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Strategies for Business Turnaround and Recovery: A Review and Synthesis

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Abstract

Purpose: Against a backdrop of continued weak economic conditions and with many firms experiencing declining financial performance, this paper presents a synthesis of the business turnaround literature. It aims to identify which turnaround and recovery strategies have been effective historically, based on the evidence provided by previous empirical research.

Design/methodology/approach: We review literature that includes 22 empirical studies, which investigated business turnarounds in previous recessionary environments. We review this literature in its entirety, rather than as individual contributions, to synthesise the lessons available for businesses operating in today's challenging economic environment.

Findings: Our review revealed convergence in the findings of the prior studies. Six effective turnaround strategies were consistently identified. Four of these relate to the content of the turnaround, namely *cost efficiencies*, *asset retrenchment*, a *focus on the firm's core activities* and *building for the future* and two relate to accompanying change processes required for implementation: *reinvigoration of firm leadership* and *culture change*.

Research limitations/implications: We highlight areas where knowledge on business turnarounds remains limited and suggest potentially fruitful directions for future research.

Practical implications: We discuss the elements involved in each of the six effective turnaround strategies identified. We also provide a contemporary example to illustrate the application of these strategies in the current economic environment.

Originality/value: The paper offers practitioners an evidence-based view on effective business turnaround and recovery strategies, in addition to providing researchers with an accessible review of the existing literature.

Keywords: Business Turnaround; Recovery Strategies; Financial Decline

Article classification: Literature Review

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Introduction

The economic crisis that began in 2008 has resulted in recessionary conditions across many countries with numerous companies facing tough trading circumstances, which in some cases are posing a direct threat to their survival. This has led to a revival of interest in business turnaround and recovery strategies as firms seek to improve their performance in the downturn and place themselves in the best position to benefit from economic upturn.

This paper therefore presents a synthesis of the existing business turnaround literature. Our aim is to identify which business turnaround and recovery strategies have been effective historically, drawing on the evidence provided by previous empirical research. We reviewed literature that included 22 empirical studies, which primarily investigated business turnarounds completed in the prior recessionary environments of the mid 1970s, early 1980s and early 1990s. While we recognise that previous recessions may have had different causes to today's recessionary environment, the ultimate impact on businesses is similar; lower demand and therefore declining revenues and profits. In total the turnaround and recovery strategies of almost 1300 separate firms were empirically investigated in the body of literature we draw upon. By reviewing this literature in its entirety, rather than as individual contributions, we sought to synthesise the lessons available for businesses operating in today's challenging economic environment.

Our review revealed a very high level of convergence in the findings of the prior studies. In essence, six turnaround strategies were consistently identified in the literature as effective in helping firms make a sustained recovery from a period of performance decline. Four of these

relate to the content or main objectives of the turnaround, namely cost efficiencies, asset retrenchment, a focus on the firm's core activities and building for the future. The remaining two relate to accompanying change processes required for implementation: reinvigoration of firm leadership and corporate culture change. In the first part of this paper we discuss the elements involved in each of these strategies, reviewing the literature with an emphasis on capturing and synthesising the lessons for practice. In the second part of the paper we provide a contemporary example to illustrate the application of these strategies in the current economic environment. In our concluding section we highlight areas where the knowledge on business turnarounds remains limited and suggest potentially fruitful directions for future research. Finally, we provide an Appendix, which summarises in table form the individual findings and methodologies of the 22 prior empirical studies that form the evidence base of our review.

Lessons from the Turnaround Literature: Core Recovery Strategies

Content-orientated strategies

Cost efficiencies

The most prolific turnaround strategy implemented by firms is the pursuit of cost efficiencies. Cost efficiencies include a varied range of actions, which can all be characterised as “belt-tightening” or “fire-fighting”, with the aim of producing “quick-wins” in order to either stabilise finances in the short-term until more complex strategies are devised, or to quickly improve cash flow (Bibeault, 1982; Hambrick and Schecter, 1983; Sudarsanam and Lai, 2001). Cost efficiency measures are frequently the first step in any recovery strategy as they can be quickly implemented, may have an almost immediate effect, and generally require little or no capital or resource outlay (Hofer, 1980; Robbins and Pearce, 1992). Indeed one

study concluded that “cost retrenchment was so pervasive as to be considered indispensable in achieving turnaround” (Robbins and Pearce, 1992: 303).

The most commonly reported cost efficiencies in the literature include reducing R&D, collecting and reducing accounts receivable, cutting inventory, stretching accounts payable, reducing marketing activity and eliminating pay increases (Hambrick and Schecter, 1983, Hofer, 1980; O’Neill, 1986a; Stopford and Baden-Fuller, 1990; Sudarsanam and Lai, 2001). These were frequently accompanied by financial restructuring such as a reworking of the firm’s capital structure so as to relieve pressure from debt repayments (Sudarsanam and Lai, 2001). Interestingly, Grinyer *et al.*, (1990) found that successful “sharpbenders” concentrated on reducing production costs relative to their industry peers that pursued more general overhead reductions. This included adjusting wage incentives, tighter stock control, financial and capacity controls and investment in new plant to enable greater efficiencies and streamlined processes (Grinyer *et al.*, 1990).

As with any strategy the pursuit of cost efficiencies carries some risks. Some authors have warned that solely cutting costs can reduce employee morale and commitment, resulting in increased staff turnover (e.g. Barker and Mone, 1994). Others caution that cost efficiency activity should be halted after a suitable length of time, so as not to damage assets or resources needed to maintain the core focus of the firm (Sudarsanam and Lai, 2001). Indeed some studies present evidence that firms which were unsuccessful in their turnaround efforts over-pursued cost efficiencies to the extent that they actually exacerbated the decline (Boyne and Meier, 2009). Similarly, Hambrick and Schecter (1983) also caution that while R&D is often one of the first areas to be cut, this alone is unlikely to be a major contributor to turnaround and, furthermore, may weaken the firm for the future.

Asset retrenchment

Asset retrenchment is often pursued in concert with, or immediately following, a cost efficiency drive. An asset retrenchment strategy is where areas of the firm that are under-performing are appraised to determine if efficiencies can be made, or whether it is best to divest the asset completely rather than allowing it to continue operating at a weaker level than the rest of the firm (Hofer 1980; Morrow *et al.*, 2007). Some studies indicated that retrenchment was implemented only if cost efficiency strategies did not have enough impact to stabilise the firm's finances, although in the majority of cases it is the natural second step following cost efficiencies (Robbins and Pearce, 1992).

Filatotchev and Toms (2006) highlight that the usefulness of asset retrenchment as a component of a turnaround strategy depends on the firm's ability to generate cash flow from any disposal. It is often assumed that this will be the case, yet there can be significant difficulties surrounding simple disposal and cash generation due to asset specificity, liquidity in the second hand market and exit barriers (Filatotchev and Toms, 2006). Similarly, where asset retrenchment involves the disposal of aging assets and their replacement with new, state-of-the-art counterparts, for example investing in new plant, equipment or technology, careful assessment is obviously required to ensure that the efficiency savings will more than cover the investment and implementation costs (Sudarsanam and Lai, 2001).

Retrenchment decisions are inevitably difficult. There is the risk that asset sales will compromise future strategic options, while conversely they may be a necessity to generate cash and reduce losses. As one study concluded "the primary guideline for decision making

in such a situation appears to be survival and the need to stem the bleeding” (Gopinath, 1991: 99).

Focus on core activities

A focus on the firm’s core activities is a further turnaround strategy repeatedly identified in the literature and frequently enacted in parallel with asset retrenchment (Boyne and Meier 2009; Pearce and Robbins, 1993; Robbins and Pearce, 1992). This strategy entails determining the markets, products and customers that have the potential to generate the greatest profits and refocusing the firms activities on these areas. Successful turnarounds have been associated with a focus on product lines for which the firm is best known, customer segments that are particularly loyal or less price sensitive, and areas where the firm has distinct competitive strength (Hambrick and Schechter, 1993; Sudarsanam and Lai, 2001). The firm may also return to activities for which it was well known in the past (Hambrick and Schechter, 1983; Hofer, 1980). In conjunction with this it may be necessary for the firm to undertake a redesign or restructuring to align itself more effectively with its core purpose, entailing the rationalisation, divestment or closure of operations, products or assets that do not fit with this purpose (O’Neill, 1986a). This retrenchment can also serve to free up scarce marketing, operational and financial resources for reinvestment in the chosen core activities, including appropriate acquisitions where specific further capability is required (Grinyer, *et al.*, 1990; Hambrick and Schechter, 1983; Stopford and Baden-Fuller, 1990; Sudarsanam and Lai 2001). To reinforce the importance of a focus on the core, some studies explicitly warn that following a strategy with “no distinguishing characteristics, hence qualifying as a piecemeal approach” is unlikely to lead to a successful recovery (Hambrick and Schechter, 1983: 246).

Focus allows the firm to develop a clear competitive strategy in its chosen core activities. The Grinyer *et al.*, (1990) study found that this was frequently achieved through an increased focus on marketing, employing initiatives to improve customer understanding, build closer customer relationships, increase the number of marketing channels, optimise after-sales service and employ cost-effective advertising.

Arogyaswamy *et al.*, (1995) report that if a firm is in an environment characterised by temporary economic downturn, then scaling back the number of activities it is involved in could be all that is needed for it to survive the conditions. Here they advocate contracting back to serve the customers which most value the firm's resources and capabilities. However, if the economic conditions are more severe or permanent, the return to the core should be attained through concentrating on using existing resources and capabilities to focus on the remaining viable customers. Put another way, the firm maximises its chance of recovery through exclusively serving the needs of the core customers, so as to "strengthen or expand" upon any favourability in the firm's present position in comparison to its competitors (Arogyaswamy *et al.*, 1995).

Build for the future

The literature reveals that a 'build for the future' strategy typically, and logically, follows the implementation of the three strategies discussed above. This phase is entered when the immediate crisis has passed and the financial position has stabilised (Filatotchev and Toms, 2006; Robbins and Pearce, 1992). Build for the future is aligned with a recovery phase of the turnaround process. This recovery should naturally be undertaken in a cautious and considered manner, and will often be embarked upon as a growth strategy from the strong

core focus that the firm has developed. It is about positioning for long-term growth rather than short-term day-to-day survival.

In this phase firms tended to follow an entrepreneurially driven reconfiguration of assets, leveraging existing resources to broaden the product line or enter new geographic territories (Pearce and Robbins, 1993; Sudarsanam and Lai, 2001). The build for the future strategy has been seen as “re-complicating the business” by adding back some of the complexity removed during cost cutting and retrenchment (Stopford and Baden-Fuller, 1990).

It has been argued that a turnaround is only successfully completed when the firm in question has been left with the capacity for self-renewal, so as to be agile in responding to changing circumstances in the future (Ghoshal and Bartlett, 1996; Stopford and Baden-Fuller, 1990). It is the ability of the firm to replenish and renew and is described as the hardest stage to attain, since it is difficult to maintain momentum in keeping the firm agile enough to transform, and not allowing it to get “stuck” in its current position or revert to a “usual” way of operating. This can be especially challenging following a difficult turnaround period because employees may feel they need a break from the change and upheaval they have experienced. Ghoshal and Bartlett (1996) suggest that an aid to accomplishing this is to ensure that all managers, regardless of level, act as leaders and understand the importance of the individual employee, their own personal behaviours and how their actions have a significant impact on the ability of the firm to remain flexible (Ghoshal and Bartlett, 1996).

This latter point illustrates the links between the four ‘content-orientated’ turnaround strategies we have considered so far, and the change processes required to enact them. We now consider these more ‘process-orientated’ strategies.

Process-orientated strategies

Reinvigoration of Firm Leadership

Changing the CEO

The replacement of the firm's incumbent CEO is frequently undertaken early in the turnaround process, and in some cases is even the trigger for a realisation that the firm is in serious difficulties and that action is urgently needed (Stopford and Baden-Fuller, 1990). CEO change is significantly linked to firms in distress and it is reported that in turnaround situations 75% of replacement CEOs are appointed from outside the firm (Kesner and Dalton, 1994).

The literature reveals two predominant reasons as to why the CEO is replaced. First, the media and shareholders frequently place responsibility for the negative position of the firm on the CEO. Replacing the incumbent CEO can serve as a signal of change, both to this external audience and internally to the employees (Daily and Dalton, 1995). Indeed, the change in leadership is often instigated by Board Chairmen following lobbying by investors (Sudarsanam and Lai, 2001). The change has symbolic power; it is a sign that the current situation is no longer tenable, that the firm is serious in its willingness to change and that the turnaround process has begun (Arogyaswamy *et al.*, 1995; Boyne and Meier, 2009; O'Neill 1986a). Interestingly, research into charismatic leadership has found that to external audiences "the mere presence of a charismatic leader can remove doubts about the survival of a firm" (Flynn and Staw, 2004: 311), as well as galvanize employees towards committed and focused efforts during difficult circumstances. This would suggest the benefits of ensuring a charismatic leader is at the helm during the turnaround period.

The second common reason for the replacement of the CEO is where the incumbent appears blind to the existence of any problems (Bibeault, 1982; Gopinath, 1991; Kesner and Dalton, 1994), or simply tries to solve issues with past solutions (Arogyaswamy et al., 1995; Barker and Patterson, 1996). Managers can take for granted the assumptions and beliefs enacted in their firm, which can blind them from identifying, or agreeing to, any course of action that does not fit with the usual way of operating (Johnson, 1987). In such cases the managers' historically-built mental models fail to adapt to their firm's changing interactions with the environment. Managers will seek to solve firm-based decline issues with the solutions they have used in the past; even if there is evidence which indicates that their past manner of viewing the environment is no longer sufficient for understanding the current situation, or for the development of new solutions. In addition, managers may be so stressed and distracted by the firm's decline that any evidence they do identify, or are presented with, can easily be misinterpreted (Arogyaswamy *et al.*, 1995). Indeed, Sudarsanam and Lai (2001) report that bankruptcy and ultimate corporate failure following a period of performance decline is linked to management inaction, poor timing and rejection of turnaround strategies that could be detrimental to the CEO's own self-interest. In these situations, the replacement of the CEO can bring new perspectives and assumptions as well as different personal backgrounds and experiences to those they replaced and, most importantly, new ideas on what turnaround strategies the firm can implement (Barker and Duhaime, 1997). These arguments are also highlighted by Grinyer *et al.*, (1990: 121), who found that while 55% of the successful "sharpbenders" had a change of leadership, more important was that the new leadership brought "a new committed, positive approach – a bias for action. This was closely linked to the injection of new values, new vision, strong drive and improved motivation and communication".

Changing the Top Management Team

In concert with CEO change, replacement of part or all of the Top Management Team (TMT) is often advocated (Kesner and Dalton, 1994; Lohrke *et al.*, 2004). Indeed, many new CEOs will bring their own trusted colleagues with them. Much of the discussion reported above regarding CEO change is echoed in the findings regarding the TMT. Therefore, to avoid repetition, we describe below only those elements that are specific to the TMT.

Some research has identified the replacement of the TMT as one of the first actions that a firm should take as a “pre-condition for almost all successful turnaround” (Hofer, 1980: 25). A number of reasons have been given for this view. First, the existing TMT will have had a set of beliefs on how the firm should be, which had to be incorrect since they had led the firm to its current position (Hofer, 1980). Second, senior managers may reject arguments and evidence if it highlights they have made poor prior decisions, and therefore new TMTs are necessary to enable the firm to focus on new strategies and, finally, different managers have different skills and those that delivered the firm to its present position may not be suitably skilled for leading the turnaround (Kesner and Dalton, 1994).

In his research into organisational decline Whetten (1980) identified that incumbent managers may fear taking responsibility for failure, and as such do not have the incentive to halt the implementation of problem strategies: “instead they tend to pour good money after bad in hope of salvaging the operation and their reputations” (Whetten, 1980: 580). This was compounded if their advisers either did not recognise the significance of pertinent information or did not wish to pass on bad news. With comparable findings Gopinath (1991: 96) also found that the incumbent management may not want to admit the firm was in difficulty, instead it would rely on “well-rehearsed responses, and...indulge in self-

deception”, explaining that this may continue until the firm is in severe decline. Long-serving senior managers may also be too ensconced in decline-causing extant strategies to accept the need for change (Barker and Patterson, 1996). Conversely, when new external senior managers join a firm they may be better equipped to deal with the psychological, sociological and general issues present (Kesner and Dalton, 1994). Interestingly, the available empirical evidence suggests that the appointment of an external CEO does indeed lead to greater change in the TMT, although there is no consistent relationship between TMT change and subsequent business performance (Kesner and Dalton, 1994).

A Cautionary Note Regarding CEO/TMT Change

Other research has cautioned that CEO and TMT succession can result in high levels of internal disruption. The introduction of new reporting relationships can cause additional stress for employees worried for their own security and status, as well as a deterioration in informal communication channels, which together can increase levels of ambiguity and instability throughout the firm (Castrogiovanni *et al.*, 1992; Kesner and Dalton, 1994).

A limited number of the prior turnaround studies have distinguished between performance decline caused by industry-wide factors, where changes in the external environment have resulted in negative implications for all the firms in the industry, and decline caused by firm-specific factors, where the focal firm had suffered a particular fall in profitability relative to rivals due, for example, to an excessively high cost base or poor product-market decisions (Barker and Duhaime; 1997; Pearce and Robbins, 1993). These studies argue that the precise cause of decline has implications for the selection of appropriate turnaround strategies. In instances of industry-based decline, cost retrenchment may be all that is required until demand picks up (Barker and Duhaime, 1997), or in cases of a fundamental shift in consumer

tastes, new market opportunities may need to be sought (Pearce and Robbins, 1993). In such cases changing the CEO and TMT could have negative implications, not only causing internal disruptions, but also risking loss of the existing management team's understanding of the firm's competencies and customers. The latter could be vital to a more cost conscious execution of the firm's existing strategy, which may be all that is required to ride out a temporary industry downturn. In contrast, where the cause of decline is firm-based, it is unlikely that the management team that allowed the firm to fall behind its rivals is capable of effecting the scale of changes required for a turnaround. In these cases there is widespread agreement amongst prior studies that replacement of the CEO and part, or all, of the TMT is necessary for effective recovery (Arogyaswamy *et al.*, 1995; Barker and Duhaime; 1997; Pearce and Robbins, 1993). In sum this suggests that whether a successful turnaround is dependent upon changing the firm's leadership needs to include a judgement about whether the firm's decline simply reflects the overall business environment or whether it has been compounded by underlying specific firm-based issues. A comparison with industry peers may be helpful here. In the first case (industry-wide decline) we would expect to see financial performance similarly affected to rival firms and no loss of relative market share; in the second case (firm-based decline) we would expect to see either the firm's profitability or its market share fall to a greater extent than its peers reflecting the firm's impaired relative competitiveness.

Culture change

In concert with leadership change, the role of culture change in facilitating the rejuvenation and re-adaptation of the struggling firm is highlighted in the literature. It may be necessary to effect a change in culture to challenge past beliefs and taken for granted assumptions, which may no longer be relevant to the changed environment the firm is facing; only then can

historic operating routines be abandoned and new employee behaviours adopted. Stopford and Baden-Fuller's (1990) study of rejuvenation in declining UK manufacturers showed that when the CEO and TMT challenged past beliefs it acted as a signal to employees that this behaviour was acceptable and led to the generation of innovative solutions that would not have otherwise been possible. Signalling was also found to be part of the culture change turnaround strategy because it indicated a transition from the old way of behaving to the new way for the firm to move forward. The collection and dissemination of up to date market information, reflecting the new realities of the market place, was one of the ways in which historic beliefs were challenged. Others have found that the use of symbols facilitates a change in the cognition and behaviours of employees, which is important for the turnaround to progress swiftly and achieve quick results (Armenakis *et al.*, 1995). These researchers identified the most popular and useful symbols as the elimination of perks and the adoption of "medical" metaphors to convey the severity of the situation. Overall, the literature emphasises that in implementing turnaround strategies managers should remember that it is not just the systems or structures that need to change, but the behaviour and attitudes of the individuals too, and that acknowledging and respecting this is important for success.

Application of the Turnaround Strategies: An Illustrative Example

Harley-Davidson, the iconic motorcycle manufacturer, provides an example of the turnaround strategies outlined above in action during the current economic downturn. The European and US markets for heavyweight motorcycles fell 40% between 2007 and 2010, declining from a combined total of 904,000 to 561,000 units. As a consequence Harley-Davidson's net profits collapsed from US\$933m in 2007 to a loss of US\$55m in 2009. Their sales revenue over the same period fell from US\$6.14bn to US\$4.8bn. Harley-Davidson's 2009, 2010 and 2011

Annual Reports and associated press releases reveal a set of decisive actions undertaken to address this decline, which included:

Cost efficiencies: The immediate challenge of declining sales and profits was met by cutting production by 26% during 2009, to better balance supply with demand and, in turn, protect the strength of the Harley-Davidson brand. This was accompanied by a consolidation of production operations, which included 2000 job losses, representing a 22% headcount reduction. In other actions, the distribution of parts and accessories was transferred to a third party provider and vehicle test facilities were consolidated from three US locations to one.

Two major longer term cost efficiency initiatives were also commenced. First, the adoption of lean product development processes to reduce the time to market by 30%, better capture customer insight and simultaneously handle more product development initiatives. Second, the restructuring of production to provide a standardized operating system across all the firm's manufacturing facilities. This aimed to allow production to respond efficiently to seasonal and other changes in overall demand and to vary the product mix more flexibly in response to customer preferences. The implementation of this involved the negotiation of new seven year labour agreements at each of the firm's facilities, which included the capability to adjust the size of the workforce through the use of flexible workers, who will work as required to meet demand and make up 20-30% of the plant employees. It also involved significant structural changes to the facilities themselves to allow all models to be produced interchangeably on a single production line.

To illustrate the scale of the restructuring, the 2011 Annual Report estimated that the activities initiated since 2009 would incur one-time costs of US\$500m by 2013. It also

revealed that cumulative savings generated from these restructuring activities were US\$217m in 2011 and that ongoing savings of US\$315m per annum would be seen from 2014. It is relevant to note that these initiatives were not only concerned with changing the firm's cost structure, but also aimed to simultaneously make the business more customer responsive; in the CEO's words "getting customers the motorcycles they want, when they want them." (Harley-Davidson, 2010: 4).

Asset retrenchment: In addition to the Harley-Davidson brand of custom motorcycles the Company owned two brands of sports motorcycles, Buell and MV Agusta. In October 2009 Harley-Davidson announced that it would shut down its Buell Motorcycle Division and divest MV Agusta, the Italian sports motorcycle manufacturer that had been acquired just a year earlier for \$109m. The news of Buell's closure, a wholly owned subsidiary since 1997, was a shock to many of its customers and employees and incurred one-time closure costs of approximately US\$125m. MV Agusta was sold back to its former owner for an undisclosed sum.

Focus on core activities: "Focusing our investment behind the uniquely strong Harley-Davidson brand provides the most attractive path to sustained, long-term growth" stated the firm's CEO (Harley-Davidson, 22 January 2010). This focus was implemented through product development targeted at customers who were loyal to the brand's differentiated value proposition of traditional engineering, heritage and retro styling. Between 2009 and 2011 over ten new models were introduced to a range that numbered around 35 in total, combined with the deletion of a number of slower selling models. The product brochures made frequent reference to Harley-Davidson's unique heritage, using inset photographs of vintage models to illustrate styling cues of the current models. An example of these targeted product

introductions was the Sportster ‘Seventy-Two’ model, which adopted 1970s styling features such as white-walled tyres, metalflake paint, and ape-hanger handlebars. It explicitly leveraged the firm’s competencies in terms of design, heritage and marketing; in the words of the Company, “it personifies old-school Harley-Davidson....no-one [else] has the experience, motivation and desire to produce a bike like the Seventy-Two” (Harley-Davidson, 2 February 2012). Notably, all the new model introductions over this period were based on incremental development of existing platforms, making the most efficient use of product development budgets and avoiding the capital cost of major plant re-tooling.

Build for the future: In addition to targeting core customers the recovery strategy called for growing sales to outreach customers, both “multigenerational and multicultural” (Harley-Davidson, 2010: 5). This included the launch of models orientated to the young adult and female segments as well as international expansion, with the objective of raising export sales from 33% to 40% of production output by 2014. A number of organisational steps towards this were taken in 2010 and 2011. New regional headquarters for the Asia Pacific and Latin America regions were opened to support sales, marketing and dealer development activities in these markets. The first Harley-Davidson dealership opened in India in July 2010. This was followed by an Indian assembly facility in 2011 to allow the local assembly of motorcycles from components manufactured in the firm’s US plants, reducing tariffs and making the products more accessible.

CEO and Top Management Team change: The above strategies were implemented by a reinvigorated firm leadership. A new CEO, Keith Wandell, joined Harley-Davidson in May 2009. Notably, he was the first CEO to be appointed from outside the firm since 1981. He had previously been President and COO of Johnson Controls, a global diversified industrial

group. Several changes to the TMT were also made at this time, including the appointment of a new CFO, who had joined Harley-Davidson six years previously and brought 25 years of financial leadership experience, as well as two further senior internal promotions of executives possessing significant experience in the operations and product development functions. A number of other changes to the TMT, including external appointments, were made subsequently.

It is too early to comment on the long term sustainability of these actions, but the short term recovery has been marked. While the European and US motorcycle markets declined a further 9% between 2009 and 2011, Harley-Davidson's net profits turned around to US\$146m in 2010, rising to US\$599m in 2011, with sales revenues also up by 11% since the recovery strategy was initiated. Harley-Davidson's share price increased from a low of US\$7.99 in March 2009 to US\$38.87 at the end of 2011, representing an increase in market capitalisation of approximately US\$7bn over the 33 month period.

Conclusions and Future Directions for Turnaround Research

Our initial aim in this paper was to identify which business turnaround strategies have been effective historically, drawing on evidence provided by previous empirical research. We found that six turnaround strategies were consistently identified in the literature as effective in helping firms make a sustained recovery from a period of performance decline. Four of these relate to the content or main objectives of the turnaround, namely cost efficiencies, asset retrenchment, a focus on the firm's core activities and building for the future. The remaining two relate to accompanying change processes required for implementation: reinvigoration of firm leadership and corporate culture change.

While the high degree of convergence in the findings of the studies we reviewed was surprising, the overall message that emerges is perhaps less so. The key lesson that comes through is that successful turnaround and recovery is driven by concentrating on business fundamentals: focusing on the most viable and profitable customers, developing a clear competitive strategy based on an understanding of those customers' needs, instilling effective cost control and ensuring a positive and committed leadership team whose mental models are appropriate to the environment the firm finds itself in.

One important caveat is that the majority of turnaround research to date has been undertaken in European and US firms. Therefore our conclusions are likely to only be applicable to firms operating in these territories. Indeed, the lack of turnaround research conducted in other, non-Western, contexts presents an interesting opportunity for future study, both to identify the turnaround strategies effective in different cultural contexts and to understand the underlying reasons as to why individual strategies may be more or less effective in such circumstances.

It is also notable that much of the advice from the turnaround literature has tended to be generic, with an implicit assumption that the strategies put forward would be effective for all firms, regardless of their particular context or circumstances. The majority of the literature we reviewed portrayed the identified turnaround strategies as universally applicable, with little regard to the particular context the firm faces. While a minority of authors (e.g. Barker and Duhaime, 1997; Pearce and Robbins, 1993) have raised the distinction between firm-based or industry-based decline, we believe that greater recognition of the cause of performance decline offers scope for the creation of more integrated and context specific turnaround strategies. The current challenging economic climate has placed general economic conditions at the front of people's minds when considering the cause of a firm's performance

decline. However, business insolvencies can occur at any point in the economic cycle and industry specific factors or poor internal firm management can be additional triggers for falling profitability. More finely grained research which takes into account the different causes of decline could allow the development of evidence-based contingency models, where specific recovery pathways could be linked to specific causes of decline. Such a contingency approach has the potential to provide managers with turnaround advice that is more tailored and appropriate to the particular context they face.

There are a number of other areas where our current knowledge on turnarounds is limited or potentially constrained by the dominant perspectives adopted in the literature. While there is a strong history of quantitative work aiming to elucidate the determinants of successful turnaround, qualitative studies with a focus on process aspects are more limited in number. Qualitative investigation would allow the study of under-researched human resource topics, such as employees suffering survivor syndrome, or the effects of culture change. The resource-based view (RBV) and dynamic capability perspectives could also provide insightful lenses to explore turnaround. For example, do management teams that possess an RBV insight execute more successful recoveries by protecting and leveraging their critical resources? Or if turnaround is viewed as a dynamic capability what are the processes by which it can be developed internally, without recourse to external sources such as the hiring of a new CEO?

A second notable opportunity stems from the observation that the majority of research to date has been framed from a command and control perspective, with a dominant narrative of top management-driven change. Viewing the firm as a complex adaptive system (e.g. Anderson,

1999) could provide a fruitful alternative lens in researching turnarounds, which might reveal more emergent self-organization processes of recovery.

Finally, the current economic crisis offers the prospect of a wealth of further data to isolate the turnaround strategies applicable to firms attempting to recover from decline brought about by general economic conditions. Such studies will hopefully lead to a greater recognition of the underlying causes of decline and the benefits of taking a more finely grained contingency approach to understanding effective turnaround strategies.

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Appendix: Summary Table of Empirical Business Turnaround Studies Reviewed

The table below summarises the sample, methodology and reported findings of each of the 22 prior empirical studies included in our review. The final column distils the key successful turnaround strategies identified by each study, using common descriptors synthesised from the entire body of literature reviewed. This final column was generated through discussion by the three authors once all the papers had been read and the findings from each considered.

Author	Sample and methods	Definitions	Findings for firms successful in turnaround/recovery	Key strategies identified
Hofer, 1980	12 turnaround situations of 10 firms in 10 industries over 30 years (1950-1980).	A major decline in performance.	Two types of turnaround strategy: 1. Strategic: change to firm strategy. 2. Operating: <ul style="list-style-type: none"> • Increase revenues: focus on existing line, short term quick win products, reduce R&D, stimulate sales with price cuts, increased advertising and direct sale. • Decrease costs and assets. 3. A new top management team is needed irrespective of turnaround route selected.	Cost efficiencies CEO/TMT change Asset retrenchment
Hambrick and Schechter, 1983	US mature industrial product business units. n = 260 with low performance. Mid to late 1970s. From PIMS database, 4 years of data.	Decline: average pre-tax ROI for first 2 years of study had to be below 10%. Recovery: years 3 and 4 had to have at least ROI of 20%.	1. Asset/cost surgery strategy: “belt-tightening”, increase cutbacks of marketing, R&D, receivables and inventories, and dispose of old assets or newer saleable assets, and/or add ‘state of art’ assets. 2. Selective product/market pruning strategy: refocus business to the most profitable areas and/or its distinctive strengths: <ul style="list-style-type: none"> • increase price and product quality • decrease marketing and inventory expenses • abandon marginal customers 3. Increase capacity utilization and employee productivity.	Cost efficiencies Asset retrenchment Focus on core
O’Neill, 1986a	9 successful turnaround and 4 non-successful turnaround firms. Case histories from Fortune from 1970s.	Not defined.	1. Management strategy: change CEO or TMT and emphasise morale building. 2. Cutback strategy to stop further decline: replace losing subsidiaries, financial controls, cost cutting and inventory write off. 3. Growth strategy: new products, new promotions, acquisitions (although not used in firms with a high level of diversification). 4. Restructuring strategy: redesign to the core of the business.	CEO/TMT change Cost efficiencies Asset retrenchment Build for future Focus on core
O’Neill, 1986b	Study of turnaround (n = 31) and decline (n = 20) commercial banks, over a seven year period.. Database information sources.	A turnaround firm has gained ground in comparison to its strategic group. A decline firm has continued with relative decline.	Cost control and revenue generation. Control of loan risk and credit rationing. Work rationalisation, new technologies, training and centralisation. Reduction in personnel, merge branches, increased centralization, change staff composition. Liquidate subsidiaries, sell or close branches, work simplification. Attract more deposits and loan customers by advertising, promotion, and identifying new markets, or changes in market definition. Increase marketing, targets and plans, new banks, new consumer services, and international expansion.	Cost efficiencies Asset retrenchment Build for future

Grinyer and McKiernan, 1990	25 UK companies identified as sharp-benders, and a smaller control group. Data from 1970-1984. Semi-structured, multi-level interviews plus archival data.	A firm which “sharp-bent” from stagnation or decline to sustained performance relative to their industry peers.	<p>Re-adaptation, which if unsuccessful, is followed by fundamental transformation. Part of the purpose being to alter the firm’s operations, beliefs and rules.</p> <p>Re-adaptation:</p> <ol style="list-style-type: none"> 1. Strong financial controls, decrease production costs, decrease debt. 2. Understand product/market position (and make associated improvements to quality, service, delivery) and increase marketing. 3. New functional executives. <p>Fundamental change:</p> <ol style="list-style-type: none"> 1. Return to core business by closing operations or selling those that are weak. 2. Diversification via acquisition, new plant materials to enter new markets (which gives new operations, beliefs and rules, and therefore a new way of thinking). 	<p>Cost efficiencies</p> <p>Focus on core</p> <p>CEO/TMT change</p>
Grinyer, Mayes, McKiernan, 1990	25 UK companies identified as sharp-benders, and a smaller control group. Data from 1970-1984. Semi-structured, multi-level interviews plus archival data.	A firm which “sharp-bent” from stagnation or decline to sustained performance relative to their industry peers. Control firms had static performance.	<p>Actions to give sharp-bend:</p> <ol style="list-style-type: none"> 1. Change to management: new CEO, new directors, “new, committed, positive approach” for new values, vision, motivation and drive. Improve employee morale. 2. Production costs: reduce costs, especially in production, new plant investment, better use of existing capacity, production/stock control increase, wage incentives. 3. Marketing: get closer to the customer, increase marketing channels, rationalise product range to focus on profitable customers, cost-effective advertising. <p>In addition:</p> <p>Dispose of subsidies to decrease debt, or properly integrate them to increase controls. Grasp any opportunities of luck. Have a simple structure and small HQ.</p>	<p>CEO/TMT change</p> <p>Cost efficiencies</p> <p>Focus on core</p> <p>Asset retrenchment</p>
Stopford and Baden-Fuller, 1990	6 British firms, a control group of 5 successful European competitors, and 4 less successful British competitors, from 1970s to 1988. Four mature industries: cutlery, knitwear, domestic electrical appliances, and pumps. Several hundred interviews with firms, buyers, industry associations, and government.	“An increase in profitability” as a measure to test for rejuvenation.	<p>To rejuvenate:</p> <ol style="list-style-type: none"> 1. Focus the business to manageable competitive arena. 2. New CEO. 3. Reduce scope: product lines, technological ranges, and cost reductions. 4. Build new skills and capabilities to enhance learning throughout the firm. 5. Re-complicate the business: <ul style="list-style-type: none"> • Pursue growth to maintain change. • Broaden product line to serve more of the primary market (both offensively to gain leverage by exploiting core skills in new segments/markets; and as a defence against new competition). • Expand in to new countries. <p>In addition:</p> <p>Break the mould: understand taken for granted assumptions.</p> <p>Simplification and control: structural changes, changes to informal aspects of TMT.</p> <p>Invest in organisational capability: new equipment, new organisational processes and training, to fully exploit new possibilities, lower costs and increase differentiation.</p> <p>Flexible supply: increase quality, implement time management, add new products.</p>	<p>Focus on core</p> <p>CEO/TMT change</p> <p>Cost efficiencies</p> <p>Build for future</p> <p>Cultural change</p>

Gopinath, 1991	Archival case data 1975 – 1988, n=22 successful turnaround, n=3 non-successful turnaround.	Not defined.	A new CEO initiates turnaround.	CEO/TMT change
Pant, 1991	Use of Compustat, over a consecutive 8 year period, from 1970 to 1982, sample was 42 turnaround firms and 50 non turnaround firms.	Turnaround is a substantial improvement of the firms ROA relative to industry average.	Turnaround firms are smaller than non-turnaround: the reason speculated as being that they have greater flexibility and faster response time. Investment in R&D alters industry structure and how firms compete, so the relationships between the firms have changed and new opportunities are presented. There was more investment in industries with turnaround than non-turnaround. If a firm has a lower operating margin in an industry with low advertising, then increasing spend on marketing will have quite an impact on sales. Turnaround firms had more severe problems than non-turnaround, and were in slower growth industries.	
Schreuder, Cayseele, Jaspers, de Graaff, 1991	28 declining industries from 1972-1985 in the Netherlands. 21 matched pairs of firms; one which coped with the market, and one which had not. Data via questionnaire.	Success and profitability defined by level of ROA and avoidance of losses.	Successful firms have market or product related strategies. They also alter distribution channels, add new or delete old products. They decentralise and restructure. They also cut or replace levels of the TMT. Diversification only occurs within the industry.	Focus on the core CEO/TMT change
Robbins and Pearce, 1992	US manufacturing industry 1976-1985: textile mill products, n = 38. 4 corporate officers from each organisation were surveyed.	Performance measured by ROI.	A two-stage process of retrenchment and then recovery. 1. Cut backs, and cost and asset reductions. Cost retrenchment was performed, but needed asset retrenchment too. Liquefy plant property, receivables plus equipment. Regardless of turnaround situation, firm should try to reduce operational costs via retrenchments, these should be done quickly. 2. Returning to segments of business that have best profit opportunities. 3. Recovery strategies then follow.	Cost efficiencies Asset retrenchment Focus on core Build for future
Pearce and Robbins, 1993	Review of 9 turnaround papers (1976-1992) from different disciplines and research streams.		Two stage process: <ul style="list-style-type: none"> Retrenchment: cost cutting and asset reduction. Shrink back to most profitable areas. Recovery: Externally: entrepreneurial, which means explore growth areas for the core product or market. and/or Internally: efficiency, making better use of manufacturing or production. 	Cost efficiencies Focus on core Asset retrenchment Build for future

Kesner and Dalton, 1994	Firms of the New York Stock Exchange which had CEO succession in 1980, n=84.	ROA three years prior/post CEO succession = performance measure.	CEO succession.	CEO/TMT change
Daily and Dalton, 1995	7 firms filing for bankruptcy, 1973 to 1982, and a matched sample of 7 not filing for bankruptcy. Data taken over 5 years.	Not defined.	The use of outside directors in firms surviving bankruptcy filings.	CEO/TMT change
Armenakis, Fredenberger, Cheronis, Feild, Giles and Holley (1995)	145 completed questionnaires from members of the "Turnaround Management Association"	Organisation performance unacceptable prior to turnaround.	The most popular symbols used to aid change were elimination of perks, recognising departments and managers, and using a "medical metaphor".	Cost efficiency CEO/TMT change
Ghoshal and Bartlett, 1996	A study of more than a dozen companies undergoing renewal. Data taken from the 1980s and 1990s.	Not defined.	Process of establishing strong business units, and then integrating them. 1. Simplification: strengthen performance of each unit, managers attention is focused, they are given the freedom to develop new strategies and control over operations. Close non-performing or peripheral units and acquire new ones, cut staff and responsibilities. 2. Integration: link units to exploit scale economies, leverage resources and opportunities for cross-learning. Shared vision and values. Collaborate on programmes, open communication and break isolation. 3. Regeneration: ability to replenish and renew. All managers should understand the importance of individual's behaviour, and think and act as leaders (so that the organisation is capable of self-renewal). The most important aspect was changing individual's attitudes, assumptions and behaviours, rather than systems etc. This should result in a culture change. In addition the following traits are needed: Discipline, Support, Stretch, and Trust.	Cost efficiencies Focus on core Cultural change Build for future
Barker and Duhaime, 1997	120 successful turnaround US manufacturing firms (1974-1988). Questionnaires, to CEO and COO, plus archival sources	Decline: at least 3 years of ROI below risk-free rate of return. Recovery: at least 3 years of ROI above risk-free rate of return.	1. If there is an industry-based decline then the need for strategic change is quite low because a firm could still hold a strong industry position, and changing in this way could result in the firm's failure. Traditional cost efficiency measures may maintain the firm while it rides out the economic conditions. 2. If there is a firm-based decline strategic change is necessary, and often accompanied by a change to CEO. Turnaround needs to be a strategic reorientation.	Cost efficiencies CEO/TMT change

Sudarsanam and Lai, 2001	166 UK firms, in financial distress 1983-1993, that were comprised of recovery and non-recovery firms.	Distress: minimum of 1 year of negative Z score after 2 consecutive years of positive Z score. Recovery: return to positive Z score over 2 year period after distress year.	1. Operational restructuring: Cost reduction, revenue generation, operational asset reduction to improve efficiency, lay offs. Improve cash flow. Maximise output/revenue and minimise input. Increase marketing to stimulate sales, focus on existing products. Decrease price, or increase if customers are not price sensitive. 2. Financial restructuring: move capital etc. to generate cash flow and reduce debt. 3. Management restructuring: replace CEO. 4. Asset restructuring: divest lines, products and businesses not aligned with the core focus of the firm. Make acquisitions and joint ventures which will help in achieving the core focus. Purchase new plant equipment that will make processes more efficient.	Cost efficiencies Asset retrenchment CEO/TMT change Focus on core Build for future
Bruton, Anstrom and Wan, 2003	Pacific-basin capital markets databases and annual reports, 1979 to 1998.	Turnaround: reversal of a firm's pattern of performance decline.	Selling assets. The firm should pursue those areas "that its managers know best".	Asset retrenchment Focus on core
Sheppard and Chowdhury, 2005	One Canadian retailer case study and two minor studies for comparison.	Turnaround: the firms perseverance through existence-threatening performance decline.	1. Recognise and act on decline, do not dismiss it as a "blip". 2. Evaluate the severity of the performance decline, understand the environment, and understand the firm completely. 3. Get aid from all stakeholders. 4. Acquire resources to aid the firm in the long-run. 5. Exploit valuable, rare, hard to imitate activities. 6. Firm should be ready to alter itself to align with customer needs. 7. Work effectively, decisively and timely.	Focus on core Build for future
Filatotchev and Toms, 2006	British textile industry, from the 1920s (turnaround failure) and the 1960s (turnaround success). Case analyses and archival data.	Turnaround firms: those that are trading profitably in the 1970s.	Reinvest available profits to fund capital equipment purchases. Investment in new machinery to reduce costs.	Cost efficiency
Morrow, Jr, Sirmon, Hitt and Holcomb, 2007	1982-1994, Compustat database, Lexis/Nexis and the Wall Street Journal; single product manufacturing firms, n = 178.	Performance decline: 2 years of meeting market expectations, followed by 1 year of below investor expectations.	Follow strategic actions that recombine existing resources in valuable and inimitable ways. Follow valuable and inimitable strategic actions in acquiring, and therefore controlling, new resources to positively effect investors. Divestment of assets.	Asset retrenchment