sold to company (S_2)
- o Reorientation of the Marketing Effort:
 - % new product (S_3)
 - % change marketing expenses/revenue (S_4)
- o Product Market Differentiation:
 - relative product quality (S_5)
 - relative price (S_6)
 - relative immediate customer concentration (S_7)
- o Assets Divestiture:
 - % change total assets/revenue (S_8)
- o Efficiency Improvement:
 - % change employee productivity (S_9)
 - % change capacity utilization (S_{10})
- o Vertical Integration:
 - backwards integration (S_{11})
 - forwards integration (S_{12})

3) The Testing Procedures

To evaluate the relationships between the different strategic actions and the variables representing the business' performance --market share change, ROI and cash flow-- a cross

sectional regression analysis is performed for each of the groups. Linear additive models are used for the six groups. Although theoretically, percent change in market share should exhibit nonlinear behavior, it is difficult to propose an a priori function to describe the market share change. To address this problem, the pre-existing market share is controlled. In fact, this variable is used as one of the criteria for the clustering of the businesses into the six homogenous groups. Futhermore, such models are often used in research (Bass, Cattin and Wittink, 1977; Buzzell and Wiersema, 1981; Farris and Reibstein, 1979; Hambrick, 1983a; Hambrick and Schecter, 1983; McMillan, Hambrick and Day, 1982; Schendel and Patton, 1978) to determine the influence of strategic actions on performance criterion such as market share, cash flow or ROI³. The equation pramaters are estimated and found to be significant at .001, .01, .05 and .10 levels of significance.

³Two variables S₄ (% change marketing expenses/revenue) and S₁₀ (% change capacity utilization) exhibit collinearity. However, these variables bear different concepts. The two variables are kept in the model. Their elimination would not make sense from a conceptual point of view. Tests for model mispecification are run on the residuals. No evidence of mispecification is found.

Results

The first remark we can make concerning the results (Tables 6, 7, and 8) is that the strategic actions which are implemented depend on the goal the firm pursues. On one hand, market share is substantially improved after marketing changes or product redefinitions are made. On the other hand, profitability, which is measured in terms of ROI and Cash Flow, greatly increases when some efficiency and asset reduction moves are undertaken. This self evident observation is valid for the six different groups, regardless of their specific competitive conditions.

A second remark concerns the existence of some potential conflicts between actions aimed at growth objectives (market share) and profitability goals (ROI or Cash Flow). For example, Group 2 achieves a successful turnaround in terms of market share when a marketing effort, among other actions, is made. However, this same group has to cut marketing expenses to improve its profitability in terms of Cash Flow and ROI. This observation leads us to the conclusion that unless a well conceived turnaround plan is devised, some actions could be detrimental to the simultaneous achievement of both goals.

The third remark deals with the diversity of actions which seem to be effective in improving either market share or profitability. For instance, for increasing market share, efforts to improve product quality are, in some cases, quite effective (Group 3). In other cases, price cuts (Group 2 and 3) and marketing efforts (Group 4 and 6) are more appropriate. In the same vein, ROI is influenced

Table 6

Impact of Turnaround Strategies on Market Share

	Organizational Decentralization			Reorientation of the Marketing Effort			Product Differentiation			Asset Divergence			Efficiency			Vertical Integration		R ²	F
	S1	S2	S3	S4	S5	S6	S7	S8	S9	S10	S11	S12	F						
Group 1 (33)	-.226	.328	.100	.076	.311	.188	2.461	.351 ^c	.189	.094	3.227 ^d	-7.221 ^d	2.15 ^c						
Group 2 (49)	-.039	-.010162	-.274	-.781 ^d	.575	.035	.108 ^d	-.037	-.420	2.054	1.55						
Group 3 (27)	.180 ^c	.237	.666 ^c	.038	.466 ^d	-1.441 ^d	.257	-.010	.353 ^c	.059	.250	3.270	.64						
Group 4 (35)	-.156 ^a	.085	-.588 ^d	.185 ^c	.167	.416	2.850 ^c	-.025	.015	.159	.543	-2.375	.56						
Group 5 (45)	.047	1.377 ^a	2.89	.004	-.064	.103	-2.055 ^d	.009	.143 ^c	.095	-1.020	-1.508	.44						
Group 6 (22)	.142 ^b	.688 ^c	.207	.230 ^d	.438	.504	-.785	.328	-.115	.078	1.891	-4.053	.60						

Significant for a = .001, b = .010, c = .050, d = .10

Table 7

Impact of Turnaround Strategies on ROI

	Decentralization		Marketing Programs		Restructuring			Asset Divestiture		Efficiency		Vertical Integration			P
	S1	S2	S3	S4	S5	S6	S7	S8	S9	S10	S11	S12	R2		
Group 1 (33)	-.054	-.038	.158	-.021	-.313 ^c	-.673 ^d	-2.086 ^b	-.165 ^c	.139 ^c	.024	2.095 ^c	-2.962 ^d	.59	2.40 ^c	
Group 2 (49)	-.103	-.109	.173	-.121 ^c	-.031	-.423	1.210	.0179	.233 ^e	-.051	.867	-1.968	.37	1.75 ^d	
Group 3 (27)	-.089 ^c	.141 ^d	.091	-.104 ^d	.184 ^d	-.771 ^c	3.984	-.090 ^d	.182 ^c	.082	3.946 ^c	1.274	.90	10.6 ^a	
Group 4 (35)	.111 ^b	-.130 ^d	.386	-.119 ^d	-.112	1.713 ^c	-.620	.042	.322 ^a	-.343 ^c	-2.280	2.633	.67	3.67 ^b	
Group 5 (45)	-.027	.934 ^b	-.406 ^c	.039	.055	-.136	.259	-.079 ^d	.074	.382 ^b	-1.510	-1.852	.47	2.32 ^c	
Group 6 (28)	.004	.047	.351	-.217 ^c	.065	-1.286 ^c	-1.198	.151	.379 ^a	-.158 ^d	1.240	1.983	.71	3.00 ^c	

Significant for ^a = .001, ^b = .010, ^c = .030, ^d = .10

Table 8

Impact of Turnaround Strategies on Cash Flow

	Organizational Decentralization		Reorientation of the Marketing Effort			Product Differentiation			Asset Divestiture		Efficiency		Vertical Integration		R ²	F
	S1	S2	S3	S4	S5	S6	S7	S8	S9	S10	S11	S12				
Group 1 (33)	-.489 ^b	-.323	.115	-.148 ^d	.523 ^d	.233	.027	-.065	-.096	.088	1.881	1.729	.54	1.95 ^d		
Group 2 (49)	-.193 ^d	-.024	-.085	-.090 ^d	-.051	-.051	-.230	-.438 ^a	.069	.019	-2.289 ^d	-1.198	.59	4.31 ^a		
Group 3 (27)	-.072	-.169	.567 ^c	.035	-.169	-.231	-2.821	-.392 ^b	.235 ^d	.68	3.691 ^d	-3.791 ^d	.88	8.69 ^a		
Group 4 (35)	.077 ^d	-.090	-.111	-.073	-.451 ^c	.015	.785	-.649 ^a	.359 ^a	.171	4.190 ^d	3.933 ^d	.77	6.31 ^a		
Group 5 (45)	.015	-.008	-717 ^c	.202 ^c	.573 ^b	-.055	-.833	-.466 ^a	.057	-.082	-.670	.558	.65	4.91 ^a		
Group 6 (22)	.053 ^d	.138	.797 ^c	.308 ^c	.404 ^d	-.859	.849	-.487 ^c	.054	.054	-.900	-3.024	.63	2.16 ^d		

Significant for a = .001, b = .010, c = .050, d = .10

by a price cut aimed at generating revenue (Group 1, 3 and 6). In some other instances (Group 4) a price increase, seems to be more effective in improving ROI. As far as Cash Flow is concerned, the same observation can be made. For example, a cut in marketing expenses is the best action to implement for some of the businesses (Group 1 and 2), while a marketing effort is preferable for some others (Group 5 and 6). This great diversity of appropriate turnaround strategies can be attributed to the nature of the business, i.e. its characteristics and the conditions of its competitive environment.

To emphasize this last point, an analysis of the different groups' competitive conditions and their related successful turnaround actions is helpful. Group 1, for instance, is composed of businesses with small market shares in highly competitive environments and has few alternatives for improving its market share. Neither marketing nor easy product-related improvements seem to be effective in a situation where quality is low, innovation is slow, and goods are standardized. The only actions which have a positive impact involve reorganization of the way products are manufactured and marketed. Capital investment in new equipment, substantial changes in product quality and their cost structure seem to be a first step towards an effective turnaround. Also, backward integration, aimed at gaining control over raw materials and other basic input supplies, is an effective means of influencing product quality and cost. Finally, a forward disengagement may facilitate market penetration by improving relationships with dealers.

With regard to ROI, some actions similar to the market share oriented strategies are found. In fact, backward integration aimed

at better control of raw materials costs and supplies is quite effective. Similarly, a forward disengagement coupled with an active selection of the distributorship may also be effective. This action is aimed at increasing revenues by buying the good will of an indirect distribution system and at improving earnings through better and more compact dealers. Actions aimed directly at earnings include productivity enhancement and quality cuts. These different moves are typical of a cost leadership strategy. Price cutting is fully consistent with this strategy. Finally, asset reduction, which has a direct influence on ROI, also helps in decreasing production over-capacity.

Actions influencing cash flow are different from those influencing ROI. Though, both sets of actions may be directed at decreasing cost or increasing revenue. A differentiation strategy based on product quality improvement seems to be effective. It allows the firm to charge a price premium and consequently to increase revenue. Also, actions aimed at lowering cost such as cuts in marketing expenses or increased freedom from the parent company for purchasing basic components and supplies enhance the competitiveness of the business.

Group 2 embodies a different set of underlying conditions. It is composed of lagging businesses evolving in maturing industries. In this situation, improvements can be achieved through a more straightforward set of actions than is the case for the weak businesses of the first group. For instance, market share is enhanced by following a marketing effort coupled with an aggressive pricing strategy and higher labor productivity. This aggressive

pricing strategy works because the group sells non differentiated consumer non durable products for which the product quality dimension is not of prime importance if it is compensated by attractive prices. Profitability, in terms of ROI or Cash Flow, is improved by a cut in marketing expenses. This action seems to be the most effective in permitting these price sensitive consumer businesses to improve earnings. However, it is in conflict with the achievement of higher market share.

Other actions may also prove to be quite effective. On one hand, productivity enhancement has a direct positive effect on ROI by improving profitability. On the other hand, due to the low bargaining power of the suppliers of this group of businesses it seems appropriate to eliminate backward integration into activities not directly related to the business core. This action enables management to concentrate more on what the firm is good at and on its profit making sector. It also allows a better and richer selection of suppliers to the extent it is not forced to rely on a single source. In the same vein, a greater decentralization of the businesses' decision making with regard to its supplies is the basis for a better control of the material costs and, consequently, of earnings. Finally, assets reduction involving non fully utilized capacity leads to a leaner and more productive organization.

The third group, which is composed of potentially competitive businesses in a relatively dynamic and protected environment, tends to improve its market share by reinforcing its strength and decreasing its weaknesses. On one hand, it improves even more its product quality (quality is already one of the groups's major strengths).

On the other hand, it decreases its price to the level of its competitors. This differentiation strategy in terms of quality, is coupled with an innovation effort. This policy is consistent with the industrial nature of the businesses --capital goods-- and with the observed technological evolution of the sector.

Actions aimed at improving ROI involve three basic goals: first, to increase revenue; second, to reduce costs; and, third, asset reduction. Asset reduction also leads to a leaner production organization. Revenue increases are again achieved by means of differentiation strategy of high quality. The nature of the businesses - industrial - explains the success of this strategy. Another effective way of increasing revenue is to enlarge the market by including other components of the businesses' companies as potential customers and by increasing the number of direct customers. These two actions also aim at decreasing the bargaining power of highly concentrated customers and at gaining leverage over them. Cost reduction is achieved through productivity improvements and cuts in marketing expenses. However, to control input costs, and because suppliers do not seem to be able to react negatively to the move, backward integration might also be a good move. In the same vein, greater freedom from the parent company for purchasing basic components enables this group of businesses to choose the best buy. Cash flow improvements can be obtained by similar actions: innovation, productivity enhancement, asset reduction and better cost control through greater decentralization of basic supplies purchase.

Group 4 is composed of capital intensive businesses evolving in an unstable environment in which investments are discrete in nature

and exit barriers are high. The high debt of the group coupled with the difficulty of increasing investment without disturbing the delicate balance of the industry lead the businesses to adopt a focused strategy based on their traditional products in order to improve market share. However, a more aggressive marketing effort is also necessary in the attempt to compensate for the relatively poorer quality of the products. Actions aimed at improving cash flow are typically short term oriented and are in contradiction with policies aimed at increasing market share. For example, price increases and cuts in marketing expenses will have a direct impact on market share. Other actions, such as productivity improvement and purchases of basic supplies from the parent company --an action which may help in obtaining better prices than from a powerful group of suppliers-- are also effective in increasing profitability. Finally, actions aimed at decreasing capacity utilization for fully used plant and equipment allow greater production flexibility which, in turn permits closer cost control and justifies premium prices for better and faster customer service.

Cash flow improvement results from a similar set of actions. Among these actions, productivity and purchases of basic inputs from the parent company aim at lower production costs. In the same vein, backward integration tends to reduce the power of highly concentrated suppliers and to achieve better control over input costs. Forward integration for this group of raw and semi-finished materials producers is also a way of increasing the value-added of the final products and to improve earnings. The fragmented nature of the customers is not a threat to such a move. Finally, quality cuts

seem to positively influence cash flow. This last observation leads us to conclude that the businesses of Group 4 have adopted a strategy of retrenchment around a set of core products. This set of products is carefully pruned and produced with very tightly controlled costs.

Group 5 is composed of weak businesses in a maturing industry. A market focus strategy coupled with a productivity effort seems to be quite successful in improving market share. In fact, the market is fragmented and the businesses are unable to compete on all fronts. In this context, concentration on a well defined group of customers might be quite efficient. In the same vein, ROI and cash flow are increased when efforts are concentrated on the traditional products. Also, in both cases, asset reduction tends to improve performance. Quality improvement pays in terms of cash flow. The businesses, which are suffering poor product quality, see their profitability improved when an effort is made to change this situation.

Finally, Group 6 which can be characterized as a set of weak businesses held by large diversified companies and evolving in mature and unstable industries, yields mixed results. First, no significant results have been found for market share. Second, conflicting results between turnaround actions aimed at improving ROI and actions aimed at increasing Cash Flow are observed. On one hand, ROI is improved by a reduction in marketing expenses. On the other hand, cash flow improvement requires an increase in these same expenses. These conflicting observations probably have their origin in the low significance of the results associated with cash flow. Although specific results are not very convincing, two basic strategic

alternatives appear to be viable. The first one is a strategy of retrenchement as illustrated by the actions related with ROI. The second one is a strategy of differentiation as illustrated by the actions associated with cash flow. These two strategies are quite consistent with the relative strengths of the businesses and with this group's industrial environment characterized by low growth, low technological change, capital intensive and mature industry.

A last remark concerning the results of this study should be made. It has to do with the existence of definite patterns of turnaround actions. These actions seem to be associated with the relative strengths of the businesses and with the nature of their competitive environment. More pro-active type of strategies such as differentiation based on innovation effort and quality increase are more likely to be associated with relatively strong and competitive businesses evolving in a dynamic environment (Group 3). More defensive types of strategies, such as retrenchement based on product and market consolidation and cost leadership, are more likely to be found with weak businesses evolving in quite difficult environments (Group 1 and 4). Finally, businesses having a mixed position in terms of strengths and environment seem to be better off by adopting a more focused type of strategy (Group 5).

Another observation is that the mix of strategic actions is generally complex. For instance, a differentiation or a focused strategy is often coupled with a cost and asset reduction effort to turnaround a poor performance situation. Likewise, specific actions are implemented depending on the nature of the competition and the characteristics of the business. For example, the existence of a

fragmented market facilitates the implementation of a forward integration strategy which would be risky to undertake if the customers were concentrated and powerful.

Table 9 gives a summary of the study results and illustrates the diversity of turnaround actions as the function of the nature of the business.

Table 9

Summary of the Results

Successful Turnaround Strategies for 6 Different Groups of Businesses

	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
<u>Performance Criteria</u>	Consumer Durable	Consumer Non Durable	Capital Goods	Raw and Semi-Finished Materials	Components for Finished Goods	Supplies and Other Consumable Products
<u>Market Share</u>	<u>Industrial Reorganizational</u>	<u>Revenue Generation</u>	<u>Product Differentiation</u>	<u>Product/Market Focus</u>	<u>Product/Market Focus</u>	<u>Revenue Generation</u>
	o Backward Integration	o Marketing Effort	o Centralization	o Decentralization	o Productivity	o Centralization
	o Forward Disinvestment	o Price Cut	o Innovation	Consolidation	o Market Refocus	o Marketing Effort
	o Capital Investment	o Productivity	o Quality Increase	o Market Re-focus		o Market Refocus
			o Price Cut	o Marketing Effort		
<u>ROI</u>	<u>Asset/Cost Surgery and Revenue Generation</u>	<u>Cost Surgery</u>	<u>Asset/Cost Surgery and Product Differentiation</u>	<u>Cost Surgery and Product/Market Retrenchment</u>	<u>Asset Surgery and Product Focus</u>	<u>Cost Surgery and Revenue Generation</u>
	o Asset Reduction	o Marketing Expenses Cut	o Asset Reduction	o Marketing Expenses Cut	o Asset Reduction	o Marketing Expenses Cut
	o Forward Disinvestment	o Productivity	o Asset Reduction	o Productivity	o Product Focus	o Productivity
	o Backward Integration		o Decentralization	o Centralization	o Market Refocus	o Price Cut
	o Productivity		o Backward Integration	o Price Increase	o Increase of Capacity Use	o Decrease of Capacity Use
	o Quality Cut		o Backward Integration	o Market Refocus		
	o Price Cut		o Decrease of Capacity Use			
	o Market Refocus		o Productivity			
			o Marketing Expense Cut			
			o Quality Increase			
			o Market Refocus			
			o Price Cut			
<u>Cash Flow</u>	<u>Cost Surgery and Product Repositioning</u>	<u>Asset/Cost Surgery</u>	<u>Asset/Cost Surgery and Product Differentiation</u>	<u>Asset/Cost Surgery and Market Consolidation</u>	<u>Asset Surgery and Product Focus</u>	<u>Asset Surgery and Product Differentiation</u>
	o Marketing Expenses Cut	o Asset Reduction	o Asset Reduction	o Asset Reduction	o Asset Reduction	o Asset Reduction
	o Quality Increase	o Backward Disinvestment	o Asset Reduction	o Quality Cut	o Product Focus	o Centralization
	o Decentralization	o Marketing Expenses Cut	o Forward Disinvestment	o Productivity	o Marketing Effort	o Innovation
		o Decentralization	o Backward Disinvestment	o Centralization	o Quality Increase	o Quality Increase
			o Backward Integration	o Backward Integration	o Marketing Effort	o Marketing Effort
			o Productivity	o Forward Integration		
			o Innovation			

Conclusion

In this study, a cross sectional regression analysis of six different types of businesses --consumer durable, consumer non-durable, capital goods, raw and semi-finished materials, components and supplies-- is performed. An analysis of the relationships between turnaround strategic actions --organizational decentralization, reorientation of the marketing effort, product differentiation, asset divestiture, efficiency improvement, vertical integration-- and performance variables --market share, ROI and cash flow-- is made. The analysis is performed over different businesses clustered within homogenous groups as a function of their competitive characteristics - entry and exit barriers, industry specifics, suppliers' and customers' bargaining power, and the businesses' competitive strengths.

This research is different from earlier studies for the following reasons:

- it takes into account different objectives in evaluating the effectiveness of a strategic turnaround;
- it deals with a greater number of diverse businesses and competitive situations;
- it adopts a contingent perspective by relating the strategic actions to the nature of the business and the characteristics of its competitive environment.

The findings are the following:

- 1.) strategic turnaround actions depend on the objectives pursued by the business: growth vs. profitability;

- 2.) some typical turnaround actions are effective regardless of the nature of the business and its competitive environment;
- 3.) strategic turnaround actions differ depending on the business and the characteristics of the sector in which it is competing;
- 4.) definite patterns of strategic turnaround exist. They are dependent on the relative strength of the business and the competitive conditions.
- 5.) selection of complementary actions is essential to successful turnarounds. The joint impacts of several strategies seem to be the most effective.

The results also show that the two goals of high market share and of cash flow improvement require different types of strategies. The first ones aim at increasing sales and revenues. The others are directed at improving earnings. Although, actions differ as a function of objectives, some common strategies across groups of businesses can be identified. For instance, higher market shares are generally associated with some market-oriented strategies such as marketing effort. Higher profitability is easily achieved through productivity and cost cutting types of actions. The effectiveness of these strategies depends on diverse competitive conditions and on business characteristics. For example, capital goods businesses with a favorable competitive position and evolving in a dynamic environment tend to rely on turnaround actions based on some kind of differentiation. Low share and weak consumer durable businesses

evolving in a difficult environment tend to concentrate their efforts and to prune their activities. Finally, no single action is sufficient to achieve a successful turnaround. For example, asset and cost reduction is paired with innovation and quality improvement efforts to achieve high profitability in the case of the capital goods group of business.

The results of this research underscore the fact that no unique turnaround strategy exists. Thus, they reinforce previous findings in the field. They also provide guidelines for decision makers to the extent they can identify the competitive conditions of the businesses they are in and decide from the appropriate strategic actions to implement. They also emphasize the existence of a tradeoff between objectives to be pursued --growth vs. profitability-- and the potential conflicts which may arise between strategies to achieve these objectives. By analyzing the characteristics of the business and its environment and by taking account the objectives, the decision maker can choose the right actions to implement and achieve an effective turnaround.

This research has several limitations. First, the analysis has been made on cross sectional data. Consequently, it does not take into account the time lag we might expect between strategic action implementation and the observation of results. However, the results of the research should fairly represent general tendencies which reflect the dynamics of the relationship. Second, the time span --five years-- might be too short to observe a turnaround. This time horizon, however, has already been used in previous studies. Furthermore, the only potential problem that could arise from the

five year time span is that some businesses may not have entirely completed their turnaround. But, as long as the general tendencies are not altered, results should not be affected. Third, a more precise investigation of the relationship between types of strategic actions and the nature of the competitive characteristics of the businesses should be made. In the present research, broad directions have been identified. However, greater refinement is needed to make the results operational.

This research complements and enlarges previous findings on turnaround strategies. Thanks to its comprehensive approach to turnaround situations this study has revealed the existence of definite patterns of strategic actions. Some directions for new research are indicated. In particular, greater precision concerning the influence of the business' characteristics upon turnaround actions should be the focus of future work. This would enhance the value of the results in aiding poorly performing firms to select the most appropriate turnaround strategy.

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