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**Title: *An Alternative Based View of High Velocity Corporate Turnaround***

**ABSTRACT**

*The paper attempts to move this branch of strategic management closer towards a general theory of corporate turnaround by advancing knowledge in a local context characterised by rapid and discontinuous change – the UK Computer Industry. With existing findings lacking explanatory power, an initial framework integrating concepts from the Resource Based View (RBV) of the firm was developed. This was then iteratively matched against the experiences of purpose-selected firms (4 successful and 4 unsuccessful) to produce an empirically grounded conceptual framework which could advance holistic understanding of how and why firms succeed in recovery attempts.*

*The study found that decline could be explained in resource based terms and that the resources used by firms to successfully turnaround are often intangible, under the firm's control at the advent of crisis and meet specific criteria for quality. Turnaround firms leverage their resources effectively to ensure successful and sustained recovery through concentration, accumulation, complementing, conservation and recovery activities.*

The field of corporate turnaround has received increasing attention over the last three decades by academics and the practising management community. This has coincided with a general slowing of the rate of global economic growth (Thurow, 1996) and an increase in technological development. Since Nikolai Kondratieff first reported the phenomenon of industrial cycles driven by innovation waves, it has been observed that successive waves appear to be shortening (Economist, 1999). When combined with the rapid and systematic reduction of costs of new technology, this has led to a significant increase in the rate of technological change.

These developments have precipitated new challenges for firms in traditional sectors as well as in high 'velocity environments' which are characterised by rapid and discontinuous changes in technology, demand and competition (Eisenhardt, 1989b). The latter set has been particularly hard hit by the recent devaluation of stock prices at the end of the 1990s and the severe reduction in economic confidence which followed. Despite this, research in the field of corporate turnaround has focused largely on mature, durable product industries while placing relatively scant attention on service industries or high velocity environments such as the biotechnology sector and the computer industry (Hoffman, 1989; Swann and Prevezer, 1996; Pandit, 2000).

The slow progress in understanding the turnaround phenomenon is not from lack of effort. Rather, it is the design of the research (Easterby-Smith, Thorpe and Lowe, 1991) that appears lacking (Chowdhury, 2002). Pandit (2000) argues that this manifests itself in poor definitions, inconsistency of applied measurements, a lack of using *a priori* constructs to guide turnaround studies and few examples of relating

findings to extant literature, in particular theories of the firm, *ex post*. These issues have serious implications for construct, internal and external validity (Yin, 1994); as a consequence, despite the importance of the phenomenon being established in a number of studies (Schendel, Patton and Riggs, 1976; Bibeault, 1982; Hambrick and Schecter, 1983; Slatter, 1984; O'Neill, 1986; Chowdhury and Lang, 1996), a generally accepted theory of corporate turnaround has not yet been developed.

This is unfortunate given the recent developments in theories of the firm such as the resource-based view (RBV), transaction cost economics and agency theory (Penrose, 1959; Grant, 1991; Mahoney and Pandian, 1992; Miller and Shamsie, 1996). In particular the RBV has emerged as a viable alternative to the industrial organisation (IO) perspective for the explanation of firm financial performance. In the RBV, firm performance is driven by heterogeneous resources which are optimally configured rather than by market power. In explaining these performance differences, researchers have tended to focus on resources which are valuable, rare, inimitable, non-substitutable, strategically relevant and occurs within a system which is organised to use it (Penrose, 1959; Conner, 1991; Miller and Shamsie, 1996).

Although several researchers have argued that the industry environment accounts for relatively small variations in the profitability of firms (Schmalensee, 1985; Rumelt, 1991; Baden-Fuller and Stopford, 1994), their findings suggest that industry effects are nonetheless significant, validating in part the IO approach which has buttressed the dominant logic in strategic management since the 1980s (Porter, 1980; Scherer and Ross, 1990; Conner, 1991; Foss, 1996). It is then disappointing that more emphasis has not been placed on establishing relationships between turnaround success and the industrial environments within which they occur (Slatter, 1994; Pant, 1991). Given the pace of innovation and the degree of technology proliferation, it is important to understand how firms in high velocity fields respond to turnaround situations.

Other aspects of inner and outer context also remain under-represented in turnaround research questions. Few studies have assessed the impact on the turnaround phenomenon of the macroeconomic environment (Bibeault, 1982; Slatter, 1984), the historical strategy of the firm (Slatter, 1984; Slatter and Lovett, 1999), the attitude of stakeholders (Slatter, 1984) or the causes and severity of decline (Slatter, 1984; 1992).

Using a chronological content-context-process logic for assessing the streams within which turnaround literature may fall (Pettigrew, 1987, 1990, 1992), we find that research in the field has largely focused on content issues which rely on accessible data rather than on more challenging context and ontological process issues which answer more difficult 'how' and 'why' questions.

'It seems that simple questions focusing on easily available and measurable data have been asked most often whilst more complex questions requiring difficult to obtain and messy data have been avoided. Thus, questions related to the content of turnaround strategies are reasonably frequent, whilst those relating to the context and process of turnaround are rare' (Pandit, 2000, pp.38-39).

A plethora of questions about the turnaround phenomenon therefore remain unanswered, and existing knowledge remains unacceptably distant from a holistic understanding of the phenomenon. In the absence of a general theory, more local theory is needed (Eisenhardt, 1989) if we are to develop cross-context understanding (Chandler, 1996) and come to an encompassing theory of turnaround (Balgobin and Pandit, 1998).

As part of a wider study which sought to develop a holistic framework of high-velocity turnaround, this paper reports on efforts to link the turnaround phenomenon to extant theory by embedding turnaround concepts within the RBV. Thus, the question this paper asks is ‘to what extent does the RBV help to explain successful turnaround in a high-velocity environment’?

The rest of this paper is organised in the following way. In the next section, we explore the RBV and marry some concepts with those of turnaround to develop an initial conceptual framework to explain decline, failure and turnaround. Following this, the methodology of the study is explained, including some definitions and *a priori* constructs developed from the literature on turnaround and the RBV. Third, the key findings are discussed. A final section concludes.

### ***The Resource Based View of the Firm***

Linking turnaround concepts to extant theory presents a viable opportunity to enhance the relevance of existing constructs as well as broaden the range of applicability of the RBV. Resources are assets or elementary entities which can serve as the foundation of strategies for sustained competitive advantage<sup>1</sup> (Daft, 1983; Wernerfelt, 1984; Barney, 1991; Miller and Shamsie, 1996; Pringle and Kroll, 1997; Moingeon, *et al*, 1998). In traditional strategy terms, resources are strengths which the organisation can leverage in pursuit of its goals (DeWit and Meyer, 1994). As such, the RBV treats with the firm as its primary unit of analysis rather than the industry as evolutionary and IO approaches do (Foss, *et al*, 2000).

Resources owned or controlled by the firm are the products of prior organisation activities or management decisions to bring together external resources in new activity configurations (Hofer and Schendel, 1978; Barney, 1991; Porter, 1991; Conner, 1991; Pringle and Kroll, 1997). Consequently, a firm’s unique temporal and geographic position helps to determine which resources are available for exploitation (Ruiz-Navarro, 1998; Minshall and Garnsey, 1999).

Within the RBV three broad resource classifications exist. At the broadest level, resources may be tangible (property-based) or intangible (knowledge-based) (Godfrey and Hill, 1995). Property-based resources have physical presence (e.g. contracts, patents, buildings). Knowledge-based resources are intangible in nature and do not lend themselves to precise measurement. A second classification views resources as discrete or systemic. Discrete resources have value within or outside of the firm.

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<sup>1</sup> Defined as the ability of a firm to implement an inimitable value-creating strategy not simultaneously being implemented by competitors or potential entrants (Barney, 1991).

Having value in their own right, they are best viewed as stand-alone resources. Systemic resources have value because of the context within which they operate.

A third, more detailed classification treats with resources as being physical, human or organisational (Barney, 1991). Using this classification, physical resources approximate tangible ones, while human and organisational resources are intangibles (Pringle and Kroll, 1997). The distinction between human and organisational resources is crucial, because it allows for a more exact positioning of the critical elements on which firm competitiveness and success may be based. Human resources include the experience, training, judgement capabilities and execution abilities of *individuals* within the firm. They are therefore person-specific. Organisational resources are firm-specific and can include reporting structure, environmental scanning routines, cultural strength and informal relationships between groups in the firm and its environment (Barney, 1991; Christensen, 2000). Human and organisational resources manipulate physical ones to create value (Teece *et al*, 1997; Galunic and Rodan, 1998).

Researchers have suggested that in environments characterised by rapid and discontinuous change, intangible resources which are rare, inimitable, non-substitutable, valuable, strategically relevant and occur within a system organised to leverage them are best positioned to support a thrust for sustainable competitive advantage (Itami, 1987; Mahoney and Pandian, 1992; Miller and Shamsie, 1996; Pringle and Kroll, 1997). Which resources account for an organisation's success is not always clear, and even where a competitor can identify a resource, it may be unable to recreate the causal chain which account for its creation (Grant, 1991).

**Table 1 - Key Resource Properties**

<b><i>Property of Resource</i></b>	<b><i>Definition</i></b>
Valuable	The market must place a premium on the resource and it must contribute to the company's efficiency or effectiveness, or neutralise threats in some way.
Rare	The number of firms seeking the resource exceeds the number that have it, thus hindering the adoption of similar strategies in such a way as to generate the dynamics of perfect competition.
Inimitable	Firms that do not have the resource cannot get it. Inimitability can derive from unique historical conditions, causal ambiguity and social complexity.
Non-Substitutable	There must not be another resource that could generate similar outcomes without it being rare as well.
Strategically relevant	The resource must relate to the firm's strategic architecture, and therefore bear some relation to the areas in which the organisation wishes to compete.
Organised System	The resource must occur within a system that is structured to take advantage of its properties.

Identifying the types of resources from which durable and successful strategies can emanate does not provide clarity on how those strategies might be occasioned. Hamel and Prahalad (1996) identify five ways in which resources are exploited in the pursuit of competitive success.

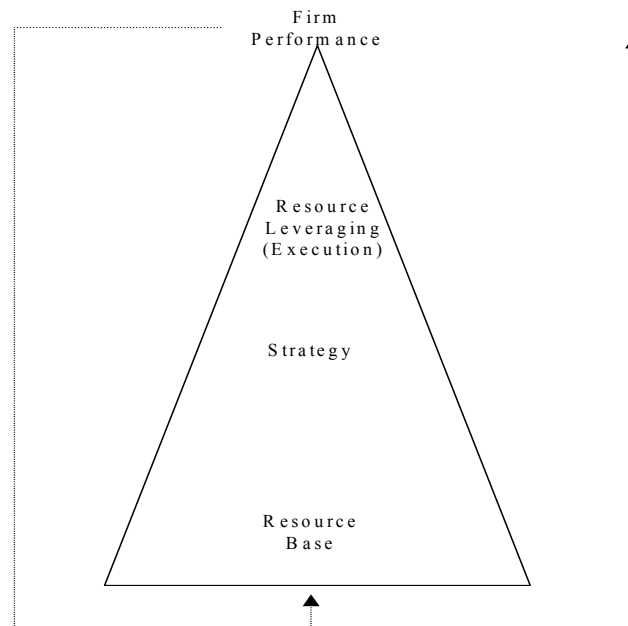
**Table 2 – Resource Leveraging**

(Source: Hamel and Prahalad, 1996)

<i><b>Leveraging Method</b></i>	<i><b>Detail</b></i>
Concentration	<ul style="list-style-type: none"> <li>• Resources <b>converged</b> on the same goals over a period of time.</li> <li>• Resources <b>focused</b> on a challenge at a single point in time.</li> <li>• Resources <b>targeted</b> at areas in which they are likely to have greatest impact.</li> </ul>
Accumulation	<ul style="list-style-type: none"> <li>• Resources <b>mined</b> through organisation features which allow it to learn from its experiences.</li> <li>• Resources are <b>borrowed</b> from beyond organisation borders to augment its latent set.</li> </ul>
Complementing	<ul style="list-style-type: none"> <li>• Functional integration skills <b>blend</b> different resource types together</li> <li>• Firms are able to manage their value chain through resource <b>balancing</b></li> </ul>
Conserving	<ul style="list-style-type: none"> <li>• Resources are <b>recycled</b> by maximising their application</li> <li>• Resources are <b>co-opted</b> by enrolling potential competitors as allies against a more threatening major competitor.</li> <li>• Using them to greatest effect, rather than wasting them on full frontal competitive assaults <b>protects</b> resources.</li> </ul>
Recovering	<ul style="list-style-type: none"> <li>• The faster resources are <b>recovered</b> in the form of new revenues, the greater the impact of the resource.</li> </ul>

In a firm enjoying sustained competitive advantage therefore, one would expect to observe a clear relationship between historical strategy, resources available to the firm and employed in the current strategy, and the performance of the firm. Business results then find a place in historical strategy and become the foundation again for the current resource stock (figure 1).

**Figure 1 – Relationship between resources, strategy, leveraging and performance**



At least two interesting observations can be made in assessing the RBV in relation to corporate turnaround. First, RBV researchers have used this emerging theory of the firm to explain competitive advantage as an alternative to IO or evolutionary theories. However, the theory has not been applied to explanations of poor firm performance and existence-threatening decline. Second, researchers in the RBV and corporate turnaround have largely ignored the potential value of the RBV to explain successful performance recovery. As such, both fields have had their explanatory power constrained by a lack of research effort which aims to position the turnaround phenomenon within an extant theoretical framework to strengthen explanatory power and improve generalisability.

### ***An initial framework for analysing corporate turnaround***

A rudimentary framework was developed by bringing together concepts from the literature on corporate turnaround and the RBV. Central to this was reframing decline perspectives in resource-based terms. Given that a firm's resources are products of prior organisation activities, later strategy options are enabled or constrained by prior organisation activities, even though these may no longer be appropriate (Mone, *et al*, 1998). The tendency of prior organisation activities to establish a channel of behaviour within which subsequent activity is likely to follow is termed *path dependencies* (Teece, *et al.*, 1992). Such dependencies can lead to the development of *core rigidities*, which can impede effective adaptation to new and difficult situations (Pascale, 1990; Sull, 1999). This is consistent with findings in the fields of

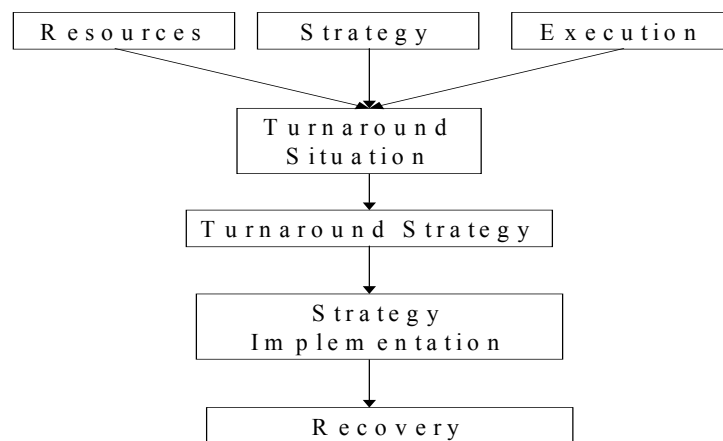
on innovation, organisation learning and lateral thinking, which suggest that the seeds of failure can often lie in success (De Bono, 1974; Senge, 1990; Christensen, 2000).

Thus, from an integrated perspective, poor performance can be explained by any one or a combination of three factors: (a) poor resources, that is, resources which do not meet the criteria for quality established in table 1; (b) poor strategy, which fails to make optimal use of available resources; and (c) poor execution of strategy, which inappropriately leverages available resources in the pursuit of organisation goals.

The means by which the firm will address its difficulties will be in part determined by the availability and type of key resources. It is to be expected that the turnaround plan will employ existing resources rather than new ones given the time required for key resource creation (Galunic and Rodan, 1998).

By integrating these ideas, it is possible to develop a simple analytical template. This is shown in figure 2.

**Figure 2 - Initial Framework**



Our assessment of the literature on RBV and corporate turnaround allows us to make explicit some of our expectations of the case study data. These expectations were not propositions to be tested; rather, they attempted to surface implicit expectations prior to data collection, thus reducing the risk of subsurface assumptions limiting the rigor of methodological application. This is consistent with the recommendations of Eisenhardt (1989) who argues:

‘A prior specification of constructs can also help to shape the initial design of theory building research. [...] most importantly, theory building research is begun as close as possible to the ideal of [...] no hypotheses to test. Admittedly, it is impossible to achieve this ideal of a clean theoretical slate. Nonetheless, attempting to this ideal is important because preordained [...] propositions may bias and limit further findings’ (p.536).

Three key expectations should be noted. First, it is expected that decline can be explained in terms of poor resources, poor strategy and poor execution or a combination of these factors. Poor resource refers to resources which are not endowed with the qualities identified in table 1. Poor strategy refers to a course of action which is sub-optimal given the resource base to which the firm has access. Poor execution refers to a situation where resources are not utilised effectively, thus reducing their positive impact.

Second, we would expect that successful turnarounds would involve the development and implementation of a turnaround plan which makes use of existing key resources, whether core or peripheral, rather than create new buttressing resources. Because the computer industry is largely knowledge-driven and operates at high velocity, we would also expect most key turnaround resources to be intangible rather than physical.

Third, we would expect that the turnaround firms would better leverage their resources for successful recovery. That is, there should be evidence of effective concentration, accumulation, conservation, complementing and recovery in successful cases and evidence of less effective leveraging in unsuccessful turnaround cases.

Having made some of our expectations of the data explicit, we assessed the evidence against the initial framework to develop an understanding of the extent to which the RBV helps to explain successful turnaround in a high-velocity environment. The methodology employed in this exercise is now described.

## **METHODOLOGY**

### ***Case Study Methodology***

The choice of research strategy in the social sciences is dependent on 3 conditions as identified by Yin (1994), as the type of research question posed, the extent of researcher influence over proceedings and the degree of focus on historical events. Given that the primary question for this project involved understanding how and why, in integrated terms, firms successfully turnaround, case study methodology was viewed as a valid means of gathering, ordering analysing and presenting data on the subject matter.

There are several advantages to using case studies in this type of research. First, case studies allow us to focus on a phenomenon while preserving temporally sensitive causal chains (Pettigrew, 1990; 1992; Tellis, 1997a). Case studies also allow us to consider the views of the players in the process rather than restrict us to historical artefacts alone (Tellis, 1997a; 1997b). The use of case studies is ideal for making analytic generalizations as opposed to statistical ones (Yin, 1994). That is, case studies are excellent for theory building, where measurability and empirical validity strengthen its ability to produce novel theory (Eisenhardt, 1989). Thus the argument for the use of case studies to develop a holistic understanding of the turnaround phenomenon is supported.



The project employed a multiple holistic case design. This improves the ability of the researcher to consider multiple critical cases and so build a better framework (Yin, 1994). This is consistent with replication logic, which strengthens findings by comparing them with similar cases (literal replication) or dissimilar ones (theoretical replication). Using this logic, firms are not selected for their representativeness of a particular population. Rather polar types are chosen to gain a clearer conceptual view of the event (Pettigrew, 1987; Dyer and Wilkins, 1991; Stoecker, 1991). This approach, using conceptually driven, purposive case selection has been adopted recently in the fields of turnaround and strategic management to strengthen research designs (e.g. Collins and Porras, 1994; Baden-Fuller and Stopford, 1996; Sull, 1999).

### ***Study Definitions and Case Selection***

The turnaround field has been plagued by definitional inexactitudes, which have hindered effective comparisons across studies, thus lowering external validity of findings (Balgobin and Pandit, 1998). Turnaround consists largely of two cycles which are temporally interconnected – a downturn cycle and an upturn cycle. And definition of turnaround should encompass the reality of both and provide appropriate performance measures. In this regard, researchers have adopted significantly varied approaches to the definition and measurement of turnaround.

Some researchers have used pre-tax profits as the sole turnaround measure (Bibeault, 1998; O'Neill, 1986). Others have protected better for inflation and exchange effects by using ROI, ROA and ROCE ratios to assess profitability. While there is merit in using these measures, these ratios can be manipulated (Griffiths, 1992) and the formulae used in their calculation can vary (Whiting, 1986).

More recent studies have used multiple methods of measuring decline and recovery performance. Generally, studies have used multiple quantitative measurements of financial performance (Robbins and Pearce, 1992; Barker and Mone, 1994). A more balanced perspective triangulating qualitative and quantitative indicators is appropriate (Pandit, 2000). Consistent with this recommendation, the study modified the approaches of Pandit (1998) and Pearce and Robbins (1993) to select cases for inclusion which met 6 criteria.

1. Study firms must experience an absolute and simultaneous downturn in profit as indicated by the ROCE, ROA<sup>2</sup> and pre-tax margin for a period of not less than two years, followed by an upturn in profitability as measured by these indicators for at least 3 years, with at least 2 years allowed between downturn and upturn, and stagnation and continued decline in unsuccessful cases.
2. All profitability measures are negative for at least one year in the downturn period and exceed the return on long-term bonds in the upturn phase.

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<sup>2</sup> ROCE defined as profit before tax divided by capital employed. ROA calculated by pre-tax profit divided by total assets. Both formulae derived from OneSource and ICC. ROCE and ROA provide equity and entity based perspectives, allowing the firm to be compared to others within the same temporal period and to itself across periods (Whiting, 1986).

3. The firm generated more than 50% of its sales from business in UK SIC 30020 (computers and information processing equipment) prior to decline.
4. Senior management at the firm acknowledged the need for turnaround, that one was attempted, and that it was successful or unsuccessful.
5. The firm agreed to grant research access.
6. There was sufficient public interest in the company to ensure the availability of sufficient secondary data to generate critical incident charts and a detailed timeline.

Small firms, as defined by Minshall (1997) were not included in the study as the avenues available to them for turnaround are largely confined to efficiency actions as opposed to strategic ones (Chowdhury and Lang, 1996; DeDee and Vorhies, 1998; Michael and Robbins, 1998). Small firms also have less data available in the public domain, and command less public interest than large firms.

Consistent with the recommendation of Christensen (2000), certain environmental factors, such as the legal and political framework, currency type, state of public institutions, quality of the national business environment and domestic market structure were held constant by selecting the UK computer industry as opposed to the European or global computer industry.

The *Lotus OneSource* database contains financial information on more than 1.7 million large and medium sized companies drawn from more than 2,500 sources. This database was interrogated using the financial and SIC requirements for inclusion in the study. Returned cases were then reviewed for public interest by scanning the bibliographic database *ABI/Inform*, *Reuters Business Briefing* and the *Economist Web Archive*. Once the availability of public information was deemed sufficient to develop a case outline for secondary sources, discussions were held with research colleagues, academics and members of the media to assess the general level of interest a case on the company would generate. From the firms which emerged, senior management was contacted for access. This list was further refined and reduced as the research progressed and critical cases using replication logic were sought. All 8 cases met the 6 criteria for inclusion listed above.

### ***Sources and collection of data***

Yin (1994) identifies 6 sources of data, of which 5 were used for the purpose of data triangulation. These were archival records, interviews, documents, observation and physical artefacts. These fit into 4 broad data categories – primary and secondary, internal and external. Such data triangulation has precedent in the strategy field (Collins and Porras, 1994) as well as in the study of the RBV (Miller and Shamsie, 1996). This improves reliability and construct validity.

Data collection occurred in 2 overlapping stages. First, a data collection protocol was developed and a case study database was established. A research diary was also implemented to track researcher thoughts as well as to improve reliability. Secondary data was then collected from internal and external sources such as bibliographic databases, market research studies, web pages, analyst reports and financial statements. This was used to develop an outline of each case.

The second stage emphasised primary data sources. Initial unstructured interviews were conducted on-site, where the case outline was presented as a starting point for discussion. The emerging picture of the case was then used to develop a second set of semi-structured interviews to ensure that gaps in data collection were filled. These interviews were conducted in person, by email and over the telephone.

This approach allowed for iterative case development. Contradictory or disconfirming evidence was explored, and thus added to the richness and detail of each case. Qualitative and quantitative data was tracked through data accounting sheets and accounting checklists, consistent with the recommendations of Miles and Huberman (1996).

Data was ordered using the *Atlas/ti* qualitative data analysis software package. This allowed for the deconstruction, conceptual ordering and analytic reconstruction of cases while preserving ontological integrity (Bourgeois and Eisenhardt, 1989; Pettigrew, 1990; Yin, 1994). Cases were built by first developing critical incident charts to support analytical chronologies which were used as units of analysis in the project.

### *Analysis*

Analysis was performed on two broad levels. First, within case analysis was undertaken by deconstructing raw data through textual analysis – open, axial and selective coding - within *Atlas/ti*. Because several *a priori* constructs were drawn from the field to generate an opening conceptual framework, emphasis was placed on open and selective coding.

Case reconstruction involved a detailed write up of each case using a turnaround process perspective to ensure temporal integrity and protect the validity of the cross case analysis which represented the second phase of the analysis.

Cross-case analysis attempted to identify patterns across cases by looking at the data in divergent ways. Cases were examined across dimensions such as size, ownership, financial position and strategic objective of parent companies, where applicable. This literal and theoretical replication thus allowed for the emergence of a new , empirically grounded conceptual framework which established a relationship between corporate turnaround and the RBV, thus improving external validity.

Following the recommendations of Drucker (1999), findings were subjected to academic review through the submission of papers to journals and conference presentations.

### **Key Findings**

According to the initial model, decline may be caused by poor resources, poor strategy or poor implementation of strategy, or a combination of any two of these. The pattern of decline observed in all cases matched expectations, in that all 8 cases demonstrated a combination of factors playing a role in their decline.

**Table 3 – Decline Patterns**

<i>Theoretical Pattern</i>	<i>Case Patterns</i>			
	Case 1	Case 2	Case 3	Case 4
<b>POOR RESOURCES</b>				
• Not strategically relevant	√	?	?	√
• Less valuable	√	√	√√	√
• Less rare	√√	√√	√√	√√
• Substitutable	√√	√√	√√	√√
• Not within an organised system	√	√	√√	?
• Imitable	√	?	√	√
<b>POOR STRATEGY</b>				
• Diversification/International expansion	?	√√	√√	√
• Ill-advised projects	√√	√	√√	√
<b>POOR EXECUTION /LEVERAGE</b>				
• Poor resource concentration	√	√	√√	√
• Poor resource accumulation	√	?	√	√
• Poor resource complementing	√	√	√√	√√
• Poor resource conservation	√√	?	√	√√
• Poor resource recovery	√	√√	?	?
	√√ - Strong evidence	√ - Some evidence	?	Little evidence

All the firms in the study experienced multiple causes of decline, and case descriptions suggest that several of these causes were related. There is little to distinguish turnaround firms from non-turnaround firms in their causes of decline. That is, an examination of causes of decline alone might be insufficient to determine whether the firm is likely to successfully recover.

However, firms were distinguished by the period of time during which they underperformed prior to failure. Failed firms appeared to experience more protracted declines, which were initiated by a trigger cause at an identifiable temporal point. For

successful turnarounds, this trigger occurred when all other causes of decline were in place.

The relationship between successful recovery, the positioning of the trigger and the length of the decline period might be explained in terms of inertia. Because other causes of decline were discernible prior to the experience of losses, the successful turnaround firms may have had more time to generate - consciously or unconsciously - the energy required to overcome inertial path dependencies and initiate change. Thus, by the time the trigger problem manifested, the companies may already have been awakening to the need for change. By contrast, the unsuccessful firms were not expecting the trigger when it occurred. Once they were assured of survival after the initial shock they may not have been able to marshal the further strength necessary to complete a turnaround. This is consistent with the argument that drastic deterioration in performance is more likely to evoke a turnaround response than consistent underperformance.

**Triggers for change**

Three dimensions of change triggers were initially identified as being of potential interest to firms facing turnaround situations - severity of decline, the source of turnaround intervention and whether a new CEO initiated the changes deemed necessary to recover (Table 4).

**Table 4 - Triggers for change**

<i>Theoretical Pattern</i>	<i>Case Patterns</i>			
	S1	S1	F1	F2
Existence threatened	Yes	Yes	Yes	Yes
External intervention (source)	Yes (Parent)	No (Management)	Yes (Parent)	No (Management)
New top management	Yes	No	Yes	Yes

Results of the analysis of characteristics of triggers for change were mixed. As intended in the study design, all cases supported the view that a threat to existence is essential for the initiation of a turnaround attempt. The sources of intervention were more ambiguous as the groups do not appear to be clearly distinguished by the origin of the change trigger. Likewise, the need for new top management to initiate a successful turnaround was not conclusively demonstrated. This finding counters the established view that a change in top management is a prerequisite for the initiation of a turnaround and supports the views of Grove (1997) and Sull (1999) that the *mindset* of the executive management may be more important in determining when a turnaround attempt starts.

**Turnaround plans**

The turnaround plans employed had several interesting dimensions which distinguished the successful from the unsuccessful firms (Table 5). As predicted by the initial model, successful turnaround plans were the products of an analysis-led comprehension of the dynamics impacting the business (i.e. the causes of decline, the strengths of the firm and the needs of the marketplace). The outcome of this was a

clear indication of the opportunities which could be pursued as well as an understanding of what was required to capitalise on them. By contrast there was little evidence of such planning preceding the launch of a turnaround initiative in failed firms. Thus one company's managers did not know what was expected of them while another's management found it easy to endorse ideas which did not have a clear foundation in research.

**Table 5 - Turnaround plan characteristics**

<i>Theoretical Pattern</i>	<i>Case Patterns</i>		F1	F2
	S1	S2		
Diagnostic review conducted	√	√	X	X
Objective of profitability set	√	√	X	X
Single turnaround plan developed	√	√	X	X
Plans communicated to stakeholders	√	√	X	X
Turnaround plan developed and implemented by a turnaround team	√	√	X	X
Plans involve multiple actions	√	√	√	√
Addresses causes of decline	√	√	X	X
√ - Yes      X - No				

A second interesting dimension of turnaround planning at the successful and unsuccessful firms concerns the explicitly stated objective of profitability. In successful cases, the knowledge drawn from the analysis was formalised and communicated as a coherent turnaround plan which envisioned a desirable, sustainable market position and a profitable end-point. In contrast, one failed case did not clearly express the need for profitability in its turnaround plans at all while another only added a mandate for profitability to its efforts 9 years after its initial decline. This finding contradicts the hierarchical<sup>3</sup> arguments of some researchers (e.g. Hofer, 1980; Robbins and Pearce, 1992) that the firm attempting to recover focuses on survival and only considers growth issues when existence is assured. It also moves the discussion beyond the traditional medical analogy used in corporate turnaround – that the turnaround manager undertakes emergency room surgery and focuses on the survival of the patient (e.g. Slatter and Lovett, 1999). The planning of the turnarounds in the study clearly demonstrated that the successful firms did not postpone thinking about ‘longer-term’ issues until survival was certain.

Another distinguishing feature in turnaround plan development is that the successful firms were more likely to develop and articulate a single turnaround plan. The unsuccessful cases took two different, and equally unsuccessful, routes to planning for recovery, with one having no formal plan at all until it was too late and the other having several. Both successful turnaround firms also appeared to communicate their turnaround plans better than the unsuccessful ones. This may have served to increase

<sup>3</sup> This logic can be related to Maslow's hierarchy of needs, a criticism of which is that one need becomes imperative only when another is satisfied.

stakeholder support in successful turnaround cases, while stakeholders in unsuccessful firms may have been either more risk averse or less tolerant of the uncertainty generated by the absence of information.

Finally, the study cases demonstrated the importance of consultation in the development of turnaround plans. Both successful turnaround plans were the product of team development although a dominant individual played a key role in raising the profile of the recovery effort. In the unsuccessful cases, turnaround plans appeared to be more individually driven and were not the product of inputs by multidisciplinary teams. In fact, the unsuccessful cases did not have formal turnaround teams at all. This supports suggestions in the literature that collaboration may assist in reducing inertia, igniting change and gaining control.

***Resource base for turnaround strategy***

According to the initial framework, a successful turnaround strategy would be based on existing resources (or recombinations of these), which meet the criteria for quality identified in Table 2. The findings of the study are shown in Table 6.

**Table 6 – Resources and turnaround plans**

<i>Theoretical Patterns</i>	<i>Case Patterns</i>			
	S1	S2	F1	F2
Turnaround plans based on existing resources	√	√	√	√
Resources meet criteria for quality set in Figure 3.2	√	√	X	X
Emphasis on intangible resources rather than the development of physical infrastructure	√	√	√	√
√ - Yes      X - No				

In all cases, the turnaround plans developed were based largely on existing resources, although at least 2 of the firms attempted to co-opt resources from other firms which were tangential to their own and which allowed the exploration of new product or service domains. In the other 2 cases there was an attempt to invest out of difficulty through new product development and product-market reorientation using existing skills to serve new markets. Therefore, although not all of the turnaround plans devised were the products of analysis, it appeared that all the firms in the study were implicitly aware of the resources at their disposal.

Whether these resources met the criteria for quality highlighted in Table 2 proved to be a distinct feature of both groups (Table 7). In successful turnarounds, recovery strategies were based on resources that were valued by the marketplace, rare, inimitable, non-substitutable, occurred within a system configured to use them and were strategically relevant to the recovery plan. For example, one company leveraged its existing knowledge in systems design and deployment to provide a solutions-led service to its customers, many of whom still preferred to deal with a large and reputable firm. It was also able to leverage the knowledge of its staff and its international knowledge network to enter new and more profitable areas of the computer market. And it was able to draw from a talented and experienced pool of

resources for leadership in its time of crisis. Another successful turnaround leveraged its R&D and brand strength as creator of the personal digital assistant to develop and introduce new and very successful products in existing and new markets. The company also drew on its leadership resources to provide guidance and resolve as the turnaround effort progressed.

By contrast, in the unsuccessful cases, turnaround strategies were based on resources which lacked some of the qualities identified as necessary to serve as the foundations of sustainable competitive advantage. For example, one failed firm's design capability was widely respected and was a key factor in the purchase decision of an acquiring multinational. However, despite its intrinsic value, this capability was increasingly common as a result of open standards which emphasised knowledge transfer over proprietary designs. The fact that design abilities occurred within an organised system or were of strategic relevance could not compensate for their lack of exclusivity. Another had a different problem, in that it possessed technology which was rare and inimitable, but was substitutable and not valued by the market.

**Table 7 – Quality of key resources for turnaround plans**

<i>Turnaround strategy resources</i>	<i>Quality criteria</i>					
	Valuable	Rare	Inimitable	Non-substitutable	Within organised system	Strategically relevant
<b>Successful firms</b>						
Stable turnaround team	√	√	√	√	√	√
Systems integration knowledge	√	√	√	√	√	√
Knowledge of microelectronics, and low power software	√	√	√	√	√	√
Ownership of key architecture, software and proprietary rights	√	√	√	√	√	√
Reputation as leaders in their respective fields	√	√	√	√	√	√
<b>Unsuccessful firms</b>						
PC design knowledge	√	X	X	X	√	√
Proprietary architecture	X	√	√	X	√	√
√ - yes      X - no						

Findings from several prior studies suggest that successful firms rely more on intangible resources than on physical ones (e.g. Miller and Shamsie, 1996; Pringle and Kroll, 1997; Moingeon et al, 1998 and Ruiz-Navarro, 1998). The importance of intangible resources was demonstrated in the study, and all cases emphasised their use in attempting to turnaround. Both successful firms reduced their physical resources in several areas such as branches and distribution points, although this did not mean the



exclusion of physical resources in the development of recovery strategies. However, the firms did demonstrate a tendency to build on or leverage existing intangible resources rather than physical infrastructure. This supports the expectations of the initial framework with regards to the nature of resources on which turnaround strategies are based. It is important to note however, that both successful and unsuccessful groups relied on intangible resources. Thus the use of these resources alone is insufficient to ensure recovery.

**Resources and turnaround**

Two resource dimensions were addressed –reduction and leveraging.

**Resource reduction and reconfiguration**

Successful firms reduced their resource base in some areas where it was felt that activities were no longer ‘core’. Thus one successful company outsourced several functions and along with S2 reduced headcount, particularly in administrative areas. By contrast the failed firms in the study were more likely to reduce or sell off their most valuable resources which might have supported efforts at turnaround – one sold its software and services arm, while another sold its chip design capabilities.

Both successful firms also changed the alignment of their resources to suit their needs. These changes were augmented by ‘borrowed’ resources accessed through development agreements, joint ventures and outright acquisitions. The successful cases in the study developed strategies based on existing business models, while failed firms did not appear to be supported by similar logic (Table 8).

**Table 8 – Business models of study firms**

<i>Business Model</i>	<i>S1</i>	<i>S2</i>	<i>F1</i>	<i>F2</i>
<b>Pre-crisis</b>				
Business to business	√	√	√	√
Business to consumer	X	X	X	X
<b>Post-crisis</b>				
Business to business	√	√	?	?
Business to consumer	X	X	√	√
√ - emphasis ? – some emphasis X – no emphasis				

Thus execution within a new business model did not appear to assist firms in dealing with a turnaround situation. One possible explanation for this is that the failed firms did not successfully manage their transition to the new model in time or effectively enough to prevent collapse, while the turnarounds did not have to refocus on radical changes to their approach to market.

**Resource leveraging**

The manner in which existing resources were leveraged – that is, the quality of the implementation of strategy - also distinguished turnaround firms from unsuccessful ones. The leveraging of resources is examined across the dimensions identified in Table 2 – concentration, accumulation, complementing, conservation and recovery.

### **Concentration**

There were 3 aspects to concentration – converging, focusing and targeting (Table 9).

**Table 9 – Resource concentration**

<i>Concentration dimensions</i>	<i>S1</i>	<i>S2</i>	<i>F1</i>	<i>F2</i>
Convergence – turnaround plan consistency over time	√	√	X	X
Focusing – emphasises a few key areas at a time	√	√	X	X
Targeting – dealing with areas with biggest impact on performance.	√	√	X	X

Unlike failed cases, both successful turnarounds managed to concentrate their resources first by developing a single and coherent turnaround plan. This ensured resource convergence and minimised extraneous and unnecessary effort, thus simplifying the management agenda. Second, the successful firms focused on areas where the greatest impact could be made. This was reflected in the changing emphases of the turnaround phases. In the unsuccessful firms, such focus was not evident in that several actions were taken with few addressing causes of decline or transforming the firm to face new competitive imperatives.

Finally, resources at turnarounds were targeted at particular areas that held the potential for dramatic and sustainable performance improvement. This was in contrast to one failed case, which persevered with its losing PC strategy and another, which spread its resources across a wide range of opportunities. Neither failing firm successfully addressed the causes of their decline while their successful study counterparts systematically resolved the issues that caused their turnaround situations and had the biggest impact on performance. Successful firms made their efforts count, while unsuccessful ones did not.

### **Accumulation**

The initial framework identified two dimensions of accumulation – mining and borrowing (Table 10).

**Table 10 – Resource accumulation**

<i>Accumulation dimensions</i>	<i>S1</i>	<i>S2</i>	<i>F1</i>	<i>F2</i>
Mining – feedback mechanisms in place and capacity for learning explicitly developed	√	√	X	X
Borrowing – Effectiveness of alliances, partnerships etc. to access unavailable resources	√	√	X	X

Both turnaround firms attempted to learn from their experiences and develop an understanding of the resources which they lacked or needed to improve upon in order to improve their performance. They implemented feedback initiatives, trained their employees in the art of problem solving and emphasised teamwork. Both developed review mechanisms which allowed them to channel feedback to the top of the organisation, and both used highly visible leaders who were active in the field with customers and users and so were in a position to learn first-hand about new developments and criticisms. There was no evidence of feedback initiatives at unsuccessful cases, nor were teamwork and problem solving emphasised. Finally,

neither firm used a high-profile CEO with whom stakeholders could relate. Thus the turnaround firms appeared capable of mining more out of an experience than the failed cases.

The findings on borrowing were also interesting. There was a mixed result to the study question of whether turnaround plans were executed through borrowing, as all the cases demonstrated clear examples of the activity. However, the *effectiveness* of borrowing activities for market benefit distinguished turnaround firms from failed study cases. One failed firm was unable to use its relationship with its new parent to advantage, and the other had difficulty both with Olivetti and Apple in developing a viable product. By contrast one firm’s work through its registered developers scheme, retail channel and subcontractors, and another successful company’s marketing relationships with other firms enhanced their abilities to serve their markets and develop new ones.

***Complementing and Conserving***

According to the initial framework, complementing involves both blending and balancing of resources. Blending refers to the ability to interweave disparate skills to produce a successful product or service. Turnaround firms managed to blend technical and functional skills via cross-functional turnaround teams and mixed development teams to provide, for example, integrated services and the Series 3. In contrast, both failed cases continued to function in operational chimneys and neither managed to produce a successful product which could support their turnaround efforts.

Balancing refers to the ability to ‘weight’ resources along the value chain – to design, build and deliver products and services (Table 11).

**Table 11 – Resource balancing**

<b><i>Balancing dimensions</i></b>	<b><i>S1</i></b>	<b><i>S2</i></b>	<b><i>F1</i></b>	<b><i>F2</i></b>
Strong design and development capability	√	√	√	√
Capacity to produce/deliver products/services	√	√	√	√
Marketing, distribution and service infrastructure	√	√	X	X

Both successful turnarounds demonstrated the balanced abilities to invent, build and deliver. This was in marked contrast to one failed case, which generated new designs faster than they could sell them, and another, which had a number of good long-term product prospects but no immediate market demand in the interim. Thus while all the study firms had the ability to design new products and the capacity to build them, only the successful firms managed to balance these abilities with a marketing and distribution infrastructure which allowed their products an avenue to market.

The successful turnaround firms were also better at using their resources parsimoniously and to greater effect (Table 12).

**Table 12 – Resource conserving**

<i>Conserving dimensions</i>	<i>S1</i>	<i>S2</i>	<i>F1</i>	<i>F2</i>
Working with other firms in pursuit of a common objective	√	√	?	?
Internal agreement on key turnaround priorities	√	√	?	X
Targeting accessible market segments	√	√	X	X
√ - evidence of ? – uncertain X – no evidence of				

In attempting to recover, S1 concentrated its service offerings under the ‘Know-How’ banner, and S2 focused on the new product and its software architecture (which provided the software that is the foundation for a successful technology consortium). While all the firms depended on external linkages for supply, market access or distribution, in failed cases it was not clear that the firms and their partners were working with a common objective in mind.

In the implementation of strategy, the turnaround firms also appeared to have clear internal agreement on priorities as a consequence of effective turnaround plan development and communication (already seen to be greater in successful firms). There was less evidence of internal cohesion in the non-turnaround cases. One aspect of strategy leveraging which appeared to be decisive however was the decision by turnaround cases to pursue product market segments which appeared to be less defended than those selected by failed study counterparts. This supports the earlier conclusion that analysis is key to informing the turnaround plan, as unsuccessful firms persevered with poor PC strategies or aimed for market segments which could not support their involvement rather than target sectors which were lucrative but not comprehensively addressed. As a result of this the firms expended resources fighting larger competitors or trying to create a market segment which had not yet materialised.

***Recovering resources***

Related to resource conserving is the ability of the firm to reduce the time to payback from new initiatives (Table 13).

**Table 13 – Resource recovery examples from study cases**

<i>Firm</i>	<i>Initiative</i>	<i>Decision date</i>	<i>Profit impact</i>
<b>S1</b>	Address services market through creation of knowledge base	1991	1991
<b>S2</b>	Use of new software architecture to create Series 3	1990	1991
<b>F1</b>	New file server	1990	1993
<b>F2</b>	Media investment	1996	-

As demonstrated in the table above, key initiatives made a difference to the profitability of the unsuccessful companies much later than they did at successful

firms, and proved either to contribute too little or nothing at all to the recoveries they were intended to expedite. The successful cases were better at identifying lucrative market segments and developing product or service offerings to profitably address them.

### ***Summary of key issues***

The expectations of the initial framework for resource leveraging were largely supported. The successful cases concentrated their resources in a single and consistent turnaround plan, emphasised a few improvement areas at a time and focused on areas which had a big impact on performance. They also had mechanisms for feedback in place which were spearheaded by high-profile CEOs, allowing the firms to increase learning through environmental interaction. This was augmented by resource borrowing through alliances and partnerships, for example, where other skills, abilities or assets not owned by the firm were accessed. In unsuccessful cases there was less evidence of resource concentration, and accumulation efforts through mining and borrowing were less effective.

The successful firms were also able to blend and balance resources in order to bring products and services to market. With unsuccessful cases there was an imbalance of skills, which led effectively to the negation of capabilities resident elsewhere in the organisation. Resource conservation through parsimonious use, internal agreement on turnaround priorities and the targeting of accessible segments also distinguished successful cases from failed ones. Finally, the turnaround firms also demonstrated an ability to implement profit-generating ideas which had a faster impact on performance. These findings are of interest as they demonstrate that leveraging is important not only for long-term development but also in turnaround situations.

### ***Conclusion***

There remains a great deal of work to be done, but clearly there is scope to augment what is already known about corporate turnaround by positioning the field within a broader stream of extant literature.

The RBV has been used in this study to assist in developing a theoretical framework which could help to explain historical success, decline, turnaround plan development and the implementation of turnaround strategy.

This emerging model may serve as the foundation for an integrated framework to bring about greater cohesion in the field of turnaround study, and the cases employed assisted in this regard by providing empirical grounding from preliminary conclusions. It is expected that other research may clarify and refine this new, integrated turnaround model.

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