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**Successful Turnarounds:  
The Role of Appropriate Entrepreneurial Strategies**

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## **Abstract**

All organisations are set up with an objective to create value to the society. This necessitates organisations to generate revenues to support all its stakeholders. However, in the rat race to succeed, most organisations are unable to generate revenues for sustainable operations. It is obvious that organisations cannot survive without profits/surpluses and the inability to generate surpluses would lead to industrial sickness. Bringing such organisations back to health requires entrepreneurial strategies at two levels, namely, from the negative to the breakeven and from breakeven to the positive. Hence, the turnaround management is a doubly entrepreneurial act. The objective of this paper is to understand the strategies used in successful turnarounds and compare them with those of the failed ones and thereby help turnaround managers to increase their success rate so as to enhance the value of these organisations to society.

**Keywords:** Entrepreneurship, Strategic Management, Turnaround Strategies, Value Creation

# 1 Introduction

Industries are an integral part of a nation's economy. With growing industrialization, the incidence of industrial sickness has also been on the rise and a huge amount of scarce resources of banks and financial institutions remain locked up in sick units (Singh 2007). Industrial turbulence or sickness is so widespread that it is found in all types of organizations. Since sickness in industries affects the entire organization and the country as a whole, there is a need for organizations to take measures to restore their health. In a dynamic set-up, industrial units that are non-competitive, uneconomical and inefficient become sick and die out when new and more efficient units come up to take their place. This process of bringing an organization from sickness to health is known as turnaround.

A turnaround situation is one where a company suffers declining economic performance for an extended period of time, such that the performance level is so low that the survival of the company is threatened unless serious efforts are made to improve its performance. Achieving turnaround calls for a totally different set of skills to probe into the causes of decline and to formulate appropriate strategies to transform the company for a fresh lease of life (Prasad 2006). Different organizations adopt different strategies for bringing about turnarounds. There is enough evidence in the literature to show that there are differences in the strategies used by the successful and unsuccessful turnarounds.

## **Successful Turnarounds: A Theoretical Model**

Organizational sickness has been defined as a gradual or sudden 'existence-threatening decline' in performance (Pandit 2000), and can be precipitated by internal actions or inactions or by external circumstances and environmental factors. It is obvious that the definition of organizational sickness is more like a term describing the symptoms of sickness rather than a term proposing diagnosis and rectification. In other words, it describes only a situation facing an organization but does not specify how that situation came about or was caused; nor does it suggest the remedial actions or strategies

that could bring about a turnaround (Walshe 2004). Corporate sickness is one of the major socio-economic problems of developing as well as developed nations. An industrial unit may become sick on

account of a variety of factors causing sickness. For this reason it is often difficult to give an exhaustive list of such causes of sickness. However, attempts have been made by scholars and researchers to develop a list of these factors (Barker 2005). In the following section we give a brief outline of the internal and external causes of industrial sickness as identified by prior research.

### **Internal Causes**

The internal causes of sickness arise from mismanagement in several functional areas of the organisation. As the principal functions of any organisation are human resource management, finance, marketing, production/operations and corporate planning strategies, the internal causes would also relate to mismanagement in these functional areas. Since, these causes occur due to poor performance of one or the other internal functional parts of the unit, they are usually controllable in nature, if they are detected in time and corrective actions are taken promptly (Schendel, Patton and Riggs 1976, Hofer 1980, Hoffman 1989, Manimala 1991, Barker and Mone 1994, Singh 2007).

Some of the symptoms of industrial sickness or causes of failure observed by researchers are: poor leadership (Balgobin and Pandit 2001, Walshe 2004); operational inefficiency, past managerial mistakes, inertia leading to poor adaptability, erosion of competitiveness, non-availability of resources (Barker and Duhaime 1997, Bibeault 1982, Pearce and Robbins 1993); product failure, poor diversification, poor control systems, cost slippage (Panchali 2005). It is ironic that, even though management has direct control over all these functions, more than 80 percent of business failures arise due to management's inefficiency to control the internal functions of business (Scherrer 2003).

### **External Causes**

While the internal inefficiencies are in themselves debilitating for the organisation, their tendency to cause sickness will depend largely on the emerging external environment. If an organisation is weak in its functional areas, there is a greater chance of it getting adversely affected by the constraining external environmental factors. These factors may relate to any aspect of the external

environment such as demographic changes, economic conditions, natural calamities, technological developments, social norms and customs, political systems and changes and international interactions and exposure of the industrial enterprise (Singh 2007). In general the external factors can cause sickness to an industrial unit only in so far as it is internally weak.

The developments in the external environment identified by researchers as causing industrial sickness are: adverse governmental or controlling authority behaviours, unfavourable market conditions, industrial unrest, insufficient or excessively costly inputs, fluctuations in commodity prices, natural calamities (Panchali 2005); changes in international markets, unforeseen competition, financial market instability and technology changes (Manimala 1991, Khandwalla 1992, Pearce and Robbins 1993, Scherrer 2003); increased domestic and foreign competition, product or service innovations by competitors, changes in customer expectations (Balgobin and Pandit 2001, Walshe 2004); innovations in technology, recessionary conditions (Barker 2005), and so on.

### **Turnaround Strategies**

A corporate turnaround may be defined simply as the recovery of a firm's economic performance following an existence-threatening decline (Pandit 2000, Walshe 2004). Khandwalla (1992) defines a corporate decline as a loss situation, and turnaround as equivalent to reaching at least a breakeven from a loss situation. Hofer (1980) describes turnaround strategies in very general terms as management actions employed for saving organisations from decline. Turnaround management is more relevant for mature organizations (Miller and Friesen 1984, Pascale 1999), as they are likely to experience decline more than the younger ones (as proposed by life cycle theory).

Turnaround researchers have identified a number of turnaround actions and strategies. There are several ways in which researchers categorise turnaround actions such as strategic and operational actions (Schendel, Patton and Riggs 1976, Hofer 1980), entrepreneurial and efficiency actions (Hambrick and Scheter 1983). They could also be understood in terms of the functional areas being addressed by them and so could be classified into human resources strategies, product/market strategies, financial strategies, production, operations and technology strategies (Manimala 1991, Khandwalla 1992).

As we have noted above, a turnaround is a doubly entrepreneurial act involving ‘negative-to-breakeven’ and ‘breakeven-to-positive’ phases (Manimala 2005), which also may have several sub-stages within the two broad phases. Several researchers have proposed stage theories for understanding the turnaround process. Prominent among them are: (1) Weitzel and Jonsson (1989) who proposed five stages of decline and corresponding turnaround actions - namely, blinded stage and good information, inaction stage and prompt action, faulty action stage and corrective action, crisis stage and effective reorientation, and finally dissolution stage where no action is possible; (2) Bibeaault (1982) who proposed five stages in organisational turnaround, namely, top management change, evaluation (diagnosis), emergency actions, stabilisation and re-posturing/return to normal growth; (3) Chowdhury (2002) who identified four stages – decline, response initiation, transition and outcome, (which are seen in both successful and unsuccessful turnarounds); (4) Manimala (1991) who empirically found four stages in the post-decline phase of turnaround, namely, arresting sickness, reorienting, institutionalisation and growth; (5) Barker and Yasai-Ardekani (1995) who proposed a two stage contingency model with decline-stemming stage and recovery stage (the former focusing on increasing stakeholder support, enhancing efficiency and improving internal climate depending on the severity of decline and availability of slack resources and the latter on enhancing the firm’s competitive position); (6) Pearce and Robbins (1993) and Chowdhury (2002), who proposed two-stage contingent process models involving retrenchment and recovery stages (the former focusing on cost reduction and asset reduction, and the latter on strategies appropriate for the causes - entrepreneurial strategies to deal with external causes and efficiency strategies to deal with internal causes).

It was noted above that a commonly understood classification of turnaround strategies is to base them on functional areas being addressed by them (Manimala 1991, Khandwalla 1992). This would also make sense, as managers generally operate within their functional areas and therefore take actions for rectifying the problems experienced in their respective areas. Hence, classification of turnaround strategies based on the functional areas of management is convenient both for researchers as well as practitioners. Accordingly, we have identified five categories of functional strategies related to turnaround management, which are: (a) Human Resource Strategies, (b) Financial Strategies, (c) Marketing Strategies, (d) Production/Operations Strategies and (e) Corporate Planning Strategies.

### *(a) Human Resource Strategies*

The human resources have to actively partner with the business leadership and develop strategies to create capabilities within the organization to speed up the execution of corporate turnaround (Prasad 2006). Literature on human resources strategies has a lot written on downsizing efforts, especially those adopting a top-down approach, simply focus on reducing the number of employees (Cameron 1994, Cascio 2003). Firms experiencing negative trends of performance typically resort to retrenchment as their most prominent turnaround strategy (O'Neill 1986, Pant 1991, Smith, et.al. 1995). According to Mishra and Mishra (1994), the downsizing, strategy commonly adopted by troubled organisations in the early 1980s was mainly an effort to reduce the number of employees in order to stay competitive. That trend continued into the 1990s with firms attempting to cut costs through staff-reduction to remain competitive in the global marketplace (Appelbaum et al., 1987a; Cameron et al., 1991). However, in the context of successful turnarounds, Manimala (1991) observed that the more effective and long-lasting employee management strategies for troubled organisations were based on employee engagement and culture building.

Change in top management is another well identified human resource strategy. Leaders are often a contributing source of decline (Arogyaswamy et al., 1995). Executives either directly caused the problems at the heart of crisis or failed to recognize the problems early enough (Bibeault, 1982). The first step or the first priority in a turnaround situation is the recognition that new management can make the difference (Barker and Mone 1994, Jacoby 2004, Murphy and Meyers 2008). Top management change is widely recognised as a precondition for successful turnarounds (Bibeault 1982, Hofer 1980, Schendel, Patton and Riggs 1976, Slater 1999). The nature of the top management team in a company is of greater significance for success or failure than any of the company's products, skills or physical assets (Murphy 2008). It is the top management who sets the style and tone of management in the organisation and therefore can involve and empower their employees. Empowered employees are energetic, passionate and experience a feeling of ownership over jobs, which will encourage and motivate the employees to offer their innovative best for the company with a customer service mindset (Prasad 2006). Under such conditions performance management becomes voluntary and leads to better results as compared to management-initiated performance appraisal and monitoring.

*Hypothesis 1: Employee engagement strategy is likely to be used more frequently by successful turnarounds than unsuccessful ones.*

### ***(b) Financial Strategies***

The objective of financial strategy in turnaround management is to develop and use the financial strength of the business as an asset to enhance the competitiveness of the business (Scherrer 2003). Organisations adopt several such financial strategies as reduction in the par value of shares, obtaining loans at low rates of interest, postponement of maturity of debts, and conversion of debt into equity (Kumar 2003). Robbins and Pearce (1992) have also observed that the choice of turnaround strategies is linked to the company's financial performance. They suggested that as severity of decline increased, the financial strategies for turnaround should use more of asset reduction strategies rather than cost reduction (Howard 2005).

Research on turnaround suggests that the performance outcomes of asset and cost reduction are contingent on industry dynamics as well (Chowdhury and Lang 1996, Morrow et al., 2004). Turnarounds cannot be sensibly analysed without taking into account the context of the financial obligations and related governance arrangements (Igor and Toms 2006, Kumar 2003). Hofer (1980) and Robbins and Pearce (1992) argue that companies under severe financial distress need to make aggressive cost and asset reductions in order to survive. Slashing labor costs, production costs, selling and administrative expenses, R&D expenditure, and financing costs is a common strategy used in the early stages of corporate turnarounds (Denis and Kruse 2000, Beixin et al 2008). However, as pointed out by Slater (1999), the aggressive reduction of costs and assets is no easy task because of the possible organizational resistance to such action. Asset-reduction strategies have been recommended for failing companies in order to improve cash inflows (Hofer 1980, Taylor 1982, Hambrick and Schechter 1983, Robbins and Pearce 1992), which would help in meeting the immediate cash obligations as well as for creating more productive assets.

Further, companies with high fixed costs become more vulnerable to market changes because of the inflexibilities and inefficiencies associated with it. Several other researchers have also observed that cost cutting and financial restructuring leading to lean management as critical strategies for successful



turnarounds (Hoffman 1989, Brown et al., 1993, DeAngelo and DeAngelo, 1990, Franks and Mayer 1994, Igor 2006). This view is supported by (Hambrick and Schechter 1983), who found that asset-reduction and debt-reduction to be the two pillars of financial strategies for turnaround.

*Hypothesis 2a: Cost management strategies are likely to be used more frequently by successful turnarounds than unsuccessful ones.*

*Hypothesis 2b: Lean management strategy resulting from asset and cost restructuring is likely to be used more frequently by successful turnarounds than unsuccessful ones.*

### ***(c) Marketing Strategies***

The importance of innovative marketing strategies in bringing about successful turnarounds has been highlighted by several researchers (Hofer 1980, Grinyer et.al. 1988, Goldston 1992). However, corporate turnaround literature has paid little attention to the value of market intelligence and planning in the company turnaround process (Harker 2001). The marketing oriented business is customer-focused, and generates and disseminates market intelligence that is widely used throughout the firm (Jaworski et.al., 1993). Such firms are able to sense and respond to market forces with greater precision than more inward-looking rivals (Day 1994). However, there is scant attention in the literature on the role of marketing and sales in the corporate turnaround process (Goldston 1992)

Sales is a critical function involving four elements that are apparent more in the successful turnarounds, such as: (1) environmental comprehension, (2) market selection, (3) innovative market offers, and (4) managed relationships (Bibeault 1982, Finkin 1998, Harker and Harker 1998). Much has been written about marketing orientation in the management and marketing literature (Jaworski et.al., 1993, Slater 1999). Such importance given to marketing is borne out in the findings that customer focus is an important feature of successful turnarounds, where customer focus permeated the whole organisation and was fully supported by the top management. The turnaround organisation's customer efforts were characterised by the appointment of exclusive managers and sales people for key accounts, who worked tirelessly to build the respect and trust of customers so essential for building up a sound relationship (Swan et.al., 1988, Harker and Harker 1998).

Along with the enhancing marketing and sales activities, successful companies would also try to improve their product quality. It is observed that poor quality of products is a major cause of corporate failure as it is obvious that without a good quality product marketers would toil in vain. Successful businesses compete on quality rather than on costs, with a view to developing competitive advantage (Rosairo 2004). Repositioning has also been described as an ‘entrepreneurial’ turnaround strategy. Market penetration and niche positioning also been identified as valuable strategies for the successful corporate turnarounds (Hofer 1980).

*Hypothesis 3: Customer refocusing strategy is likely to be used more frequently by successful turnarounds than unsuccessful ones.*

#### ***(d) Production/Operation Strategies***

Hofer (1980), in a study of twelve cases of badly performing organizations, found that the strategies used for turning around organisations should be appropriate for causes of sickness. If the sickness is caused by operating problems the solution has to be by operating remedies, while strategic problems should be addressed by strategic remedies. This view was also supported by the findings of Hambrick and Schecter (1983) who pointed out those organisations that are failing due to operational causes opt for operational turnaround strategies and those failing due to strategic causes opt for strategic turnarounds; and rarely were operational failure addressed with strategic turnaround actions.

There is often a relationship between cost reduction and efficient management for investments in technology and improvement of operations (Arogyaswamy and Yasai-Ardekani 1997) investigated the role of cutbacks and efficiency improvements in supporting investments in technology. These actions improve profitability in the short run and allow the company to release resources that may be used for technology improvements leading to enhancement of operational efficiencies. They can also play an important political role in winning back stakeholder support and help raise external resources to fund other initiatives (Smith and Graves 2005). The development and use of innovative technologies would obviously, give a competitive advantage to organisations and help them to gain market acceptance and

share quickly, while the investments in research and development can be gradually recovered with new product exclusivity protected by patents (Kow 2004).

*Hypothesis 4: Strategies for increasing operational efficiencies are likely to be used more frequently by successful turnarounds than unsuccessful ones.*

### **(e) Corporate Planning Strategies**

Sickness and failure are often attributed to lack of planning or even short-sighted planning. Planning in organisations may have a short-term focus (for example, annual planning for implementing the current activities) or a long-term focus (which involves changing the nature and direction of the organisation through expansion, diversification, exploration of new paths through R&D, and so on).

The long-term changes in corporate strategies are required when the existing products and services have limited acceptability in the market. In the context of turnaround management, strategic re-orientation may follow two different directions – in the case of mature organisations that have taken up too many activities and dissipated their energies, there is need for re-focusing on the core activities; on the other hand, when the core is already strong or strengthened through operational strategies as part of turnaround, organisations may decide to expand and diversify anticipating the changes in the environment. This view was supported by the findings of Manimala (1991), where it was observed that the strategic actions like growth, are followed by operational ones involving arresting sickness, focusing on the core and supported by institutionalization. Observations by other researchers are also in similar lines Pearce and Robinson (1992) found that contraction and consolidation are used when an organisation's problems are not pervasive. Even though growth strategies may be appropriate when an organisation is not doing very well, researchers have largely ignored this possibility. In a study of small manufacturing firms, Chowdhury and Lang (1996) observed that entrepreneurial moves, which typically involve growth strategies, could be an alternative to retrenchment. Refocusing on the core business may often involve corporate restructuring, as the elimination of non-core activities would involve the redefining of roles and positions (Beixin et al 2008). For large firms, however, almost all strategic actions revolve around expansion and diversification (Ramanujan and Varadarajan 1989, Rasheed 2005).

*Hypothesis 5: Corporate restructuring and image building are likely to be used more frequently by successful turnarounds than unsuccessful ones.*

## **Objectives**

As mentioned in the introductory section, the major objective of this research is to understand the differences in the strategies used by successful and unsuccessful cases of turnaround. Reviewing the literature on the theme, we have identified five hypotheses suggesting the differential strategies likely to be used by successful turnarounds, which are reproduced below.

*Hypothesis 1: Employee engagement strategy is likely to be used more frequently by successful turnarounds than unsuccessful ones.*

*Hypothesis 2a: Cost management strategies are likely to be used more frequently by successful turnarounds than unsuccessful ones.*

*Hypothesis 2b: Lean management strategy resulting from asset and cost restructuring is likely to be used more frequently by successful turnarounds than unsuccessful ones.*

*Hypothesis 3: Customer refocusing strategy is likely to be used more frequently by successful turnarounds than unsuccessful ones.*

*Hypothesis 4: Strategies for increasing operational efficiencies are likely to be used more frequently by successful turnarounds than unsuccessful ones.*

*Hypothesis 5: Corporate restructuring and image building are likely to be used more frequently by successful turnarounds than unsuccessful ones.*

Accordingly, the objective of the present investigation is to test the above-mentioned hypotheses.

## Methodology

As turnaround management involves heroic actions, they are being written about in business magazines and publications. Hence, there was no dearth of secondary materials on turnaround strategies. This is, indeed, a great opportunity for researchers on the subject. The present researchers therefore decided to scan the published cases on turnaround management, which turned out to be very productive. We managed to assemble 68 successful cases and 34 unsuccessful cases, which belonged to a twelve-year period between 1998 and 2010. These were content-analysed to generate quantitative data, which were then statistically processed for testing the above-mentioned hypotheses. The steps in this process were as follows:

- i. Preliminary reading of the cases in order to identify the commonly observed causes of sickness and strategies of turnaround.
- ii. Listing of the major causes and strategies as well as classifying causes into internal and external, and strategies into the various functional areas of management (namely, human resources, finance, marketing, production/operations and corporate planning). Initially, there were 120 variables belonging to these two major categories (41 of them among causes and 79 among strategies). These variables were judgmentally combined into 36 causal variables and 30 strategy variables (by combining major functional area strategies together) , which were then used for ratings and subsequent analysis.
- iii. Generating quantitative data on causes and strategies by using a quasi-interval scale ranging from 1 to 3 ('1' indicating the absence, '2' indicating doubtfulness, and '3' indicating presence of a particular cause/strategy)
- iv. Finding the inter-rater agreement on the above rating by soliciting the help of two other raters (one a PhD in Economics, and the other a PhD in Sociology) for their independent ratings of the same variables on the same scale. It was found that the inter-rater agreements (as computed by correlations) were fairly high at 0.904 (between the researcher and rater-1), and at 0.855 (between the researcher and rater-2). Hence, it was concluded that the researcher's ratings were fairly unbiased.
- v. Identifying the major dimensions of causes as well as strategies through separate hierarchical factor analysis, which yielded six causal factors and eight strategy factors.

- vi. Testing the reliability of these factors using Cronbach’s Alpha, which were mostly acceptable for social science research (as reported under the sub-section on ‘Findings’). As indicated by the size of the Cronbach’s Alpha a few variables from the original list had to be removed, resulting in the inclusion of 27 out of 36 originally listed causes and -23 out of 30 of the originally listed strategies in the final factors.
- vii. Testing the differences between successful and unsuccessful turnaround cases in terms of the causes of sickness as well as the strategies with a view to identifying a set of successful turnaround strategies and thereby ascertaining the support for the hypothesis.

## Data Analysis

The first step in the data analysis was to compute the means and standard deviations of the primary variables of causes of sickness and turnaround strategies. Table-1 gives the means and standard deviations of the causal variables and Table-2 those of the strategy variables. Variables having a mean score higher than 1.5 are highlighted in the tables. These are the common causes of sickness, and the commonly adopted strategies for turnaround.

**Table-1: Means and standard deviation of causes of sickness variables**

Causes of sickness variables	Mean	Standard deviation
<b>IC1: Ambitious expansion</b>	<b>1.5686</b>	<b>0.90663</b>
<b>IC2: High cost of debt due to escalation of projects</b>	<b>1.6961</b>	<b>0.95222</b>
IC4: High debt equity ratio	1.4314	0.49992
<b>IC5: Poor marketing strategy</b>	<b>1.5686</b>	<b>0.89564</b>
IC6: Incompetent management	1.5392	0.79193
IC7: Obsolete technology	1.3873	0.60895
IC9: High non-performing assets	1.1961	0.58087
IC10: Poor capital	1.3529	0.62374
<b>IC11: Operating inefficiency</b>	<b>1.5000</b>	<b>0.37244</b>
IC12: Large investment in new product line	1.1373	0.50814
IC13: Inefficient workers	1.1569	0.34694
<b>IC14: Poor market demand</b>	<b>1.5294</b>	<b>0.63255</b>

<b><i>IC16: Low capacity utilisation</i></b>	<b>1.5392</b>	<b>0.86370</b>
IC17: Low sales turnover	1.2647	0.65893
IC18: Drop in exports	1.1275	0.48075
IC20: Delay in projects	1.1471	0.51506
IC21: Heavily overstaffed	1.3039	0.67177
IC22: Huge stock of inventory	1.1569	0.32228
IC25: Lack of liquidity	1.2745	0.54785
IC26: Improper utilisation of funds	1.3529	0.75317
<b><i>IC27: Lack of market orientation</i></b>	<b>1.5719</b>	<b>0.59402</b>
EC1: High input cost	1.4216	0.81370
EC4: High interest rate	1.4216	0.52846
EC5: Market recession and lack of demand	1.1373	0.50814
EC6: Government constraints	1.3856	0.44188
EC8: FOREX fluctuations	1.2206	0.45909
EC9: Weakening of rupee	1.0922	0.18810

***Table-2: Means and standard deviations of turnaround strategy variables***

<b>Turnaround Strategies</b>	<b>Mean</b>	<b>Standard</b>
<b><i>MS2: Reassessment of product mix</i></b>	<b>1.5784</b>	<b>0.80144</b>
MS3: Transition form sellers to buyers market	1.3039	0.35812
MS4: Focus on core business	1.3627	0.62599
<b><i>MS5:Initiatives to increase revenues</i></b>	<b>1.5194</b>	<b>0.48650</b>
<b><i>MS6: Focus on promotional activities</i></b>	<b>1.5980</b>	<b>0.77408</b>
MS7: Aggressive pricing	1.3333	0.73570
MS8: Entering newer markets	1.3072	0.38591
FS1: Debt restructuring	1.1667	0.40622
FS2: Reduction of assets	1.2770	0.37381
FS3: Efficiency in short term financing	1.1961	0.28668

FS4: Infusion of funds	1.1985	0.26406
<b><i>FS5: Cost cutting</i></b>	<b>2.0784</b>	<b>1.00184</b>
FS6: Reduction in cost of funds	1.3170	0.41791
HRS1: Huge retrenchment	1.3562	0.42801
HRS5: Motivating employees	1.3922	0.78547
HRS6: Culture building	1.0588	0.33958
<b><i>HRS7: Employee involvement</i></b>	<b>1.5588</b>	<b>0.75221</b>
HRS8: Information dissemination	1.0392	0.27867
<b><i>POS1: Efficiency measures for operations</i></b>	<b>1.7614</b>	<b>0.56944</b>
POS2: Investment in R&D	1.4167	0.54990
POS3: Reduction in raw material costs	1.2255	0.62785
CPS1: Corporate social responsibility	1.0760	0.20145
CP2: Restructure the organisation	1.2333	0.27443

An observation of high-scoring causes show that they may relate to inefficiency in any functional area, mainly in the management of operations, marketing, finance and corporate planning. This finding supports our view that the management of the functions is critical to organisational success. A second observation about high-scoring causes is that all of them arise from internal mismanagement. An important inference from this is that unanticipated change in the external environment can adversely affect the organisations only if they are internally weak.

Similarly, the high-scoring strategies also address issues in different functional areas such as human resources, finance, marketing and production/operations. This supports the view that turnaround management requires a comprehensive effort and stage-wise implementation of strategies. This is particularly important against the generally held view that turnaround is only a matter of cost cutting.

In order to further strengthen these inferences we have performed a two-stage factor analysis on the variables with a view to identifying the principal dimensions of causes and strategies as well as their relative importance for the successful and unsuccessful groups. Table-3 and Table-4 show the causal factors and strategy factors respectively.



**Table 3: Principal factors of causal variables**

<b>Causal factor no. and name with variable descriptions</b>	<b>Factor Loadings</b>	<b>Cronbach Alpha</b>
<b>Factor-1 (C1): <i>Growth unsupported by resources and demand</i></b>		0.519
IC4: High debt equity	0.788	
IC19: Fall in share Prices	0.722	
EC4: High interest Cost	0.689	
IC9: High non-performing assets(NPA's)	0.636	
IC1: Ambitious expansion	0.607	
IC2: High cost of debt due to escalation of projects	0.522	
<b>Factor-2 (C2): <i>Recessionary conditions</i></b>		0.463
EC5: Market recession and lack of demand	0.790	
EC9: Stagnant price of product	0.790	
IC12: Large investment in new product line	0.631	
<b>Factor-3 (C3): <i>Operational inefficiency</i></b>		0.400
IC25: Lack of liquidity	0.807	
EC6: Government constraints	0.758	
IC11: Operating Inefficiency	0.662	
<b>Factor-4 (C4): <i>Inadequate utilisation of resources</i></b>		0.400
IC21: Excess employees	0.768	
IC10: Inadequate capital	0.738	
IC22: Huge stock of inventory	0.664	
IC16: Low capacity utilisation	0.651	
IC26: Improper utilisation of funds	0.564	
<b>Factor -5 (C5): <i>Low proactiveness vis-à-vis market and technology</i></b>		0.505
IC14: Poor market demand	0.804	
IC7: Obsolete technology	0.727	
IC5: Poor market strategy	0.689	
IC17: Low sales turnover	0.593	
<b>Factor-6 (C6): <i>Poor adaptability</i></b>		0.567
EC8: Forex fluctuations and weakening of rupee	0.763	
IC16: Drop in exports	0.744	
IC6: Incompetent management	0.651	
EC1: High input cost	0.618	
IC27: Lack of market orientation	0.617	
IC13: Inefficient workers	0.556	

**Table 4: Principal factors of strategy variables**

<b>Strategy factor no. and name with variable descriptions</b>	<b>Factor Loading</b>	<b>Cronbach Alpha</b>
<b>Factor-1 (S1): <i>Employee engagement</i></b>		0.665
HR4: Incentives to employees	0.735	
HR7: Employee involvement	0.672	
HR5: Motivating employees	0.659	
HR6: Culture building	0.555	
<b>Factor-2 (S2): <i>Aggressive promotion of old products in new markets</i></b>		0.421
M3: Transition from sellers market to buyers market	0.728	
M6: Focus on promotional activities	0.602	
<b>Factor-3 (S3): <i>Cost management strategies</i></b>		0.361
F6: Reduction in cost of funds	0.847	
F5: Cost cutting	0.572	
P3: Reduction in raw material cost	0.507	
<b>Factor-4 (S4): <i>Investments in new markets and R&amp;D</i></b>		0.360
M8: Entering new markets	0.774	
P2: Investment in R&D	0.740	
P1: Efficiency measures for operations	0.638	
<b>Factor-5 (S5): <i>Focus on core business</i></b>		0.505
F4: Infusion of funds	0.726	
HR1: Huge retrenchment	0.631	
M4: Focus on core business	0.516	
<b>Factor-6 (S6): <i>Changes in product mix and pricing</i></b>		0.471
M7: Aggressive pricing	0.791	
M2: Reassessment of product mix	0.558	
<b>Factor-7 (S7): <i>Lean management</i></b>		0.571
F2: Reduction in assets	0.788	
F9: Enhance shareholders value	0.782	
F1: Debt restructuring	0.722	
O2: Restructure the organisation	0.769	
F3: Efficiency in short term financing	0.599	
<b>Factor-8 (S8): <i>Image building</i></b>		
HR8: Information Dissemination	0.793	

There were six factors among the causes for which the Cronbach's Alpha ranged from 0.400 to 0.570. Though these values are not very high, they are in the acceptable range. The six causal factors are as follows:

- Factor-1 (C1): Growth unsupported by resources and demand
- Factor-2 (C2): Recessiary conditions
- Factor-3 (C3): Operational inefficiency
- Factor-4 (C4): Inadequate utilisation of resources
- Factor-5 (C5): Low proactiveness vis-à-vis' market and technology
- Factor-6 (C6): Poor adaptability

The causal factors also have corroborated the inference from high-scoring causal variables. Among the six causal factors only one (Factor-2: Recessiary conditions) relates to external conditions. All others are about mismanagement within the organisation. Hence, our prior inference that the primary causes for industrial sickness is internal to the organisation is supported. In other words, external changes can adversely affect only the internally weak organisations.

There were eight factors among the strategies, for which the Cronbach's Alpha ranged from 0.360 to 0.670. Though these values are not very high, they are in the acceptable range. The eight strategy factors are as follows:

- Factor-1 (S1): Employee engagement
- Factor-2 (S2): Aggressive promotion of old products in new markets
- Factor-3 (S3): Cost management strategies
- Factor-4 (S4): Investments in new markets and R&D
- Factor-5 (S5): Focus on core business
- Factor-6 (S6): Changes in product mix and pricing
- Factor-7 (S7): Lean management
- Factor-8 (S8): Image building

The strategies belong to various aspects of management, which is, suggestive of a multi-pronged approach needed for managing industrial sickness. The names given to these factors are based on the nature of the variables included under each. While many of these are apparently positive and functional (eg: employee engagement, focus on core business, lean management, etc), some of them are suggestive of too aggressive and unrealistic strategies).

In order to test the association of these strategies with success or failure in turnaround, we computed the group means of causal factors and strategic factors separately for successful and unsuccessful cases. Table 5 and Table 6 give these comparative details for causes and strategies respectively.

**Table 5: Mean scores of causal factors –  
A comparative perspective of successful and unsuccessful turnaround cases**

<b>Causal factors</b>	<b>Mean scores (Successful)</b>	<b>Mean scores (Unsuccessful)</b>
Factor-1 (C1): Growth unsupported by resources and demand	1.50	1.34
Factor-2 (C2): Recessionary conditions	1.05	1.33
Factor-3 (C3): Operational inefficiency	1.34	1.51
Factor-4 (C4): Inadequate utilisation of resources	1.29	1.45
Factor-5 (C5): Low proactiveness vis-à-vis’ market and technology	1.43	1.53
Factor-6 (C6): Poor adaptability	1.29	1.72

**Table 6: Mean scores of strategy factors – A comparative perspective of successful and unsuccessful turnaround cases**

<b>Strategy factors</b>	<b>Mean scores (Successful)</b>	<b>Mean scores (Unsuccessful)</b>
Factor-1 (S1): Employee engagement	1.23	1.19
Factor-2 (S2): Aggressive promotion of old products in new markets	1.44	1.48
Factor-3 (S3): Cost management strategies	1.59	1.43
Factor-4 (S4): Investments in new markets and R&D	1.42	1.64
Factor-5 (S5): Focus on core business	1.35	1.22
Factor-6 (S6): Changes in product mix and pricing	1.54	1.69
Factor-7 (S7): Lean management	1.24	1.08
Factor-8 (S8): Image building	1.06	1

A visual examination of the means of causal factors for the two groups show that the unsuccessful group is plagued by several causes, whereas the successful ones had only one factor mean higher than those of the unsuccessful group. This may suggest that if the sickness is caused by several factors the turnaround is more difficult. As for the strategies, the success is apparently a function of slowly building up the capabilities of the organisation and then moving forward with aggressive expansion and growth strategies. This is evident from the fact that the successful group has higher scores on many strategy factors, especially the ones contributing to organisation development such as employee engagement,

cost management, focus on core business and lean management. In order to test these inferences further, we conducted independent sample *t*-test, whose results are given in Table 7 and Table 8.

**Table 7: Causal factors – Test of difference between successful and unsuccessful cases**

<b>Causal factors</b>	<b>Mean</b>	<b>Standard deviation</b>	<b>t</b>	<b>Significance</b>
Factor-1 (C1): Growth unsupported by resources and demand	1.5163 1.2495	.35854 .16385	5.177	.000
Factor-2 (C2): Recessionary conditions	1.0500 1.2625	.15934 .41073	-2.949	.000
Factor-3 (C3): Operational inefficiency	1.3448 1.4297	.32868 .24976	-1.463	013
Factor-4 (C4): Inadequate utilisation of resources	1.2941 1.3864	.27147 .32626	-1.437	.086
Factor-5 (C5): Low proactiveness vis-à-vis’ market and technology	1.4338 1.4446	.41400 .50838	-.109	.237
Factor-6 (C6): Poor adaptability	1.2945 1.6291	.26566 .39774	-4.488	.001

**Table 8: Strategy factors – Test of difference between successful and unsuccessful cases**

<b>Strategy factors</b>	<b>Mean</b>	<b>Standard deviation</b>	<b>t</b>	<b>Significance</b>
Factor-1 (S1): Employee engagement	1.2316 1.1735	0.40745 0.24117	0.902	0.003
Factor-2 (S2): Aggressive promotion of old products in new markets	1.4375 1.4467	0.39852 0.55989	-0.086	0.004
Factor-3 (S3): Cost management strategies	1.5931 1.4521	0.43379 0.49939	1.403	0.108
Factor-4 (S4): Investments in new markets and R&D	1.4208 1.6268	0.30388 0.34519	-2.954	0.552
Factor-5 (S5): Focus on core business	1.3480 1.2316	0.27771 0.36333	1.643	0.250
Factor-6 (S6): Changes in product mix and pricing	1.5368 1.6628	0.60666 0.54633	-1.058	0.640
Factor-7 (S7): Lean management	1.2418 1.0827	0.22729 0.08317	5.125	0.000
Factor-8 (S8): Image building	1.0588 1.0017	0.34043 0.01009	1.382	0.047

The *t*-tests also support the inferences made above from the visual examination of the means. Among the causal factors, all the means were significantly different for the two groups except for causal factor 5 (low proactiveness vis-à-vis' market and technology). It is only for the first factor (growth unsupported by resources and demand) that the *t*-value is positive, indicating that this is the major cause for sickness in the successful group.

Hence, the turnaround is easier for them, as it is only a matter of providing sufficient resources and re-orienting the business for the appropriate market, supported by lean management and employee engagement. This is exactly what we find in Table 8, where the successful group has got significantly higher scores on employee engagement, cost management, lean management and image building. The factor were there are no significant differences are focus on core business, changes in product mix and pricing, and investments in new markets and R&D, which implies that these strategies are equally used by both the groups. While these are functional strategies the problem with the unsuccessful group may be that they failed to build the organisation through the strategies mentioned above as characteristic of the successful group. Besides, the unsuccessful group had also tried to aggressively promote old products in new markets (Factor 2) where they have a significantly higher score.

## **Conclusion**

As we have mentioned in the discussion of findings above, most of our hypotheses got supported by the findings of the present study. There were mainly five hypotheses with which we started. These related to the more frequent uses of the following strategies by the successful cases: employee engagement, cost management, customer-refocusing, lean management, operational efficiency, corporate restructuring and image building. Five out of these six strategies were found to be more frequently used by the successful cases. The only one strategy which was more or less equally used by both the groups was customer-refocusing, which was originally stated as 'refocusing on core business'. However, since 'core business' is only one aspect of customer-refocusing, we are not able to say anything conclusively about this hypothesis.

While exploring support for our hypotheses through various statistical analyses, some related results of the analysis brought out a few insights which may be formulated as theoretical propositions that could support further research in the field. Three of them are briefly explained below:

- The analysis of causes showed that the unsuccessful group was affected by more problems than the successful ones. In fact, there was only one cause (growth unsupported by resources and market demand) that was more frequently mentioned by the successful group. This finding leads to the rather obvious inference that if the causes of sickness are fewer, the chances of recovery are greater.

This is perfectly in line with what happens in case of physical illnesses. A person with many health problems may develop unanticipated negative reactions when treated for a specific ailment. Hence for such a person it is very difficult to find a treatment that addresses all ailments. Similar is the case with organisations having problems in several functional areas, which implies that the turnaround of such organisations are much more difficult than the ones fewer problems. A practical implication of this is that managers should detect problems in their early stage, when the malady is affecting only limited number of functions. In this context, managers have to be sensitive to early warning signals and take proactive actions immediately.

- Another inference from the analysis of causes was that the high-scoring causes (above 1.5 out of 3) were all internal causes. This somewhat strange because in the original listing of causes of sickness, 15 out of 41 (about 36%) were external. The mentioning of a large number of external causes may be symptomatic of another well researched individual-level psychological construct - *Locus of Control*, as proposed by Rotter (1966) – operating at the organisational level. It may be inferred that the *Organisational Locus of Control* operates in such a way that many of their failures are attributed to external causes. Since none of them could get the average score required for treating them as a commonly observed cause of sickness, it may be legitimately inferred that the primary reason why organisations becomes sick is the inefficiency in their internal management. This was also seen in a few earlier studies done by one of the authors where he found an absence of any relationship between environmental conditions and strategy-making (Manimala 1992, 2005, and 2010). While the absence of correlations between environment and strategy is counter-intuitive it probably suggests that the primary reason why an individual or organisational actor behaves in a particular fashion is the nature of the

entity rather than the environmental influences. One could take a Darwinian perspective on this, and state that the nature of the acting entity provokes the actions which if compatible with the emerging environment gets selected, otherwise rejected. Hence, the role of the environment is selection or rejection rather than causation.

In the analysis of strategies preferred by successful and unsuccessful groups, it was observed that the former employed many more strategies than the latter. In fact, the only strategy that was significantly more frequently used by unsuccessful cases (“aggressive promotion of old products in new markets”) was apparently as dysfunctional one. The implication here is probably that organisational sicknesses can be cured only by a multi-pronged remedial action using several functional strategies. It may also be inferred that when several strategies are adopted they would be done in a sequence beginning with the basic actions of arresting sickness and building up the core strengths, which may provide support for the stage-theory of turnaround proposed by (Manimala 1991). It is specially to be noted that employee engagement emerged as one of the most significant differentiators between successful and unsuccessful cases, which was described as a continuous process of institutionalization in Manimala (1991) and was observed as an essential ingredient for stabilizing the impact of a turnaround success.



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