

**Turnaround Plans in Germany:
Recommendations for Development and Implementation**

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Abstract

In the currently weakening global economy, many firms find themselves in a decline situation that necessitates a turnaround. In Germany, the instrument of formalized turnaround plans has gained, due to the legal context, noteworthy prevalence recently. Formalized turnaround plans are prepared by independent experts and communicate to the company's stakeholders why and how the company's turnaround attempt is likely to be successful. However, the problem of such plans lies often in its practical construction which turns out to be too complex or too theoretical; accompanied by the practising managers' limited ability to implement the plan and/or cultural barriers in the organisation. This study analysed and evaluated the content, context, and process of turnarounds that lead to the achievement of sustainable competitiveness and profitability after experiencing decline; and, in particular, assessed the effectiveness of formalised turnaround plans in that process based upon the experience of German companies. Twenty in-depth qualitative interviews were conducted with turnaround stakeholders (creditors, owners, lawyers, and managers) and systematically analysed. It was found that successful firms employ recovery, retrenchment, financial, and human resource-oriented turnaround actions; whereby retrenchment actions are most often first initiated in the process. The replacement of the firm's incumbent management as well as the transparent and effective communication with the company's banks were found to be accompanying factors of successful turnarounds. In this process, formalized turnaround plans were found to be helpful by establishing transparency and trust towards the firm's stakeholders, providing guidance for the managers, initiating a cultural change in the company, and providing an independent perspective of the feasibility of the intended turnaround. In order to be effective, turnaround plans must be written in a succinct and concise way, inhere a level of complexity appropriate to the firm's size, provide analytical depth, and include all requirements set out by German courts.

Author's Declaration

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Any views expressed in the thesis are those of the author and in no way represent those of the University.

Signed Date

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Abbreviations

Art.	Article
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Agency for Financial Services Supervision)
BGB	Bürgerliches Gesetzbuch (German Civil Law Act)
BGH	Bundesgerichtshof (German Federal Supreme Court)
BOD	Board of Directors
CEO	Chief Executive Officer
CRO	Chief Restructuring Officer
CVA	Company Voluntary Arrangement in the UK
EBIT	Earnings before Interests and Taxes
e.g.	exempli gratia (for example)
et al.	et alii (and others)
etc.	et cetera (and other similar things)
EU	European Union
GDPR	General Data Protection Regulation
GmbHG	GmbH-Gesetz (German Companies Act)

HR	Human Resources
i.e.	id est (that is)
InsO	Insolvenzordnung (German Insolvency Act)
KWG	Kreditwesengesetz (German Banking Act)
MaRisk	Mindestanforderungen an das Risikomanagement (Requirements for German banks with regard to risk management)
OLG	Oberlandesgericht (Higher Regional Courts in Germany)
R&D	Research and development
RBV	Resource-based view
RO	Research objective
ROA	Return on assets
ROE	Return on equity
ROI	Return on investment
RQ	Research question
SGA expenses	Selling, general, and administrative expenses
SME	Small and medium sized enterprises
StGB	Strafgesetzbuch (German Criminal Act)
TMT	Top Management Team
vs.	versus

1. Introduction

This chapter introduces organizational decline and turnaround settings and the specific context in Germany in which the instrument of formalized turnaround plans is being applied in such situations. This constitutes this study's conceptual context. Moreover, this study's research aim, objectives and questions are introduced and an overview of the conducted research process is being provided.

1.1. Organizational Decline and Turnaround

Research focused on successful organizations and the quest to identify success factors has received far more attention than research on organizational decline and turnaround which seems to be underrepresented in contemporary management literature (Barbero et al., 2017; Mann & Byun, 2017; Schmitt et al., 2019). An organizational decline occurs when a firm's performance deteriorates over a sustained period of time (Schmitt et al., 2019) and the actual performance level is low enough that the survival of the firm would be threatened without performance improvement (Collett et al., 2014). Causes of organizational decline can originate from external factors, such as gradual changes in the competitive landscape or environmental jolts; defined as difficult-to-foresee external events that result in potentially detrimental disruption of the organization (Ndofor et al., 2013; Wan & Yiu, 2009); as well as internal factors, such as operational deficiencies and ineffective resource management (Schoenberg et al., 2013). The existence of an organization is threatened when the declining performance leads to liquidity problems. That is, the organization is not capable to further fulfil their payment obligations (e.g. bank or supplier liabilities) imposing the threat of insolvency (Lukason & Laitinen, 2018).

A successful turnaround, in its most subdued form, may involve mere survival with economic performance only just acceptable to the firm's various stakeholders¹ (Schmuck, 2013). On the other hand, in its most positive form, the recovery may lead to the firm achieving sustainable, superior competitive positions in its chosen areas of activity (Pandit, 2000).

¹ Organizational stakeholders can be defined as parties that have an interest in the company (Schmuck, 2013). They can be classified in internal stakeholders (employees, managers, owners/investors) and external stakeholders (customers, suppliers, creditors/financiers, consultants, government, media/community; Bruton, 2003; Pajunen, 2006; Schmuck, 2013; Trahms et al., 2013). The characteristics and demands of stakeholders in turnaround situations will be discussed in section 2.2.6.

In light of the continued weakness in the global economy, the persistent threat of organizational decline – along with the turnaround process it necessitates – is likely to remain a highly relevant concern for managers worldwide. The difficulties that managers of declining firms face are two-fold: firstly, they must improve performance in a situation of scarce and dwindling organizational resources (Schmitt et al., 2019). Next, they act in a context of increasing stakeholder conflict as different constituents jostle to protect their interests (Pajunen, 2006). Despite the imperative for decisive action to turn around performance, managers of declining firms have to make decisions under greater supervision by owners and increased restrictions by creditors (Courtemanche et al., 2013).

1.2. Formalised Turnaround Plans in Germany

With this broader picture in mind, this research focuses on the specific situation in Germany, where the instrument of formalized turnaround plans has gained noteworthy prevalence in the field of turnaround management recently.

This prevalence of formalized turnaround plans is due to the financing situation of companies in Germany. Specifically, many German companies are financed by a large proportion of bank debt. The German Banking Act² contains requirements for the adequate risk management of banks. The legal requirements are concretised and enforced by the German Federal Agency for Financial Services Supervision (BaFin)³. Specifically, the BaFin requires that a bank, before supporting the turnaround process of a company in crisis, has to assess the turnaround ability of the company. The assessment and final decision has to be based on a turnaround plan that is prepared by an independent third party with expertise in this regard.⁴ When the turnaround plan is conclusive and the bank has verified the plan with diligence, the bank can financially support the company, for instances, by granting a loan to finance the turnaround process. Neglecting this requirement can entail liability claims against the bank director or supervisory enforcements for the bank (for example, penalty fees). Furthermore, such neglect may even entail criminal consequences for the bank director who makes the decision to grant the loan, specifically, by being accused of embezzlement.⁵ Furthermore, in a case of a later insolvency of the company, the bank can be accused of abetting the company's delay in filing for insolvency when granting the

² Kreditwesengesetz (KWG)

³ Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

⁴ Requirements for Risk Management (Mindestanforderungen an das Risikomanagement; MARisk)

⁵ § 266 German Criminal Act (Strafgesetzbuch; StGB) in connection with § 18 German Banking Act

loan.⁶ Moreover, in this regard, collaterals that were provided to the bank to secure the loan can be disputed by the company's liquidator to pay out the insolvency claims of other creditors.⁷ Given this legal circumstances, German banks, when involved in a turnaround case, require the preparation of such a formalized turnaround plan as a prerequisite for supporting the company during the process (for example, by maintaining credit lines, deferments, prolongation of existing loans, or granting new loans). With regard to the question how a formalized turnaround plan has to be designed, there have been several verdicts by German supreme courts of which an overview is provided in the following. The verdicts were searched for in a legal database⁸ and systematically analysed by the researcher.

The first verdict with regard to formalized turnaround plans in Germany appeared in 1992.⁹ The German Federal Supreme Court (BGH)¹⁰ rejected the claim of a liquidator against the banks of an insolvent company. Six months before the company's insolvency, the four banks had granted a loan to the company and received machines and other operating equipment as collaterals for securing the loan. The credit decision of the banks was based on a turnaround plan of the company's consultancy firm which showed positive prospects for the firm. However, six months later, the company filed for insolvency. The liquidator reclaimed the collaterals in order to sell the assets and pay out other insolvency creditors. The liquidator argued that the banks had known about the company's difficulties and, with receiving the collaterals, the company's other creditors had been damaged. The BGH rejected the liquidator's claim, arguing that there had been a conclusive turnaround plan that pointed out serious and reasonable prospects for the company on which the banks' credit decision was based. Therefore, the company and its banks had reasonable grounds to expect a successful turnaround attempt and could not be accused of deliberately intending to damage other creditors.

A similar situation was decided over by the BGH in 1997.¹¹ A bank had granted a loan to a company in crisis for which machines were given as collaterals to secure the loan. Two months later, the company filed for insolvency. The liquidator who had sold the machines

⁶ § 826 German Civil Law Act (Bürgerliches Gesetzbuch; BGB) in connection with §15a German Insolvency Act (Insolvenzordnung; InsO).

⁷ §133 German Insolvency Act (Insolvenzordnung; InsO)

⁸ Juris – Das Rechtsportal (legal database)

⁹ BGH, 12.11.1992 – IX ZR 236/91

¹⁰ Bundesgerichtshof (BGH)

¹¹ BGH, 04.12.1997 – IX ZR 47/97

was sued by the bank to pay out the proceedings from the sale. In this case, no turnaround plan had been prepared to back up the bank's credit decision. The BGH decided in favour of the liquidator, arguing that there had been no serious and reasonable grounds that the turnaround attempt was likely to be successful and, therefore, the collateralisation would be null and void. The BGH continued to argue that a serious and reasonable turnaround attempt has to be based on a conclusive turnaround plan, prepared by an unbiased third that has to be provided with the necessary accounting information by the company. Such a plan has to include an analysis of the company's competitive position in its industry, an analysis of the causes for the crisis, as well as an analysis of the company's financial position.

A criminal case in connection with a formalized turnaround plan was decided over by the BGH in 2001.¹² Four directors of a local bank were accused of embezzlement for omitting the required careful and diligent assessment of the client's economic situation before granting a loan (breach of duty). The directors had granted a client company with questionable credibility and creditworthiness several loans shortly before its insolvency. As a result of the eventual loan defaults, the bank itself entered in serious financial difficulties. A consultancy firm had been assigned to prepare a turnaround plan for the client, however, the consultants were instructed to focus on the company's future prospects and ignore the past as well as the circumstances that caused the crisis. The bank directors were satisfied with the plan; although there were serious indications of the client's incredibility in the past (e.g. undue accounting practices; securities that were given to multiple creditors). In this case, the BGH decided against the bank directors. The court pointed out that breach of duty in connection with granting loans could only be denied when the responsible directors had reasonable grounds to expect that the client's turnaround attempt would be successful and that the loans could be repaid. This would have been the case, if a conclusive turnaround plan had been prepared. However, in this case, the turnaround plan was – without a clear analysis of the past – inconclusive and unreliable.

In 2005, a German city sued a construction company which the city had assigned to renovate and expand several public buildings. After the construction company had entered into financial difficulties, the city, through a subsidiary, bought shares of the construction company and granted a loan to secure the ongoing building process. Nevertheless, the construction company had to eventually file for insolvency. The liquidator of the construction com-

¹² BGH, 15.11.2001 – 1 StR 185/01

pany refused to repay the loan. The liquidator argued that, in an insolvency, loans of shareholders are treated as equity (equity substitution regulations) and, therefore, are only to be repaid subordinately after all other creditors have been paid out. However, the city argued that it granted the loan with the intent to overcome the construction company's crisis and, therefore, according to §32a III GmbHG¹³, the regulations of equity substitution were not to be applied. The BGH decided against the city, arguing that the motivational intent to overcome the debtor's crisis would not be sufficient. Rather, besides the motivational intent of the creditor to support the debtor's turnaround attempt, the debtor's turnaround ability and the adequacy of the intended turnaround actions have to be confirmed by an objective third party. This confirmation has to be regularly documented in a formalized turnaround plan which had not been the case.

A similar case was decided over by the Higher Regional Court of Cologne in 2009. The liquidator of a subsidiary company disputed the repayment of a loan which the subsidiary company had made to the parent company shortly before the insolvency filing. The liquidator argued that loans of shareholders have to be treated like equity in insolvency and, therefore, the repayment had to be reversed. The parent company argued also with §32a III GmbHG, stating that the regulations of equity substitution were not to be applied if the loan had been granted with the intent to overcome the construction company's crisis. In this case, a turnaround had been prepared by a consultancy firm which was reviewed by an expert assigned by the court. According to the court's expert, a conclusive and reliable turnaround plan has to include the following components: a description and analysis of the company, an analysis of current state and the causes for the crisis, a vision of the rehabilitated company, turnaround actions, and an integrated business plan, including projections for earning, balance sheet and cashflow statement. Based on these criteria, the court decided that the present turnaround plan did not fulfil the necessary requirements. It included neither a description and analysis of the company nor an analysis of the causes for the crisis. Furthermore, the proposed vision and turnaround actions were too abstract and unspecific with regard to the company under review. The business plan covered only a yearly profit and loss account without any further details. As a result, according to the court, the present turnaround plan did not sufficiently document the company's turnaround ability.

¹³ German Companies Act (GmbH-Gesetz)

In 2015, the Higher Regional Court of Celle decided over a case in which the liquidator sued the consultancy firm of the insolvent company to repay consultancy fees which it had received for the preparation of a turnaround plan. The liquidator argued that the company had already been insolvent (not able to fulfil its due payments) by the time the turnaround plan was prepared. The court decided against the consultancy firm, arguing that a conclusive turnaround plan has to include a description and analysis of the company and its current situation, an analysis of the causes for the crisis, an analysis of the company's solvency, turnaround actions, a vision, and an integrated business plan. Particularly in this case, the consultancy firm had failed to adequately assess the company's solvency at the time of the plan's preparation.

In May 2016, a BGH verdict¹⁴ received central attention by turnaround practitioners and stakeholders. In 2007, a logistics company performed services for a company in crisis and had open receivables of approx. 60,000 euros as of January 2007. In January 2007, the turnaround consultancy firm of the crisis company addressed the logistics company and offered a settlement of the liabilities, including a payment of 35% and a waiver of the rest. The logistic company agreed and the payment was settled in March 2007. In 2011, the crisis company filed for insolvency and the insolvency procedure was opened in January 2012. The liquidator disputed the payment of the crisis company to the logistics company. The reason for the disputation was that the crisis company had been in crisis for many years and the logistics company knew about this. According to the BGH, the turnaround had obviously not been attempted with the necessary degree of seriousness by the crisis company. Therefore, the BGH decided that the logistics company had to refund the payment which was then used to settle the insolvency claims. The BGH argued that if a creditor of a company in crisis receives a settlement payment, it has to ensure that the debtor's turnaround attempt is serious and has realistic prospects of success. Furthermore, the BGH pointed out that this can be ensured by a conclusive turnaround plan, prepared by an independent expert, which is based on realistic assumptions and has a serious and reasonable prospect of success. A conclusive turnaround plan has to comprise an analysis of the company's operative situation including the market environment as well as the description of the plan to reach sustaining profitability. That does not mean that the turnaround plan inheres no risks of failure but the positive prognosis must be conclusive and plausible. Furthermore, a turnaround plan which only focuses on the short-term reduction of debt would

¹⁴ BGH, 12.05.2016 - IX ZR 65/14

not be sufficient. Rather, the court argued, it has to address the causes of the crisis and how the company can turn back to profitability. If sustainable profitability is not going to be achieved, the company will accumulate new debt and, thus, a subsequent insolvency filing will not avoidable.

To summarize, in order to fulfil the legal requirements that were pointed out by the several courts, a formalized turnaround plan has to be conclusive and plausible. It has to clearly point out and document why it is reasonable to expect the company's turnaround success by the time of the plan's preparation. The turnaround plan has to include a description and analysis of the company in its market and industry environment, an analysis of the current state including the company's solvency, an analysis of the causes for the crisis, a vision of the rehabilitated company, turnaround actions, and an integrated business plan. Furthermore, the plan has to point out how the company will achieve sustainable profitability, a short-term reduction of debt would not be sufficient. However, besides this legal background, the problem of formalized turnaround plans lies often in the practical construction of the plan which turns out often to be too complex or too theoretical. This is often accompanied by the practising managers' limited ability to implement the plans. Furthermore, there may be cultural barriers in the organisation to adopt the plan.

1.3. Research Aim and Objectives

Given the time-based nature of corporate turnarounds it seems appropriate to develop research objectives and questions using a time-based analytical framework such as the content, context, and process framework for strategic change proposed by Pettigrew (1987, 1992, 2012). "Broadly speaking, the „what“ of change is encapsulated under the label content, much of the „why“ of change is derived from an analysis of context, and the „how“ of change can be understood from an analysis of process" (Pettigrew, 1987; p. 5). In light of these considerations, the aim of this research is:

To analyse and evaluate the content, context, and process of turnarounds that lead to the achievement of sustainable competitiveness and profitability after experiencing decline; and, in particular, to assess the effectiveness of formalised turnaround plans in that process based upon the experience of German companies.

First, the content dimension analyses the actions of companies to overcome the decline process (e.g. retrenchment and recovery actions, financial and human resource-oriented actions) and the process dimension asks the question how turnarounds unfold and analyses the sequence and progression of turnaround actions (e.g. triggers for change, sequencing and timing of turnaround actions). This leads to the first research question and objective of this study:

RQ 1: What actions do companies take in order to effectively overcome decline processes and restore sustainable competitive advantage and profitability (turnaround), when faced with threats to organisational survival?

RO 1: To identify, through a critical review of extant literature, effective turnaround actions for companies faced with declining competitiveness and profitability.

Next, context addresses the situational factors that might influence turnarounds (e.g. managerial cognition, corporate governance, and the firm's stakeholders) and impact the effectiveness of turnaround actions (e.g. the severity and suddenness of the crisis or external context factors such as industry characteristics and the macroeconomic environment), leading to the second research question and objective:

RQ 2: What differentiates companies achieving successful sustainable turnaround from those who failed or achieved only short-term improvements?

RO 2: To critically evaluate the factors contributing to successful turnarounds.

This study focuses on a specific context, i.e. the situation in Germany, where the instrument of formalized turnaround plans has, due to the legal circumstances, gained noteworthy prevalence in the field, leading to the third research question and objective:

RQ 3: How significant is the role played by the creation and application of a formalised turnaround plan?

RO 3: To critically assess the contribution of formalised turnaround plans.

Finally, this study aims for constituting an independent, significant, and original contribution to knowledge and practice. Specifically, the contribution to practice is addressed by

the fourth research question and objective that aims for developing recommendations to be useful in and improve organizational practice:

RQ 4: How effective has the establishment of such formalised turnaround approach been in Germany and how useful are the lessons to be learned?

RO 4: To develop recommendations for the effective application of formalised turnaround plans, within a theoretical model of corporate turnarounds that addresses aspects of content, context and process; thus, generating knowledge that is useful for parties involved in and affected by organizational decline and turnaround processes.

1.4. Overview of the Research Process

The first step of this research was to conduct a systematic and critical literature review on organizational decline and turnaround which is found in chapter 2 of this study. This literature review included 40 empirical studies that were published within the time frame 2001-2017 to cover the most recent theoretical development in the field. The studies were systematically decomposed in methodology and sample, definitions and measures of decline and turnaround, and main research findings. An overview table of the reviewed studies can be found in the appendix. On this basis, a theoretical framework of corporate turnarounds that addresses aspects of content, context, and process, and delineates the gaps in the current literature was developed by the researcher. This framework served as the conceptual basis for the empirical analysis.

The research was guided by the philosophical paradigm of pragmatism. It focused on assessing and improving the effectiveness of formalized turnaround plans and, thus, to contribute practical solutions that inform organizational practice in a specific context and for a specific audience. It focused on the context of German companies in crisis attempting turnaround. The audience comprised turnaround practitioners (in particular managers, consultants, lawyers, owners, and banks) who develop, support the development, receive, or implement formalized turnaround plans in Germany. Patton (2014) argued that pragmatism allows one to eschew methodological orthodoxy in favour of methodological appropriateness as the primary criterion for judging methodological quality, recognizing that different methods are appropriate for different situations. For this research, a qualitative research design was chosen. Creswell and Poth (2018) argued that qualitative research is most appropriate when a problem or issue needs to be explored which, in this research, was to im-

prove the effective development and implementation of formalized turnaround plans in Germany. Miles et al. (2014) elaborated that researchers conduct qualitative research because they need a complex and detailed understanding of the issue. Qualitative researchers want to understand the contexts or settings in which participants address a problem or issue. In this research, context is particularly important to the research aim, as it focuses on the specific situation in Germany in which formalized turnaround plans are being applied. This research seeks to generate a deeper understanding of how the turnaround practitioners in Germany develop and apply formalized turnaround plans. Maxwell (2013) stipulated that qualitative research simply involves asking open-ended questions and observing matters of interest in real world settings in order to solve problems, improve programs, or develop policies. In this research, a deeper understanding of the setting, in which formalized turnaround plans are applied, was created. On this basis, recommendations for turnaround practitioners that develop and apply formalized turnaround plans were developed.

In order to collect empirical data to answer the research questions, the interview method, applying a cross-sectional approach, was chosen. The researcher sampled research participants from four professional groups (creditors, investors, insolvency lawyers, and managers) that are the main stakeholders of formalized turnaround plans and the most significant actors in turnaround situations. First, research identified creditors and owners as significantly influential stakeholders in turnaround situations (Bruton, 2003; Pajunen, 2016; Schmuck, 2013; Trahms et al., 2013; section 2.2.6.). The capital structure of German companies contains commonly a significant amount of bank debt, so that banks usually form the majority of creditors in turnaround situations. Creditors are the main receiver of formalized turnaround plans because of the legal situation as pointed out in section 1.2. The owners' side in this study is represented by investors that buy the majority of shares of companies in turnaround situations and thus are the next influential stakeholder group. Lawyers, specializing in insolvency law, are also involved in turnaround cases, covering legal issues that are relevant to companies close to insolvency. The last professional group comprised managers that are assigned with the specific task to implement formalized turnaround plans in those companies. From each professional group, five research participants were interviewed, leading in total to 20 interviews. This cross-sectional interview design was chosen because the research problem and questions aimed to be studied from multiple perspectives. Therefore, a broad range of interviewees was needed to get a reasonable number of representatives of each professional group that is involved in turnarounds to

deeply ground the research in the multiple and rich experiences and perspectives of each professional group.

The interviews were audio-recorded, transcribed, and thematically analysed with the help of a qualitative data analysis-software and a coding scheme that was developed from the literature review. By this analysis, the following things were achieved: first, existing knowledge, gained through the systematic literature review of the recent turnaround studies and from which the turnaround model was developed, was tested with the data. Secondly, areas with regard to turnaround actions and context factors where a new understanding is being created by the data analysis were identified. Third, the role of formalized turnaround plans in the turnaround process was critically assessed. On this basis, recommendations for the effective development and application of formalized turnaround plans were developed.

1.5. Thesis Structure

The structure of the thesis mainly follows the research process. After the introduction of the theme, context, and research process in chapter 1, the findings of the literature review are presented in chapter 2, including a conceptual framework that shows agreements and gaps in the current literature. Chapter 3 introduces the philosophical paradigm and the methods and procedures applied in the course of the data collection and analysis process. The results of the empirical data analysis are discussed in chapter 4, followed by a conclusion in chapter 5.

1.6. Chapter Summary

This section introduced this study's context of organizational decline and turnaround management from a global perspective. Next, the specific legal circumstances in Germany, in which formalized turnaround plans are being applied, were delineated. Based on the content, context, and process framework for strategic change, this study's research aim, questions, and objectives were introduced. Finally, an overview of steps in research process (systematic and critical literature review, philosophical paradigm, data collection and analysis) was provided.

2. Literature Review

2.1. Introduction

This chapter depicts the process of the conducted literature review and states, analyses and critiques the findings. The chapter ends with the development of a conceptual framework, showing agreements and gaps in contemporary turnaround literature.

The first step of the literature review was to identify the literature on organizational decline and turnaround that would be included. In order to restrict the selection to the most developed pieces, two criteria for inclusion were employed: (1) the study should be empirically based (i.e. based on collected data or personal experience); and (2) the study's finding should have been published in book-form (including dissertations) or as an article in an academic journal. The scanning of the bibliographic databases Business Source Complete, Emerald Insight, Science Direct, Springer, and WISO using the keywords "turnaround", "turnaround management", "recovery", "crisis", and "organizational decline" yielded a number of publications that met the criteria for inclusion. A study of the references contained within these works yielded further relevant publications. The timeframe was restricted from 01.01.2000 to 31.12.2017 in order to cover the most recent development in the field. Based on this procedure, a total of 40 empirical studies were identified. The first appeared in 2001 and the most recent in 2016. The studies were decomposed into the following dimensions: methodology, sample, definitions of decline and turnaround, and main research findings. An overview of the reviewed studies can be found in the appendix.

Given the aim and questions of this research, a key starting point was to review the current literature with the following foci: (1) to review problem-relevant theories and ground the problem that was identified from managerial practice in the most recent theoretical development in the field; and (2) to offer a conceptual framework of corporate turnarounds that addresses aspects of content, context and process, delineates the gaps in the current literature, and serves as the basis for the subsequent empirical analysis.

Section 2.2 of this literature review discusses the causes that lead to organizational decline that can be classified into internal and external causes. This section provides a framework that answers why companies enter turnaround situations which are the beginnings of (successful or unsuccessful) turnaround processes. In specifically addressing the second re-

search question that asked for contextual factors influencing turnarounds, managerial cognition, executive compensation, executive replacement, corporate governance family management, and the firm's stakeholders are discussed in Section 2.3. Section 2.4 specifically addresses the first research question that focuses on the actions firms take to overcome decline. These are categorized in retrenchment, recovery, financial, and human resource-oriented actions. Furthermore, Section 2.5 focuses on turnaround outcomes and, thus, on how turnaround processes end. Finally, a summary, an overview of research gaps and contested knowledge in the reviewed studies as well as the conceptual framework are provided in section 2.6.

2.2. Causes of Decline

The conceptualized causes of decline remain rooted in the stream's foundational work (Schumpeter, 1943; Porter, 1980; Barney, 1991). Trahms et al. (2013) proposed a two-part definition of decline. Decline occurs when an organization's adaptation or alignment with its domain or environment deteriorates (external causes) or when the firm's resources constrict, resulting in the deterioration of performance (internal causes).

2.2.1. External Causes

The importance of the external environment has long been emphasized in the management literature. Organizational actions need to fit with the external environment, and when the environment changes, organizations have to change because existing strategies may become suboptimal when the opportunities and threats associated with those strategies become redefined and the performance outcomes altered (Ndofor et al., 2013; Walton, 2019). Research on external causes of organizational decline focused on the external environment and was mainly constituted by industrial organization studies. From this perspective, corporate failure results largely from the impact of industry factors rather than from the firm's internal factors. Industrial organization theory builds upon initial work by the economist Schumpeter (1943), who argued that drastic changes in the environment were responsible for extreme waves of industry entry and exit and, hence, represented a major cause of failure. Subsequent work by Porter (1980) found that industry factors, such as rivalry, entry barriers, and growth rate, were key determinants of organizational performance or lack of it and, hence, possible failure.

The reviewed studies mainly focused on changes in industry and general environment factors. Such changes included environmental jolts¹⁵, technological changes (Abebe, 2010), industry decline (Francis & Desai, 2005), and competitive dynamics (Latham & Braun, 2009; Rasheed, 2005). Sudden and discontinuous change in an industry may render existing firm strategies ineffective and, therefore, result in organizational decline (Schmitt & Raisch, 2013). New technologies fundamentally alter the value chain and key success factors for an industry (Cook et al., 2012; Walton, 2018). Demographic changes, changes in customer preferences, and the creation of new product substitutes can lead to decline in a firm's industry and subsequently to organizational decline. Finally, competitive pressures from other firms in the industry may result in more intense rivalry (Latham & Braun, 2009).

Rasheed (2005) described organizational decline as a two-stage phenomenon. The first stage of decline occurs when an organization's adaptation to its domain or microniche¹⁶ deteriorates. The second stage occurs when the organization's financial and human capital resources begin to diminish. Both stages of decline indicate that the organization has become less adapted to its microniche and is less successful at exchanging its outputs for new inputs. Latham and Braun (2009) characterized decline as the opposite of successful adaptation to the environment. They suggested that organizations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize, or adapt to external pressures that threaten the organization's long-term survival. Because environmental changes are often ambiguous, firms are likely to perceive them as threatening and would act conservatively (Wan & Yiu, 2009). Some firms may find the scope and magnitude of these changes unprecedented and incomprehensible and, thus, hesitate to change strategies and prefer to stay the course which may precipitate decline (Clapham et al., 2005).

Francis and Desai (2005) argued that environmental factors, such as industry conditions, government regulations, and external stakeholders limit the choices of management and, therefore, influence performance. It was further suggested that hostile environments are characterized by precarious industry settings, intense competition, harsh, overwhelming

¹⁵ Environmental jolts are defined as difficult-to-foresee external events that result in potentially detrimental disruption of the organization (Ndofor et al., 2013; Wan & Yiu, 2009). For example, Wan & Yiu (2009) studied the reactions of firms during the Asian financial crisis that took place in the years 1997-1999.

¹⁶ Microniche is defined by Rasheed (2005) as the product or market domain of the firm.

business climates, and the relative lack of exploitable opportunities. It is likely that firms in munificent environments will do better, amidst strategic actions taken, due to higher demand for products, more available resources, and lower competition.

2.2.2. Internal Causes

Next to external factors, organizational decline can be caused by internal factors which this section is going to focus on.

Since decline deals with the losing of competitive advantage and the threat of extinction, most turnaround researchers, with regard to the internal causes of organizational decline, focused on the resource-based-view (RBV) of the firm (Barney, 1991; Rasheed, 2005; Arend, 2008; Cook et al., 2012). RBV theory defines a firm's resources as tangible and intangible assets that affect the firm's ability to implement strategies to improve its effectiveness and efficiency and, thus, gain competitive advantage (Barney, 1991). Rasheed (2005) suggested that a firm's resource profile can combine the following resources: (1) financial resources (e.g. cash flow, debt capacity, new equity availability); (2) physical resources (e.g. plant and equipment, inventories); (3) human resources (e.g. managers, employees); (4) organizational resources (e.g. quality control systems, corporate culture, relationships); (5) technological capabilities (e.g. high quality production, low cost plants). These resources must be valuable, rare, imperfectly imitable by rivals, and not subject to strategic substitution by alternative resources (Cook et al., 2012). According to RBV theory, a company achieves competitive advantage by exploiting its resources to create competencies that are valued in the market-place. However, over time, these competencies may erode in value and may require replacing. The central problem facing the company is the need to balance the exploitation of existing competencies with the exploration of new competencies in order to ensure long-term survival (Arend, 2008).

While RBV research tends to define resources broadly and inclusively, it is important to distinguish between resources, competences, and capabilities (Lim et al., 2013). Teece et al. (1997) distinguished those three terms as follows:

- *Resources* are firm-specific assets that are difficult if not impossible to imitate. Trade secrets, specialized production facilities or engineering experience are examples. Such assets are difficult to transfer among firms because of transaction and transfer costs, and because the assets may contain tacit knowledge.

- When firm-specific assets are assembled in integrated clusters spanning individuals and groups, so that they enable distinctive activities to be performed, these activities constitute organizational routines and processes. If these routines and processes define a firm's fundamental business as core, they can be considered as the firm's *core competences*.
- *Capabilities* are defined as the firm's ability to integrate, build, and reconfigure competences to achieve competitive advantage. Such capabilities are considered as dynamic capabilities when they refer to the firm's capacity to renew competencies to achieve congruence with a changing business environment. Certain dynamic responses may be required when time-to-market and timing are critical, the rate of technological change is rapid, and the nature of future competition and markets are difficult to determine.

Similarly, Leonard-Barton (1992) defined the term capabilities as knowledge sets, comprising four dimensions, that distinguish and provide a sustained competitive advantage. The first dimension, knowledge and skills embodied in people, encompasses both firm-specific techniques and scientific understanding. Second, knowledge embedded in technical systems, results from years of accumulating, codifying, and structuring the tacit knowledge in peoples' heads. Third, managerial systems, represents formal and informal ways of creating knowledge (e.g. through sabbaticals, apprenticeship programs or network with partners) and of controlling knowledge (e.g. incentive systems and reporting structures). Infused through these three dimensions is the fourth: the value assigned within the company to the content and structure of knowledge (e.g. emphasis on chemical engineering vs. marketing expertise; open-systems software vs. proprietary systems), means of collecting knowledge (e.g. formal degrees vs. experience) and controlling knowledge (e.g. individual empowerment vs. management hierarchies).

However, Leonard-Barton (1992) warned that values, skills, managerial systems, and technical systems that served the company well in the past can be also experienced as core rigidities - inappropriate sets of knowledge. Core rigidities are the flip side of core capabilities. They are not neutral; these deeply embedded knowledge sets may actively create problems. For example, any corporation's resources are limited. Emphasizing one discipline heavily naturally makes the company somewhat less attractive for top people in a nondominant one. Specifically, a skilled finance manager knows that he/she will represent

a minority in an engineering-driven firm. Hence, those firms may suffer problems to attract skilled personal in such disciplines. Thus, the very same values, norms, and attitudes that support a core capability and thus enable development can also constrain it and ultimately lead to performance declines. Particularly the third and fourth dimension of the firm's attributes to prevent the development of core rigidities (managerial systems and firm values) can be addressed by human-resource-oriented turnaround actions which will be discussed in section 2.4.5.

Helfat and Peteraf (2003) observed that, similar to the concept of the product lifecycle, capabilities may also be subject to evolutionary changes. Such a capability lifecycle depicts a general pattern and set of possible paths that characterize the evolution of an organizational capability, including three main stages. The lifecycle of a new capability starts with the founding stage which begins when the firm organizes individuals with some type of leadership and capability of joint action around a central achievement that entails the creation of a new capability. Subsequently, the organization develops the capability by accumulating experience over time and gaining improvements in the functioning of the capability. Such improvements can refer to worker-management and individual worker experience, improvements in operations management and task coordination, or research and development on manufacturing processes (see also Boyne & Meyer, 2009). However, at some point, capability development ceases and the capability enters the maturity stage of its lifecycle; the experience curve becomes flat as gains to experience taper off and finally cease. In this stage, the capability must be exercised regularly to become more deeply embedded in the memory structure of the organization and to become more tacit in nature. However, interruptions in exercising the capability, for example caused by external effects, such as a forced production stop in order to slow down the spreading of a pandemic virus¹⁷, may lead to organizational forgetting and eventually capability loss (Adner & Helfat, 2003; Boyne & Meier, 2009; Helfat & Peteraf, 2003; Yandava, 2012).

A number of resources and capabilities have been identified as being important in properly reacting to organizational decline. For example, Cook et al. (2012) argued that the most important resources are strategic vision resources which are incorporated by the senior

¹⁷ For example, this recently happened in Italy, where the government directed to stop all nonessential production activities nationwide to curb the spread of the Covid-19 virus (retrieved from <https://www.handelsblatt.com/dpa/wirtschaft-handel-und-finanzen-virus-italien-schliesst-alle-nicht-lebensnotwendigen-produktionsaktivitaeten/25669652.html> on March 28th, 2020).

management of the firm. In line with this, much of the literature on the resource-based view in an organizational decline and turnaround context placed high importance on the quality of top management as a resource. The top management has a vital role in seeing opportunities, and assembling and coordinating resources to bring to bear capabilities within the market (Cook et al., 2012). For example, Collett et al. (2014) found that poor management was the most important cause of decline in their sample of 228 small- and medium-sized firms who attempted a turnaround under the Finish Restructuring of Enterprises Act¹⁸. Moreover, the authors found that financially distressed firms suffering from poor management were less likely to turn around. Heracleous and Werres (2016) found that narcissistic leaders who did not seek outside opinions and exhibited over-reliance on past behaviours and strategies were important determinants of organizational decline and failure. In addition, Arend (2008), in questioning 310 turnaround practitioners¹⁹, found that incompetent management and bad strategy were the most prominent causes for firm decline.

A further point to a lack of strategic vision resources can be made with regard to the supervising and monitoring role of the board of directors (BOD). For example, Heracleous and Werres (2016), in a case study, found that the BOD did not exercise its monitoring function effectively. The board consisted of twelve members who arguably did not have deep industry expertise. The board continued to grant generous bonuses to executives, even during the period of the company's decline. The BOD did not ensure the institution of robust strategic and financial control mechanisms which allowed aggressive acquisitions and fraudulent accounting practices to occur (Heracleous & Werres, 2016).

In addition, structural characteristics of an organization, such as its size as well as operational and administrative processes, were identified to influence the success of the firm (Cook et al., 2012). According to RBV theory, large firms are more insulated and possess the stability to overcome adverse economic situations because of broader institutional systems (Lim et al., 2013). These characteristics can buffer an organization's core from the effects of the environment. For example, Francis and Desai (2005) found that larger organizations tended to respond better to declining performance and turbulent environments,

¹⁸ The Restructuring of Enterprises Act (25.1.1993/47) deals with the rehabilitation of viable enterprises and the rescheduling of debts by emphasizing the active continuation of business after bankruptcy. This regime is similar to the Chapter 11 bankruptcy of the United States Bankruptcy Code (retrieved from www.iiiglobal.org/sites/default/files/report_fin.pdf on June 12th, 2016).

¹⁹ In this study, turnaround practitioners were referred to as accountants, consultants, and lenders (Arend, 2008).

respectively. It was argued that size is an important tangible resource of the firm and a means for the organization to buffer itself from the effects of the decline situation. Large firms have greater resources and more options for initiating turnaround strategies, such as divesting underperforming assets, reducing salary expenses, or closing ineffective organizations. On the other hand, however, Cook et al. (2012) argued that large firms are likely to have tortuous internal procedures and multiple relationships with stakeholders which may slow down their ability to respond quickly. Therefore, the presence of size-related inertia in large firms would negatively affect their ability to enact turnaround strategies. Small firms may have less complex organizational structures and may be able to react to changes faster than larger firms.

Another buffering characteristic that enables a firm to respond appropriately to decline is the availability of slack resources. Latham and Braun (2009) referred to slack as unabsorbed, uncommitted liquid resources in organizations. The presence of slack resources, such as cash, inventory, or access to credit can provide a firm with the cushion necessary to implement a turnaround strategy. Slack resources help the firm absorb the effects of performance downturns or variability and provide a base of resources to take effective actions. For example, Bradley et al. (2011) found that firms with immediately available resources were less constrained in their ability to initiate appropriate remedial measures. Therefore, firms with more slack resources during decline had a better chance of surviving.

A final attribute relating to the capabilities of the firm is the productive utilization of its human and capital resources. Filatotchev and Toms (2006) argued that firm productivity is an encompassing construct and evidence of a firm's overall competitiveness and effectiveness. Although firm productivity could be related to past cost reduction activities, it is also a result of other additional firm level factors, such as existing market share or sales growth. A declining firm that has relatively efficient operations is utilizing its resources more productively and economically, enabling it to focus on other primary causes of decline.

2.2.3. Summary of Causes of Decline

To summarize the findings, organizational decline can be caused by external factors, such as industry and general environment factors. These include environmental jolts that are defined as difficult-to-foresee external events that result in potentially detrimental disruption of the organization, such as a global financial crisis (Wan & Yiu, 2009). Furthermore,

decline can be caused by more subtle environmental factors, such as technological changes, government regulations, changes in customer preferences, or the creation of new product substitutes (Abebe, 2010; Cook et al., 2012; Francis & Desai, 2005; Latham & Braun, 2009; Walton, 2019). Because environmental changes are often ambiguous, some firms are likely to perceive them as threatening and would hesitate to change strategies or prefer to stay the course which may even precipitate further decline.

In addition, a firm's internal resources, competences, or capabilities may over time erode, restricting the firm's ability to gain and secure competitive advantage in the market place which may lead to decline. One of the firm's most important resources are strategic vision resources which are usually incorporated by the senior management of the firm (Cook et al., 2012). For example, it was found that poor management was the most important cause of decline in the analysed sample (Collett et al., 2014). Furthermore, it was found that narcissistic leaders exhibiting over-reliance on past behaviours and strategies were important determinants of organizational decline and failure (Heracleous & Werres, 2016). In addition, other internal factors, such as the supervising role of the board of directors (Heracleous & Werres, 2016), company size (Cook et al., 2012; Francis & Desai, 2005), the availability of slack (Latham & Braun, 2009; Bradley et al., 2011), and human and capital resources (Filatotchev & Toms, 2006) were found to influence decline.

2.3. Contextual Factors

This section of the literature review focuses on contextual factors that were identified to influence turnarounds and, thus, relates to the second research question of this study. These factors are categorized under the headlines *managerial cognition* (section 2.3.1.), *executive replacement* (section 2.3.2.), *executive compensation* (section 2.3.3.), the supervision by the company's board of directors (*corporate governance*; section 2.3.4.), *family management* (section 2.3.5.), and the influence of the *firm's stakeholders* (section 2.3.6.).

2.3.1. Managerial Cognition

The first aspect of a firm's response to decline, managerial cognition, accounts for how the top management team (TMT) perceives and interprets the factors that caused decline. It forms the interface between causes of organizational decline and the actions organizations take to reverse it (Lohrke et al., 2012). Although decline may be defined through "objec-

tive” indicators, a decline situation also imposes a subjective representation of reality in organizational leaders’ mind sets that is affected by the personalities, cognitive features, and knowledge bases of those leaders (Clapham et al., 2005). Different individuals, even in the same organization, may perceive decline as stemming from different sources and having different levels of severity. Decision-makers in organizations may deny decline is occurring, despite indicators showing otherwise (Musteen et al., 2011).

Barker et al. (2001) argued that organizational decisions, actions, and ultimately firm performance are significantly influenced by the focus and distribution of managerial cognition patterns. This view is generally based on two premises. The first premise states that managerial actions are directly influenced by and originate from the cognitive patterns of decision makers. Hence, in order to understand why particular decisions and actions are taken in organizations, we need to first examine the area of managerial cognition. Abebe (2012) refers this premise as the “focus of attention” and posits that, in general, managerial attention to potential issues, problems, and solutions determines the subsequent strategic decision-making in the organization. The second premise of this view points to the fact that the particular issues, problems, and solutions managers focus on and, by extension, the subsequent decisions they make is dependent to a large degree on their perception of the type of situation they are in. This premise is referred to as the “situate perception” (Abebe et al., 2012). In the reviewed studies, three cognitive factors affecting subsequent turnaround actions could be identified: awareness of decline, attribution of decline, and perception of the decline’s severity.

2.3.1.1. Awareness of Decline

Awareness of decline refers to management’s formal recognition that the firm is in decline. The timing of decline awareness has been found to be central to triggering actions that can eventually reverse decline (Abebe, 2012; Clapham et al., 2005; Hurt & Abebe, 2015). The awareness of decline influences leaders’ behaviour, attribution, and sense-making (Hurt & Abebe, 2015). However, such awareness is not always readily apparent. Abebe (2012) argued that executives can experience cognitive rigidity and, as a result, restrict their information search in times of organizational performance decline. Such selective perception and cognitive simplification has deleterious effects on problem identification, issue framing, and interpretation as well as competitor identification. This so called “threat-rigidity” response often leads to centralized decision-making and a dominant focus on efficiency-

generating activities to reverse the performance downturn (Abebe, 2012). Clapham et al. (2005) found among failing and turnaround firms that the communication patterns of failing firms mainly included denial and lack of emphasis on long-term problems. On the other hand, it was found that decline awareness facilitated elevated attention towards the evolving crisis, prompt deliberations, and overall information exchange among decision-makers (Clapham et al., 2005). In addition, Hurt and Abebe (2015) found that if awareness of decline was present and TMT members perceived that the survival of the organization is threatened, decision-makers tended to temporarily downplay interpersonal differences and disagreements in order to deal with the unfolding organizational crisis. Interpersonal conflicts tended to be reduced, as decision-makers focused on avoiding or minimizing the adverse impacts of the declining performance (Hurt & Abebe, 2015).

2.3.1.2. Attribution of Decline

Attribution of decline refers to causal factors management identifies as responsible for the decline. While leaders of declining firms are often blamed and serve as scapegoats for organizational decline (Smith et al., 2008), they themselves tend to affix blame elsewhere. Barker and Barr (2002) and Clapham et al. (2005) found that organizational response to decline depends on whether the causes of the decline are believed to originate inside or outside the firm. In particular, it was argued that interpretations of an internal locus of causality are likely to result in more significant and wide-ranging changes in strategy in response to decline than do interpretations of an external locus of causality. Attributing decline to external causes will likely result in small, localized changes in activity. External causes of decline, such as industry cycles or recessions, often cannot be controlled and, thus, managers will likely focus on increasing the efficiency of the current strategy's execution by organization members. In contrast, attributing decline to internal causes suggested that the organization's existing strategy and activity could be the source of declining performance. Thus, top managers will likely focus their efforts toward changing the strategy and activities attributed to be the source of problems. The argumentation was thereby based on following two perspectives (Barker & Barr, 2002; Clapham et al., 2005):

- The first perspective suggested that interpretations of locus impact perceptions of "where to apply corrective action". If the cause of decline is being interpreted as being internal to the firm, it is likely that top managers will believe that performance recovery can only come through changing internal firm policies and procedures, thus driving a strategic reorientation. If, on the other hand, causal locus is interpreted as external to the

firm, then corrective action must take place in the environment, perhaps in the form of attempts in environmental manipulation, and a strategic reorientation may not be undertaken.

- The second perspective took a learning view of the relationship between causal locus and firm response, providing greater theoretical explanation for the “where to apply corrective action” argument. It was postulated that external attributions are less likely to result in strategic reorientations than internal attributions because external attributions short-circuit the process of learning from experience. If managers attribute decline to external causes, they are unable to make the association between firm actions and outcomes and do not learn from their experiences. Thus, they are unlikely to view changes in firm strategy as being a possible route that could lead to recovery from decline. In contrast, attributing poor performance to forces inside the firm will likely lead to greater experimentation and learning by the firm.

In providing further empirical support for this line of arguments, O'Kane and Cunningham (2012) found that leadership stability facilitated turnaround when existing CEOs exercised humility for their part in the decline.

2.3.1.3. Perception of the Decline's Severity

An accurate perception of the decline's severity is also essential because poor assessments may result in exercising ineffective strategies that fail to engineer a turnaround. Turnaround literature suggests that managers' response to decline may be contingent upon how leaders cognize the decline situation (Abebe, 2012; Musteen et al., 2011; Rasheed, 2005). In this view, decision-makers' perceptions of the declining firm's situation become vitally important. For example, Musteen et al. (2011) argued that decision-makers' perceptions of the “risk of losing control” of the situation would be the primary driver of planned responses. When a potential loss event (such as organizational decline) is perceived by decision-makers as a “threat to management control”, less risky (i.e. more rigid) behaviour will ensure. Thus, even though performance is below aspirations, the need for control when this perception of threat is present will override the general pattern of failure leading to the search for new answers. Thus, when decline situations are perceived as severe and thus a threat to control, threat-rigidity²⁰ responses are more likely to occur. As a result, managers

²⁰ Under threat-rigidity, managers perceive decline as a threatening situation that generate pressure and anxiety, and thus trying to regain control through centralization and increased efforts to conserve resources (Musteen et al., 2011).

are more likely to pursue retrenchment actions²¹. However, the effectiveness of retrenchment actions is controversially discussed in the turnaround literature which will be referred to in section 2.4.1.

Musteen et al. (2011) found that managerial characteristics influence perceptions of decline. Specifically, the authors found that locus of strategic control, functional background, and maturity (these characteristics will be outlined in the following) influence the perception of decline severity which subsequently increases the extent of retrenchment.

- *Locus of control* describes an individual's belief in the personal controllability of events in his or her life, suggesting two distinct personality types: internals and externals. Internals are those who believe they have control over their own lives and that the consequences of their behaviour result from their own efforts. In contrast, externals are individuals who see the events of their lives as beyond their control due to external forces such as fate or luck. Musteen et al. (2011) found that locus of strategic control was related to the risk judgments of managers and, thus, be related to strategic leader's attribution of decline situation to different degree of threatening or not threatening. It was argued that internals are generally more satisfied with their work than externals. The higher level of satisfaction reflects the internal confidence internals have in themselves and a tendency to adopt a generally positive, optimistic view of the world around them. Consequently, internals are likely to consider constraints in a situation as loose and malleable and view competitive challenges as less of a threat or even as opportunities to pursue. In contrast, externals are more likely to see their situations as having rigid boundaries that cannot be violated. Thus, it was found that leaders having a more internal locus of strategic control were more likely to perceive the decline situation as less severe than their external counterparts.
- Top managers with different *functional backgrounds* have different cognitive schemas or knowledge structures because different responsibilities provide them with different skills, goals, and information contexts. It was argued that managers with experiences in output functions (e.g. marketing or sales which emphasize growth, search for new opportunities, and are responsible for monitoring markets and adjusting products) and managers with experiences in throughput-oriented functions (which are internally focused and emphasize the efficiency side of operations, such as manufacturing, account-

²¹ Retrenchment, as a firm's action in response to decline, can be defined as deliberately eliminating assets and / or reducing costs as a means of increasing firm efficiency (Lim et al., 2013).

ing, and process engineering) have different views on organizational decline and its severity. Managers with significant experience in output functions give goals, such as growth and domain expansion, high priority. Facing the same ambiguous contexts, output-trained managers are more active in search of the cues for growth and expansion than throughput-oriented managers. As such, output managers are able to identify more opportunities. With the discerned opportunities, output managers are less likely to view the current decline situation as stressful and severe as throughput managers do. Therefore, in the context of organizational decline, decision managers with a throughput functional background perceive the decline situations of organizations as more severe.

- Managerial *maturity* was defined in a descriptive sense as the increasing age and experience of a manager. It was argued that younger managers are more open towards change which makes them more receptive to new situations. Conversely, mature managers are more cautious in taking risks than their younger and less experienced counterparts. Therefore, younger and less experienced managers are more likely to be comfortable with the increased uncertainties brought about with the decline and perceive the decline situation as relatively more positive. On the other hand, mature decision-makers perceive the decline situations of organizations as more severe.

However, in providing evidence to the contrary, Rasheed (2005) found that, small business managers / owners were likely to choose recovery strategies²² if they perceived a very low combination of financial performances and resource availability (hence, if they perceived the decline situation of their organization as more severe). It was argued that small business managers / owners remained aggressive in their strategy choice, even when performance and resources were poor. Small business managers / owners may therefore see growth as their only alternative to severe decline (Rasheed, 2005). This contrary finding may be related to the characteristics of the analysed sample which consisted of 88 small firms including several family firms and firms with unity in management and ownership. The unique characteristics of family firms in a decline and turnaround setting will be discussed in section 2.2.5.

²² In contrast to retrenchment actions, recovery actions refer to strategic changes that transform and reposition the firm in order to achieve sustained growth and profitability (Trahms et al., 2013). These will be discussed in section 2.3.2.

2.3.2. Executive Compensation

The next two sections focus on research that has examined the effects of the chief executive officer (CEO) and / or the top management team (TMT) on the turnaround process. Broadly speaking, the strategic leadership of the firm can act as an impediment or facilitator of turnaround. More specifically, firm turnaround can be affected by the TMT's compensation and ability (Chen, 2015; Yandava, 2012) and the management's "fit" or suitability for the current context (Chen & Hambrick, 2012; O'Kane & Cunningham, 2012).

The turnaround actions of a firm in decline were found to be significantly influenced by the compensation of the TMT (Chen, 2015; Chen & Hambrick, 2012; Yandava, 2012). The career risk associated with firm decline is not attractive to high-quality managers unless they are compensated for taking a risk to their reputations and future employment (Yandava, 2012). Chen (2015) and Chen and Hambrick (2012) found that new CEOs hired in turnaround situations received a higher pay than CEO's in non-turnaround situations. The studies posited that managing firms in a turnaround situation is a challenging task for new CEOs who face greater job demands, both quantitatively and qualitatively. New CEOs in turnaround situations have to work long hours and with total commitment in a context of resource and time constraints (Chen, 2015). In addition, they are under intense pressure from conflicting obligations, higher tensions, and anxiety due to potential career risk and human capital damage, all of which suggests that the compensation of the job must be greater in turnaround situations compared to non-turnaround situations (Chen & Hambrick, 2012).

If firms in turnaround situations tend to award pay premiums to their new CEOs, a question that arises is whether higher pay leads to certain strategic behaviours in their subsequent turnaround efforts. Chen (2015) found that executive compensation, particularly performance-based pay, tied CEO remuneration to share performance of troubled firms and incentivized the CEO to adopt retrenchment strategies and that these strategies were positively related to subsequent firm performance. It was argued that executives under normal conditions tend to expand markets, grow the company, and increase firm size – for a number of reasons. First, an enlarged firm can increase the executive's future compensation because firm size is consistently a primary determinant of pay levels. Second, firm size is also typically tied to nonmonetary rewards, such as prestige, power, and higher status in the corporate community. Executives intrinsically enjoy opening new plants, entering new

markets, hiring new people, and announcing growth and expansion plans, whereas few enjoy retrenchment or laying off staff, since these are painful. However, although implementing turnaround strategies oriented to retrenchment represents a challenge for executives (e.g. dealing with people who are negatively affected in the turnaround effort while maintaining company morale), properly compensated CEOs are more likely to do so if initiatives to increase firm value (i.e. retrenchment strategies) are tied to their pay. By contrast, those who are not properly compensated are more likely to pursue growth and market expansion because such strategies are more exciting and less stressful and have the potential to increase their future compensation as a result of increased firm size (Chen, 2015).

The arguments of Chen (2015) were based on his finding that retrenchment actions (e.g. reducing assets and costs, layoffs) positively affected turnaround performance. However, the effectiveness of retrenchment actions is controversially discussed in the turnaround literature. Some authors (e.g. Chen, 2015; Chen & Hambrick, 2012; Furrer et al., 2007) found a positive effect of retrenchment actions on turnaround performance while other authors (e.g. Ndofor et al., 2013; Lim et al., 2013; Morrow et al., 2007) found deleterious effects on subsequent performance. These conflicting findings will be discussed in section 2.4.

2.3.3. Executive Replacement

In comparison with what is known about TMT ability and behaviour during firm growth, relatively less research has been conducted on the TMT during decline and turnaround. Indeed, to the extent that managerial deficiencies (e.g. dysfunctional decision-making processes, deteriorating communication across levels, and increased conflict) have caused or precipitated organizational decline, addressing these issues should be fundamental to turning around performance (Cook et al., 2012; Trahms et al., 2013).

The topic of CEO and TMT replacement has been widely discussed in recent turnaround literature, while the majority of research supported the need for CEO / TMT replacement to facilitate a successful turnaround, relying on two main arguments: (1) poor performance is a *prima facie* indication that incumbent leaders are not very effective (Collett et al., 2014), and (2) poor performance typically necessitates major strategic and organizational changes which incumbent CEOs are not inclined to undertake (Chen & Hambrick, 2012). Put differently, poor performance is evidence of executive inadequacy; incumbents are

unable or unwilling to make major changes necessary to fix struggling companies; and, beyond the need for substantively new directions, there is the need to reassure stakeholders that changes are coming and that the company is in good hands – a reassurance that is difficult for incumbents to convey (O'Kane & Cunningham, 2014).

In support of these arguments, Abebe (2010) found that declining firms with longer-tenured TMTs tended to have lower turnaround performance than those declining firms with short-tenured TMTs, suggesting that tenure is an important indicator that incumbents are cognitively and socially committed to the status quo and only new leaders are seen as able to undertake the requisite changes. Boyne and Meier (2009) pointed out that the relationship between organizational performance and TMT-tenure is non-linear: experience is an asset, but after a threshold is reached, it leads to inertia and becomes a liability. Abebe (2010) argued that as managers move up through the organizational hierarchy, they become more certain that the current strategy of the organization is the correct strategy. They also become more connected to the current strategy as they spend more years working in support of it. Thus, when organizations enter periods of decline, top managers with longer tenures may be more resistant to undertake a significant strategic change because of their identification with the existing strategy. In contrast, a TMT that is comprised primarily of new members, after the old members have been replaced, will feel little connection to the existing strategy of the organization. Such new TMT members often enter their positions with mandates for change behind their appointments (Abebe, 2010). Hence, such TMT members may have a preference toward strategic reorientation. This effect might be even enhanced when the organization has been successfully in the past. Musteen et al. (2011) added that a history of organizational success can breed inertia by encouraging top managers to over time adopt increasingly narrow or simplistic views of what strategies and tactics make their organizations successful. As such, these narrow vies can lead to top management overconfidence and inertia through the rejection of new information or change programs that do not fit within the narrow bounds of the simplistic view of the organization's sources of success (Musteen et al., 2011).

In a later study, Abebe et al. (2012) found that the presence of founder-CEOs under turnaround situations did not significantly improve the likelihood of performance turnaround in declining firms. It was argued that founder-CEOs under turnaround situations may not necessarily be associated with more motivation, skill, and legitimacy. For example, under

turnaround situations, founder-CEOs may lose their legitimacy because of their long tenure and commitment to the status quo (Abebe et al., 2012).

Ndofor et al. (2013) found a positive effect of CEO replacement on turnaround performance for firms in a growth industry. Haron et al. (2013), in a case study, found that installing a new CEO with experience outside the firm and industry to succeed a longer-tenured CEO with no throughput experience improved firm performance. Collett et al. (2014) found that management change was the most important recovery action within their sample of small- and medium-sized enterprises that recovered under the regime of the Finnish Restructuring of Enterprises Act. Lawton et al. (2011) argued that new leaders are more likely to break the “old rules of the game”, to be less committed to past policies, and to stop attributing problems to external uncontrollable forces. Furthermore, newly appointed leaders can bring with them an ability to facilitate greater levels of change in the organization’s strategies, processes, and structures, provide fresh perspectives and critical turnaround skills, and indicate a level of seriousness about the recovery. In their case studies of global legacy airlines, Lawton et al. (2011) found that all three airlines that achieved a turnaround introduced new leadership to radically rework the business model and, most importantly, to oversee the unlearning of poor practices and establish a new corporate culture committed to delivering the revised business model.

However, there is only limited evidence with regards to the question if the successor should come from inside or outside the company. Outsiders may be more prepared to consider radical change but may lack the detailed knowledge of the organization that would be required for a quick and effective implementation of a new strategy. By contrast, an insider may already be deeply familiar with current performance problems and may have thoroughly understood the technical and political feasibility of strategies for change and, therefore, may be able to make rapid moves towards organizations recovery. On the other hand, insiders may be too locked into the existing culture to see that change is required or possible (Boyne & Meier, 2009; Courtemanche et al., 2013). Boyne and Meier (2009), addressing this question in their study of public organizations (school districts), found that in an environment with low external complexity, turnaround was better achieved by insiders than by outsiders. The authors offered the explanation that insiders may be more effective in stable industries because they already understand the external context of the organiza-

tion. By contrast, when an industry is subject to major change, the “dominant logic” of insiders may be a liability because they may fail to adapt to new circumstances.

The replacement of the top management team is also significantly influenced by the contextual requirements at hand. For example, Bruton et al. (2003) and Fisher et al. (2004), researching in an East Asian context, noted that East Asian boards of directors are almost always supportive of top management and very reluctant to authorize change. The authors argued that this may be due to strong personal relationships that play a significant role in an East Asian business context. If a removal of the CEO were to occur, all of the relationships that this individual built for the firm would be lost – relationships that are generally quite valuable and hard to replace. These relationships help the firm to secure access to credit, can substitute for formal laws and regulations, and provide key links to government officials and markets (Bruton et al., 2003; Fisher et al., 2004).

Moreover, mixed evidence with regard to the topic of top management replacement was provided by O’Kane and Cunningham (2012) who found, within their case studies of four Irish turnaround companies, that leadership changes and stability were equally effective in initiating turnaround, CEOs were less likely to be replaced when the decline was primarily externally induced, when CEOs were of significant strategic importance to the near-term recovery effort, and when CEOs exercised humility for their part in the decline. Moreover, it was found that leadership stability and humility were particularly conducive to successful turnaround and growth as a consequence of the integrity, improved levels of trust, and healthy conflict that had developed between management and stakeholders throughout the turnaround process.

In countering the view that management turnover is per se helpful for troubled companies, Chen and Hambrick (2012) argued that the benefits of CEO replacement depend integrally on the attributes of the two individuals involved: the incumbent’s degree of misfit and the successor’s degree of fit to the context at hand. For example, if a troubled firm operates substantially below its break-even point, it is very difficult to increase revenues enough to achieve a profit position. Instead, it is only by reducing the break-even point by eliminating costs and / or assets that successful turnaround becomes feasible. Given that firms in deep trouble are in greater need of cost and / or asset reduction, CEOs who have competencies in these domains represent the ideal fit. Based on this assumption, it was argued that an

executive whose primary experience has been in throughput-oriented functions (e.g. operations or accounting) tends to emphasize cost control, asset rationalization, and efficiency; these are approaches that the executive has become adept at and will tend to rely on to execute a turnaround. By contrast, an executive with an output-oriented background (e.g. marketing, sales, or product development) tends to emphasize revenue growth and market expansion as recovery strategies which are less appropriate for firms in deep trouble. Even if an output-oriented incumbent CEO were to recognize the need for retrenchment, he or she might have great difficulty actually executing such a strategy because it differs from his or her skills. Hence, CEO change, in itself, accomplishes very little for companies in turnaround situations (Chen & Hambrick, 2012). Based on these arguments, Chen and Hambrick (2012) pointed out that the conventional wisdom about CEO replacement propels boards of troubled companies to view replacement as a ritualistic act instead of as an occasion to deliberately recalibrate the company's executive competencies with the conditions facing the firm. Some highly suitable CEOs – who may have substantial firm-specific expertise and who may have corrective measures under way – are unwisely forced out of troubled firms. Moreover, some successors are hired simply because they represent a fresh face or possess colourful qualities that may be largely irrelevant for the job that needs to be done.

Although the majority of turnaround research emphasized the effectiveness of management replacement, the last studies (Bruton et al., 2003; Chen & Hambrick, 2012; Fisher et al., 2004; O'Kane & Cunningham, 2012) highlighted the importance of alignment between managerial capabilities and contextual requirements. This provides a corrective to the assumption that incumbents in troubled companies are inherently unsuited for their positions and that new CEOs will automatically do better.

2.3.4. Corporate Governance

With regard to corporate governance, the composition and influence of the board of directors (BOD) has been found to play an important part during the turnaround process. For example, Courtemanche et al. (2013), in their 10-year case study of the turnaround of the Canadian aircraft manufacturer Bombardier, found that a turbulent external environment that precipitated a downward slide in performance apparently forced the company to make changes in the BOD. Board capital was marked by the business expertise and experience needed to facilitate upper management's initiatives towards a strategic turnaround at the

corporate and business levels. Moreover, in the phase of Bombardier's return to profitability and growth, the BOD provided technical expertise (engineering) and specific knowledge on target markets which were required to help implement growth-oriented business strategies.

Two facets with regard to the composition and characteristics of an effective BOD could be identified from the literature: board independence and board size.

2.3.4.1. Board Independence

One important facet of a board of directors has been identified as its degree of independence from management. In recent turnaround research, board independence has been assessed by the degree to which the board comprises people who are not otherwise affiliated with the company through employment or economic exchange relationships (Courtemanche et al., 2013). Independent boards are generally considered advantageous because they are harder for top management to dominate and they may be more likely to encourage changes even in the face of management reluctance. For example, Lawton et al. (2011) argued that, if there is CEO resistance to adopting strategies to counter a continuing organizational decline, an outsider-dominated board may be better positioned to encourage – if not direct – the necessary change.

Heracleous and Werres (2016) argued that independent boards are likely to be beneficial for three reasons. First, the greater degree to which the board comprises independent directors, the less the members of the board will be tied to the firm's current strategy and so the greater the likelihood that the board will consider new strategic directions. Second, the greater the degree of independence, the more the board will be able to challenge the CEO and top management if there is disagreement over the correct direction to take. Consistent with this argument, Dowell et al. (2011) found that boards with a greater proportion of independent directors were more likely to become involved in setting and evaluating a company's strategy. Third, while monitoring management is a key role of directors, they also bring access to different and varied sources of information and create alignment with the external environment. In providing empirical support for this argument, Abebe et al. (2012) found that the extensiveness of the CEO's external board appointments significantly increased the likelihood of successful turnaround among declining firms. It was argued that external appointments, as a major type of social network ties, can be important con-

duits through which the declining firm accesses external resources and information that is crucial to formulate and implement an effective turnaround strategy.

Dowell et al. (2011) argued that independent directors have advantages from both agency (Jensen & Meckling, 1976) and resource dependence (Pfeffer & Salancik, 1978) perspectives, and the advantages are more likely for firms in a financially distressed²³ state. From an agency perspective, independent directors are more likely to challenge managers, and such challenges are particularly valuable when the firm needs to make changes in order to survive. From the resource dependence view, independent directors are more likely to possess the resources that declining firms need, such as access to capital. For example, Schmuck (2013) found that firms that experienced bankruptcy had less independent boards than a matched sample of non-bankrupt firms. Furthermore, Lin et al. (2008) found that small firms with high levels of financial distress benefited from having higher proportion of independent directors (i.e. those firms showed higher survival rates than firms with low board independency).

2.3.4.2. Board Size

With regard to board size, there are competing theories in the literature. Carmeli and Markman (2011) argued that part of the difficulty derives from the differential effects of board size on the three primary roles of the board: monitoring, advising, and providing access to resources. First, small boards may be more likely to monitor management, since smaller boards have greater individual commitment and decisiveness. This argument was supported by Filatotchev and Toms (2006) who found that smaller boards were more likely to remove poorly performing CEOs and to negotiate CEO compensation contracts that were more dependent on performance. Therefore, smaller boards may be more capable of fulfilling their monitoring role. Second, smaller boards are more likely to be involved in strategy formation and have a decision-making speed advantage with regard to the advising role of the BOD. On the other hand, larger boards possess greater potential for bringing

²³ In this study, financial distress referred to a condition when a firm incurs more debt than assets (over-indebtedness), while profitability can sustain. In addition, with declining ability to generate revenue coupled with inadequate cash flow from operations, a financially distressed firm will be trapped into severe liquidity problems and consequently affecting its solvency. In a situation of financial distress, banks and other lenders will be stricter with credit terms and less willing to provide additional loans. Suppliers selling goods and services on credit are likely to reduce or eliminate the generosity of their terms or even stop supplies ultimately (Dowell et al., 2011; Lin et al., 2008).

multiple perspectives to bear, as they advise management on strategic decisions. Moreover, larger boards are more capable of fulfilling the resource-provision role of the BOD, since they possess more opportunities for relationships between board members and sources of resources that are important to firm success. This feature may especially important for young, entrepreneurial firms struggling to establish themselves (Carmeli & Markman, 2011).

Dowell et al. (2011) argued that for large firms in a steady state, the benefits of access to additional resources due to large boards may outweigh the additional agency costs and slower decision-making. On the other hand, for small firms in a discontinuously changing environment and a high risk of failure, the ability to gather additional information and consider a greater number of options is unlikely to be as valuable as the ability to move quickly. That is, the resources are of little help if the board cannot act quickly enough to utilize them. The environment and the firm's future are simply too uncertain for more time to be in deliberation to be as helpful, on average, as quick decision-making. In providing empirical support, the authors found that small firms with high levels of financial distress were less likely to fail with small boards. It was argued that, in a situation in which monitoring is likely to have smaller benefits than rapid decision-making, large boards may be detrimental to firm survival (Dowell et al., 2011).

2.3.4.3. CEO Power

Furthermore, turnaround research has been concerned with the interactions and relationships of top management and the board of directors and, specifically, with the degree to which CEO power affects firm performance. Agency theory (Jensen & Meckling, 1976), with its emphasis on the divergent interests of management and owners, posited that having too much power in the hands of a CEO may be unwise, as it allows the CEO to pursue an agenda that is against the best interest of owners. Therefore, having a powerful CEO may reinforce the perception that the board is likely to be under the CEO's influence and, thus, be ineffective in guiding the firm and protecting the interests of owners (Carmeli & Markman, 2011).

There is conflicting evidence with regard to the question if CEO power may be beneficial or detrimental for the troubled firm attempting turnaround. Faghfouri (2013) suggested that for firms facing a crisis, powerful CEOs may be beneficial due to their ability to make rap-

id decisions without the need to build consensus. For example, board duality (where the CEO is also chairman of the BOD) allows for a single unified voice during the crisis. Faghfouri (2013) went on to argue that a powerful CEO may be beneficial during times of crisis because concentrated power can lead to extreme decisions which can be either beneficial or harmful. During relatively stable periods in an industry, extreme decisions may be undesirable. On the other hand, extreme decisions that drastically change the firm's strategy may be the only chance the firm has if survival is at stake. In providing empirical support, Faghfouri (2013) found that higher degrees of CEO power were beneficial for firm survival. It was argued that having powerful CEOs is a dual-edged sword. Powerful CEOs can become entrenched and resistant to board monitoring but, conversely, power may create a unity of command that can facilitate decision-making (Faghfouri, 2013).

However, in producing conflicting evidence, Abebe et al. (2011) found that CEO power or dominance was negatively related to turnaround performance. It was argued that powerful CEOs tend to restrict the information flow within the TMT and BOD. Dominant CEOs can also restrict information flow by neglecting or ignoring other TMT and board members who are less powerful with regard to certain information. Such restriction may compromise the quality (i.e. comprehensiveness and accuracy) of strategic decision-making that in turn leads to misguided resource allocation and ultimately to low turnaround performance. Second, powerful CEOs can also adversely affect turnaround performance by minimising the time a TMT / BOD take to generate alternative solutions to organizational problems and options for strategic decision-making. Finally, powerful / dominant CEOs can also hinder the meaningful participation of key members of the TMT / BOD in strategic decision-making (Abebe et al., 2011). For example, Heracleous and Werres (2016), in a case study, found that a dominant CEO combined with a passive board enabled aggressive growth strategies to go unchecked. Such strategies became a stone around the organization's neck leading to the company's decline.

2.3.5. Family Management

Research has identified family management as particularly relevant to turnaround situations. Family firms share many aspects common to all firms, but the embeddedness of business relationships and family relationships creates some unique organizational characteristics. One common thread across different conceptualizations of the family firm is a focus on the social embeddedness of business relationships (Cater & Schwab, 2008;

Courtemanche et al., 2013; Faghfour, 2013; Schmuck, 2013). A family firm combines three overlapping subsystems: business, ownership, and family. Family members often serve in three roles: they are managers, owners and relatives. Consequently, family firms represent hybrid organizations that embed business relationships in family relationships and try to serve both family and business needs (Faghfour, 2013). This hybrid nature of family firms may create some unique challenges and opportunities for the implementation of turnaround strategies not found in other organizational forms.

In the reviewed studies, six turnaround inhibiting (reluctance for necessary top management change, conflict avoidance, informal decision-making, ineffective corporate governance structures, lack of motivation and ability to draw on external expertise, difficulties to integrate non-family employees) and three turnaround enabling (high willingness to sacrifice during crisis, strong commitment and long-term goal orientation, a collegial management style) unique characteristics of family firms were identified. These characteristics are outlined in the following narratives.

With regard to the first turnaround inhibiting factor, Cater and Schwab (2008) found, in a case study, that strong ties of family top managers to the business reduced an established family firm's ability to initiate and implement top management changes in response to organizational crisis. In their study, both firms recognized a need for top-management change. Both firms, however, reported severe difficulties moving family top managers into secondary business roles. This evidence suggests that strong ties between family members and the family business made top-management change arrive slowly, reluctantly, and loaded with intense conflict – conflict that affected both family and business relationships. Second, Courtemanche et al. (2013) found, in a case study of the Canadian aircraft manufacturer Bombardier's turnaround, a strong tendency toward conflict avoidance and management by consensus among the family-related top managers that absorbed substantial management attention and prevented any swift response to organizational threat. It was suggested that the higher levels of familiarity and trust between family members did not facilitate the recognition, discussion, and resolution of the controversial issues surrounding organizational crisis. Third, Faghfour (2013) found, in analysing a sample of German companies, that family firms' day-to-day operations relied to a substantial degree on idiosyncratic and informal decision-making arrangements that had developed over time. Furthermore, the firms' management systems were highly centralized, tacit, and lean. Consequent-

ly, the exit of long-term family employees led to severe disruptions because formal coordination and monitoring systems had not been established. Fourth, again Faghfour (2013) found ineffective corporate governance structures apparent in family firms. The BODs typically included family members with varying business skills who were not effective in monitoring top managers. Fifth, Schmuck (2013) found that the family nature of the business inhibited the firm's motivation and ability to draw on external expertise (e.g. turnaround consultants or professional turnaround managers). The author argued that family firm leaders felt that drawing on external help signals that they had mishandled the business and wasted their patrimony. Strong mental models, such as tradition, tended to lock a family firm in established behaviour patterns and prevented the firm from seeking external support. Beyond these motivation-based explanations, it was argued that strong and long-term ties between family members constrained the development of broad external relationship networks. The resulting higher level of isolation reduced the family firm's ability to find adequate external support during crisis. Sixth, Cater and Schwab (2008) found that family firms not only faced challenges related to identifying experienced external managers but also in convincing them to join the firm. Non-family employees may be hesitant to work for a family business because they may expect preferential treatment of family members. In addition, any lack of integration of non-family employees can limit the organization's ability to benefit from its external appointments.

However, besides these constraining factors, three characteristics of family firms were identified that may facilitate a successful turnaround which may not be observed in non-family businesses: altruistic motives, long-term goal orientation, and a collegial management style. First, Faghfour (2013) observed that family members possessed a high willingness to sacrifice during an organizational crisis. As employees were more willing to accept pay cuts and increase their work efforts, family businesses were better positioned to engage in retrenchment strategies when encountering a severe organizational crisis compared to other firms. Second, Cater and Schwab (2008) argued that as family members perceive the organization as a legacy from past generations to be given to future generations, they often make lifetime commitment to their businesses. Thus, the likelihood of employment termination for family members was found to be lower. As a result, the more stable relationships in family firms lead to a substantially more long-term goal orientation. Third, Courtemanche et al. (2013) noticed that the turnaround of the Canadian aircraft manufacturer Bombardier was launched by a new CEO and BOD-chair with ties to the Bombardier

founding family, suggesting the significant background influence of family ownership structure. In their study of Bombardier, board resources required for implementing business strategies were internalized through inside directors. Thus, the family ownership structure became a kind of symbolic extension of the company. As for the new management structure, it incorporated some previous decisions most likely made by the Bombardier family. In other words, a collegial management style prevailed as the new face of the company.

2.3.6. Firm Stakeholders

Although much has been written on organizational decline and turnaround, only little research has examined stakeholders' influence in an existence-threatening crisis of an organization. Stakeholders play a critical role for all firms (Pajunen, 2006; Schmuck, 2013; Trahms et al., 2013) and the limited evidence suggests that the importance of their role for firms experiencing decline and attempting turnaround has been underestimated.

Organizational stakeholders can be defined as parties that have an interest in the company (Schmuck, 2013). They can be classified in internal stakeholders (employees, managers, owners/investors) and external stakeholders (customers, suppliers, creditors/financiers, consultants, government, media/community). With regard to organizational survival, the most influential stakeholders have been identified as owners and creditors (Bruton et al., 2003; Pajunen, 2006; Schmuck, 2013; Trahms et al., 2013).

The continued existence of business organizations is dependent on their relationships to other organizations and actors, that is, stakeholders (Flynn & Staw, 2004). This dependency is likely to culminate in a crisis situation; when an organization has to implement a turnaround or otherwise face decent into failure (Trahms et al., 2013). For example, Smith and Graves (2005) found, within their sample of 102 UK companies, that distressed firms that enjoyed a high level of stakeholder support were more likely to survive. Thus, for an organization in crisis, it becomes essential to understand: (1) what kind of stakeholders are the most influential to organizational survival? And, (2) how should these stakeholders be handled?

Resource dependence theory posits that the survival of organizations depends on their ability to acquire and maintain resources (Pfeffer & Salancik, 1978). Organizations as open

systems are always embedded in their environment which consists of a network of different stakeholders (Trahms et al., 2013). Therefore, acquiring and maintaining resources means that organizations must constantly interact with the members of that network. Stakeholders that possess the needed resources and are able to control the interaction and resource flows in the network most likely have a strong influence on an organization's survival. Hence, the identification and management of such stakeholders becomes an essential function for an organization in crisis (Fisher et al., 2004).

Furthermore, resource dependence theory (Pfeffer & Salancik, 1978) examines relationships by describing how power is organized around crucial and needed resources (e.g. capital, supplies, labour). The power of one organization over another is not possible without an existing asymmetry in the exchange relationship. Thus, a stakeholder has power over the focal organization if the focal organization is more dependent on the stakeholder than the stakeholder is on the focal organization. Stakeholders may control the use of resources critical to the operation and survival of the organization, possess means by which to influence organizational behaviour, control access and allocation of critical resources, or regulate the possession of resources (Trahms et al., 2013).

Pajunen (2006), in a historical case study of the Finish pulp and paper industry firm Kymi Corporation, found that owners and creditors were in the most decisive position throughout the whole decline and turnaround process. During the first years of the organization, one of the main owners was also the head of the firm and had significant influence over all decisions. The CEO, besides possessing the best knowledge of the whole firm, holding its shares, and partly financing its operations, was able to control the allocation of resources inside the organization and, therefore, possessed a high degree of resource dependence power. However, it was also found that minor owners were so small that, de facto, they did not possess noteworthy resources to exert influence over the organization. In addition, the power of banks, as a result of their growing financing of the firm's investments increased year by year. Thus, the organization became increasingly dependent on its banks. Moreover, customers, suppliers, employees, and the government were found to have moderate influence on the organization's operations (Bruton et al., 2003; Schmitt et al., 2019; Trahms et al., 2013). However, Bruton et al. (2003) pointed out that these minor stakeholders should not be undervalued. Neither resources nor the network positions are static. Moreover, although the influence of a minor stakeholder is insignificant in organizational

survival, the combined influence of several minor stakeholders, even if uncoordinated, may cause substantial consequences for the organization.

Identification of the stakeholders' influence can be considered as a preliminary part of stakeholder management during turnarounds. How, then, should these influential stakeholders be handled after identification? Several authors (e.g. Barbero et al., 2017; Faghfouri, 2013; Fisher et al., 2004; O'Kane & Cunningham, 2014; Pajunen, 2006) found that open and active communication with influential stakeholders had a positive effect on their support for organizational survival. More specifically, it was found that reciprocal communication enabled the stakeholders to realize the benefits ensuing if they offer the organization their continuing support. In particular, extensive face-to-face communication significantly contributed to mutual understanding and thereby cooperation. Second, the use of personal and informal relationships between members of the management team and influential stakeholders strengthened the communication during the turnaround process (Barbero et al., 2017; Fisher et al., 2004). Together with open communication, the personal relationships promoted trust between the management and the influential stakeholders, thereby securing their support. Third, the stakeholders' perception of the management's performance was found to play a significant role during turnaround. Specifically, Pajunen (2006) observed, in his case study of Kymi Corporation, that as a result of management change combined with first positive firm results, the affirmative perceptions of the influential stakeholders started to cumulate and the turnaround came to be associated with the good management team. Thus, it was argued, that during a crisis, the firm performance (both positive and negative) and the stakeholders' expectations of the firm's future prospects were directly associated with management's behaviour. This finding leads to considering the importance of how stakeholders in a crisis company associate the firm's performance with its managers. In the Kymi case, as the decline exacerbated, the banks could no longer provide support for the firm because that would have required them to support the old management which was associated with unsuccessful performance. Conversely, the new managers' latitude increased and the support of the banks and owners for the organization strengthened as they associated the management with successful performance.

In particular, creditors were identified to wield considerable power over the decision-making of firms in distress. Schmuck (2013) found that major creditors to a firm in decline, such as banks and financial institutions, applied considerable pressure for decisive

action, such as the removal of a CEO. Cook et al. (2012) indicated that the appropriate management of creditor relationships can make or break an attempt at survival. The authors found that firms having access to organizational slack through banking relationships had better survival rates than firms mainly financed by accounts payable to suppliers. Pajunen (2006) found that, in addition to active communication / information sharing towards creditors, a crucial element in the turnaround of Kymi Corporation was that communication between management and stakeholders was based on the same long-term goal: to improve the firm's performance, so that in the near future the firm would show a profit and be able to settle its debts. A short-term goal of the banks would have been to drive the organization into bankruptcy and then call in its assets. The understanding of a common goal was received through a common meeting with owners, creditors, and managers. It was argued that the turnaround could not have been started without agreement on a consensual goal.

In addition, the importance of managing creditor relationships was highlighted by Collett et al. (2014) in their study of turnarounds under the regime of the Finish Restructuring of Enterprises Act. Under such a regime, a turnaround can only be attempted if creditors are confident that the firm has a viable future. In most cases, creditors will find it difficult to judge the probability of success of the proposed actions of the company's management. Instead, they will be guided by their experience of the relationship. Furthermore, the support of key creditors remains important, once the turnaround attempt is underway because the firm's management and its advisors have to demonstrate that the financial position of the firm is under control and that the turnaround plan is being implemented successfully.

Furthermore, managing the perceptions of customers is important for keeping the basic functions of the business running while attempting turnaround. Firms that maintain present customers during the turnaround may find the time frame in which they can enact turnaround lengthened because maintaining customers may stem further declines in profitability (Bruton et al., 2003). Specifically, Bruton et al. (2003) suggested that, based on long-term relationships with key customers, the firm could ask them to take greater shipments of a given product. This increase in sales could be in exchange for a better price or some other future consideration. Equally important is to maintain the idiosyncratic human capital essential to competitive advantage and the high morale needed in a workforce faced with layoffs and downsizing (Tangpong et al., 2015). Also worthy of note is potential govern-

ment intervention for those firms deemed “too big to fail”. In such cases, the government renegotiates the contractual disputes between the firm (most recently in the automobile and financial industries) and several stakeholders, including employees, suppliers, and creditors (Schoenberg et al., 2013). In addition Bruton et al. (2003) pointed out that governments can develop policies to help in turnaround efforts. In particular, stabilizing the legal environment, so that creditor positions are improved – together with increasing the transparency of the accounting standards – may promote the ability to encourage turnaround.

2.3.7. Summary of Contextual Factors

This section focused on contextual factors that influence turnarounds which relate to the second research question of this study. From the review of the recent literature, the following six contextual factors were identified to influence turnarounds: managerial cognition, executive compensation, executive replacement, corporate governance, family management, and the firm’s stakeholders.

First, managerial cognition, accounting for how the management of the firm perceives and interprets the factors that caused decline, was identified to influence subsequent turnaround actions. Specifically, it was found that awareness of the decline (if apparent) facilitated elevated attention towards the evolving crisis, prompt deliberations, and overall information exchange among decision-makers (Abebe, 2012; Clapham et al., 2005; Hurt & Abebe, 2015). Next, if managers perceive the causes of decline to originate from inside the firm, it likely results in more significant and wide-ranging changes in strategy than do interpretations of an external locus of causality (Barker & Barr, 2002; Clapham et al., 2005; Smith et al., 2008). Moreover, if the management perceives the decline situation as more severe, it is more likely to pursue retrenchment actions (Musteen et al., 2011). With regard to the second contextual factor, executive compensation, researchers found that performance-based pay incentivized the management to adopt retrenchment strategies and that these strategies were positively related to subsequent firm performance (Chen, 2015; Chen & Hambrick, 2012). Third, the majority of research supported the need for executive replacement to facilitate turnaround because precedent poor performance is a *prima facie* indication that incumbent leaders are ineffective and that poor performance necessitates major changes which incumbent managers are not inclined to take (Abebe, 2010; Abebe et al., 2012; Chen & Hambrick, 2012; Collett et al., 2014; Musteen et al., 2011). Fourth, independent boards of directors (BOD) are more effective in executing their supervisory role

during turnarounds because they are harder for the top management to dominate and they are more likely to encourage changes even in the face of management reluctance (Dowell et al., 2011; Heracleous & Werres, 2016; Schmuck, 2013). Furthermore, smaller boards were found to monitor the management more effectively because they showed greater individual commitment and decisiveness (Carmeli & Markman, 2011; Filatotchev & Toms, 2006). However, larger boards were associated with greater ability to provide more resources to the firm than smaller boards (Dowell et al., 2011), since they may possess more opportunities for relationships between board members and potential resource providers (e.g. banks, suppliers). With regard to the fifth contextual factor, family management, researchers found that the hybrid nature of family firms, combining the three overlapping subsystems business, ownership, and family, created unique challenges and opportunities in turnaround situations (Cater & Schwab, 2008; Courtemanche et al., 2013; Faghfour, 2013; Schmuck, 2013). Lastly, stakeholders, in particular owners and creditors, were found to be in a decisive position throughout the whole decline and turnaround process. Moreover, it was found that open, active, and reciprocal communication by the management towards the stakeholders ensured their continuing support for the organisation (Pajunen, 2006).

2.4. Turnaround Actions

This section, relating to the first research question of this study, focuses on research that addressed the actions firms take to enact turnaround. In particular, turnaround research has examined two essential categories of turnaround actions firms take in order to reverse decline: retrenchment and recovery actions. While retrenchment actions focus on increasing efficiency through cost and asset reductions, recovery actions (also referred to as strategic actions) concentrate on improving a firm's market position through strategic change (Lim et al., 2013; Ndofor et al., 2013; Schmitt & Raisch, 2013; Trahms et al., 2013). While some research described retrenchment and recovery as contradictory forces (Furrer et al., 2007), scholars generally advised firms to opt for one or the other (Ndofor et al., 2013) or to address them sequentially (Trahms et al., 2013).

2.4.1. Retrenchment Actions

Retrenchment actions can be defined as deliberately eliminating assets and / or reducing costs as a means of increasing firm efficiency (Lim et al., 2013). Generally, in turnaround

research, a two-category scheme of asset retrenchment and cost retrenchment was applied (Boyne & Meier, 2009; Furrer et al., 2007; Lim et al., 2013; Ndofor et al., 2013). Asset retrenchment referred to the net reduction of assets, such as closing plants, divesting financial assets (investments, participations, and shareholdings), and reducing stock of property, equipment, and inventory. Cost retrenchment referred to the net reduction of total costs, such as material costs, labour costs, interest expenses, or selling, general, and administrative expenses (SGA). Specifically, SGA included advertising expense, bad debt expense, commissions, director's fees, engineering expense, marketing expense, administrative services, pension, retirement, profit sharing, employee insurance, and research and development (R&D; Morrow et al., 2004; Morrow et al., 2007). Downsizing and employee layoffs were the retrenchment actions typically taken to cope with poor operating performance (Lim et al., 2013). Retrenchment also involved refocusing or eliminating non-core businesses. A firm might curtail diversification to concentrate on its core businesses (Furrer et al., 2007). Outsourcing manufacturing to lower-cost overseas on core competencies was another popular method in many industries (Boyne, 2006). Finally, Bruton et al. (2003) and Sudarsanam and Lai (2001) operationalized the reduction of accounts receivable as a retrenchment action. When such receivables were reduced, the firm required less financing and material costs could be lowered as well.

Numerous studies (e.g. Collett et al., 2014; Furrer et al., 2007; Lawton et al., 2011; Lin et al., 2008) indicated that asset and cost retrenchment led to performance improvements because of increased efficiencies brought about by the reduction of expenditures and the elimination of assets. For example, Furrer et al. (2007) found, in their sample of 58 publicly-traded US manufacturing firms, that cost retrenchment had a positive effect on shareholder value (measured by stock prices). Although recovery actions were also positively related to shareholder value, these relationships proved not to be significant. The authors concluded that investors may value retrenchment strategies (which presumably have immediate effect) highly in comparison to long-term strategies. The authors claimed that this finding is consistent with the argument that arresting the "bleeding" by the required "surgery" is an important first step for a firm to successfully turn around. Furthermore, Lin et al. (2008) found that cost retrenchment was an effective strategy to achieve turnaround and to survive a recession. Collett et al. (2014) found, in their sample of 228 Finish SMEs, that cost-cutting was likely to be a necessary but insufficient action for recovery. In addition, generation through asset sales would have been required to achieve successful turnaround.

Moreover, Lawton et al. (2011), in their case study of global legacy airlines, found that all airlines that achieved a turnaround used cost structure reconfiguration as part of their reorientation. Staff cuts were made at all three airlines, and ancillary businesses were spun off at Air Canada and All Nippon Airlines in order to achieve a leaner, more focused group structure.

Sudarsanam and Lai (2001) suggested that retrenchment actions offer the best prospect for successful turnaround. The authors argued that for firms facing declining financial performance, the key to a successful turnaround initially rests in the effective and efficient management of retrenchment activities. In making a distinction between the retrenchment phase and the overall turnaround process, it was argued that a retrenchment strategy needs to be the first step in every turnaround process.

However, these arguments did not go unchallenged. For example, Lin et al. (2008) also found a significantly positive relationship between workforce reduction and delisting risk which may indicate that firms with large layoffs face increased risk of failure. Furthermore, this finding may imply that, even though employee reduction may be necessary to deal with poor performance and / or a weakening economy, large-scale layoffs convey a negative signal about a firm's future prospects. That is, layoffs triggered by a firm's intrinsic financial and operational weaknesses, exacerbated by adverse market conditions, can indicate a high probability of business failure. Furthermore, Schmitt and Raisch (2010) argued that retrenchment activities, such as downsizing, may reduce a firm's ability to recover by sapping employee morale and causing employees with marketable skills to leave the firm. Francis and Desai (2005) added that the exit of employees can cause losses of firm specific knowledge of products and services as well as processes and routines.

Several studies (Chen, 2015; Francis & Desai, 2005; Schmitt & Raisch, 2013) found that the effectiveness of retrenchment actions depends on the extent of the organization's decline. Schmitt and Raisch (2010) argued that decline characteristics are important because they either signal managers that current strategies and resources are not effective and create pressure to change – or give managers some idea of how ineffective current resources are employed and how fast they are deteriorating. As decline situations vary, they have the potential to impact the effectiveness of retrenchment actions.

Turnaround research has looked at two aspects of decline: the magnitude of decline (severity) and how rapidly a firm's performance has deteriorated (suddenness). Basically, it was suggested that more severely declining firms will be more likely to implement retrenchment actions as opposed to firms who experience a less severe decline (Chen, 2015; Francis & Desai, 2005). Declining firms in less severe situations may implement a multitude of strategies, such as increased marketing to promote sales or moving into more market niches, while those in severe situations are close to bankruptcy and have limited range of actions due to acute resource depletion. Extremely troubled companies that have few available resources are more likely to extensively retrench than those with more available resources (Francis & Desai, 2005). Specifically, Chen (2015) argued that if a firm is in deep trouble and far below break-even point, it will be difficult – if not impossible – to boost revenue enough to get back to profit. The troubled firm has to cut costs, reduce assets, and refocus its products and market. In contrast, firms in less severe situations, or slightly below break-even point, have more flexibility in choosing their strategy.

The second aspect of firm decline is temporal and concerns how gradually or rapidly the decline occurs. Francis and Desai (2005) proposed that there are patterns of decline in terms of how resources deteriorate and classified these patterns as either sudden or lingering. A sudden decline is characterized by moving from a perceived situation of organizational health to one of poor performance and instability in a short period of time. Firms undergoing rapid declines would have a shorter time frame to garner resources and implement strategic actions to stem the decline. Rapid declines may lead a firm to focus on short-term oriented retrenchment actions instead of longer-term oriented strategic actions.

In addition, Tangpong et al. (2015) found that the effectiveness of retrenchment actions is contingent on the timing of their implementation. It was argued that early retrenchment actions, initiated to quickly stem the decline, to stabilize financial conditions, and to free up organizational slack, are important to prevent the firm from entering the downward spiral of decline within which the firms are less likely to make successful turnarounds. Early retrenchment actions were found to have an important function to curb further decline, to stabilize financial conditions, and to relieve decline-induced stress. Specifically, it was found that the early implementation of retrenchment actions promptly halted the performance deterioration, stabilized the financials, and improved operating conditions in declining firms. Improved operating conditions, such as higher cash flow, slack resources, and

lower debt, assisted the firm to recapture productivity, profitability, and growth. Improved operating performance could then restore the confidence of key investors and other external capital market stakeholders, thereby enhancing the firm's ability to obtain external financial resources via the capital market. Conversely, Tangpong et al. (2015) found that when declining firms delayed their implementation of retrenchment actions, firms permitted the decline problems to magnify and deepened into a situation of high stress and dwindling resources. The increasingly high degree of stress undermined managers' ability to perform and to cope with the challenges inherent in their turnaround tasks, resulting in strategic errors, failed innovative initiatives, poor organizational performance, and further diminishing resources. Such a deteriorating situation, in turn, increased the stress level and provoked various organizational pathologies, such as secrecy, scapegoating, isolation, avoidance, and passivity, which compromised decision-making quality and induced further managerial errors and performance decline (Tangpong et al., 2015).

Moreover, Morrow et al. (2004) argued that the effectiveness of retrenchment actions would be contingent on the industry condition of the declining firm. Firms competing in mature industries face fundamental differences from those competing in growth-oriented industries. Morrow et al. (2004) went on to argue that the value of firms in mature industries is largely based on the present value of anticipated cash flows. However, in growth intensive industries, value is based largely on the firms' future growth options and their ability to discover, develop, and exploit capabilities that others do not have. The authors provided evidence that cost retrenchment had a negative impact on performance among poorly performing firms in growth industries while it had a positive effect on performance among firms in mature industries. It was argued that for firms in growth industries, dedicating resources to the development of new capabilities, innovation, market research, and marketing approaches are usually critical. Firms in growth industries generally have to keep developing and exploiting new product and market opportunities to fend off existing competitors and new entrants. All these efforts usually require substantial investments in R&D, production, and marketing functions, in an effort to keep pace with the industry's expansion. Cutting costs and implementing strict cost controls tend to reduce the level of innovation, yet firm innovation and the development of new capabilities are a central part of competition in growth industries. If firms with declining performance cut costs while successful competitors are increasing expenditures, they are likely to fall behind in further innovative developments and lose out on customer service and market gains. On the other

hand, mature industries are often characterized by a high degree of market saturation, fewer significant product innovations, and experienced buyers who can understand and compare the product offerings of rival vendors. As the rate of growth slowly tapers off, overcapacity may develop. As competition intensifies, firms are generally pressured to cut costs, emphasize more efficient utilization of resources, and limit investment in R&D. The focus of this strategy is to stabilize performance through cost leadership and efficiency, in part by maximizing capacity utilization and increasing standardization (Morrow et al., 2004).

Furthermore, Boyne and Meier (2009) argued that retrenchment would be effective in an environment of low munificence, whereas this strategy might not be feasible when munificence is high. Similarly, Ndofor et al. (2013) found that retrenchment actions tended to reduce the chances of turning around for firms in a munificent environment (software industry during the 1990s). The authors concluded that managers of firms acting in munificent environments cannot retrench or downsize their firms back to performance growth. Indeed, firms that engage in retrenchment actions experience reductions in industry- and firm-specific human capital as well as industry-specific social capital that increase the probability of firm failure. Ndofor et al. (2013) stipulated that retrenchment disrupts innovative processes, leads to turnover of valuable human resources, sullies corporate reputation, and enacts hardships on employees.

Lim et al. (2013) proposed that the effectiveness of retrenchment actions would be contingent on the firm's rent creation mechanism. The authors' approach was built on two distinct mechanisms of rent creation: the Ricardian perspective based on firm resources and the Schumpeterian perspective based on firm capabilities. Ricardian rents are mainly achieved by owning and exploiting valuable and rare resources. On the other hand, Schumpeterian rents are mainly achieved by entrepreneurial risk taking based on building unique capabilities – the purpose of which is to improve the productivity of the other resources possessed by the firm. Within a sample of 750 Japanese firms, the authors found that cost retrenchment had a negative impact of post-retrenchment performance when a firm had a relatively high Schumpeterian rent creation focus built on the exploration of dynamic capabilities. Specifically, it was found that cutting SGA costs proved very costly to Schumpeterian-focused firms. These deleterious effects were worsened for firms in more innovation-oriented industries. With regard to asset retrenchment, it was found that in capital-intensive industries, a deeper asset retrenchment was more desirable for low Ri-

cardian focused firms. However, the incremental effect of asset retrenchment was, in general, negative in less asset-intensive industries and positive in more asset-intensive industries. Lim et al. (2013) suggested that Ricardian-focused firms create economic rents through resource picking and subsequent exploitation of these resources. It may be possible that Ricardian-focused firms may be able to discern rent-generating assets from non-productive assets and focus their retrenchment on the latter. In addition, even though these firms discard some of the valuable and rent-generating assets, they may be able to reacquire some of them, or resources with equivalent rent-generating potential, once they regain financial stability. It is also possible that some firms maintain continued access to, and the exploitation of, the discarded assets through a sale-and-lease-back scheme. Accordingly, it is plausible to expect that the negative impact of asset-retrenchment on post-retrenchment performance, if any, will be relatively short-term.

2.4.2. Recovery Actions

Recovery actions refer to strategic changes that transform and reposition the firm in order to achieve sustained growth and profitability (Trahms et al., 2013). Two basic recovery strategies are diversification at the corporate level and concentration at the business level. Rasheed (2005) defined diversification as the entry of a firm into new lines of activity, either through internal development or acquisitions. Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion. Diversification can also be accomplished through external modes, such as acquisitions and joint ventures. On the other hand, concentration can be achieved through vertical or horizontal growth. Vertical growth (along the supply chain) occurs when the firm takes over a function previously provided by a supplier or distributor. Horizontal growth occurs when the firm expands products into new geographic areas or increases the range of products and services in current markets. Several researchers underlined the critical role of recovery actions in turnarounds (Morrow et al., 2007; Ndofor et al., 2013; Schoenberg et al., 2013; Sudarsanam & Lai, 2001), suggesting that recovery actions are the true driver of long-term performance gains after decline. For example, Sudarsanam and Lai (2001) found that recovery firms adopted more forward-looking, expansionary, and external market focused strategies than non-recovery firms which seemed to be still preoccupied with internal changes.

Additionally, Morrow et al. (2007) found that developing new combinations of existing resources to introduce new products or acquiring new resources through acquisitions can enable firms with declining performance. However, between these two strategic actions, the results of the study suggested that recombining resources to produce new products may produce the greatest gain in performance. The authors argued that organic growth (introducing new products developed internally) creates more value for firms than do acquisitions. The difference in the effects may be because the integration of newly acquired resources is difficult and thus entails additional costs. Nonetheless, it was concluded that acquisitions may create value, although they must be carefully selected and managed (Morrow et al., 2007).

Wan and Yiu (2009), in their sample of 78 firms from Hong Kong and Singapore, found that corporate acquisitions were positively related to firm performance during an environmental jolt (the Asian financial crisis 1997-1999). It was argued that, by acquiring a competitor, firms can eliminate competitive threats or gain economies of scale or market power. Firms facing industry fragmentation or lacking growth may engage in acquisitions to increase their growth rates. In addition, firms seeking to quickly obtain new capabilities often use acquisition strategies to expedite the process. Furthermore, it was argued that, although environmental jolts are often viewed by many as a crisis, they would represent an altered set of opportunities and firms that recognize where these opportunities lie would reap significant benefits. It was contended that, although acquisitions pose a lot of challenges and may easily hurt firm performance, firms that are more aggressive in pursuing acquisitions during an environmental jolt when opportunities become more abundant, are likely to experience better performance (Wan & Yiu, 2009). Furthermore, the authors noted that firms in Asia are less likely to undertake acquisitions as frequently as their counterparts in some Western countries, such as the United States and, therefore, acquisitions may be taken with more care in these countries resulting in better performance (Wan & Yiu, 2009).

However, other author's noted that acquisitions are only feasible for companies that have the discretionary resources (excess cash or borrowing capacity) and these acquisitions must be selected with great care. For example, Heracleous and Werres (2016), in a case study, found that various undirected acquisitions and subsequent integration problems were one of the major reasons for corporate failure of their studied company. Specifically, it was

found that post-acquisition efforts relating to operations, services, and business practices became increasingly multifaceted and time-consuming – an issue which the management did not address effectively. Little effort was made to build a common mind-set among different departments which led to interunit rivalry and reluctance to cooperate. Smaller integration problems (that later grew) were generally ignored, with managerial attention focused on the next deal (Heracleous & Werres, 2016).

Sudarsanam and Lai (2001) found that internal capital expenditure²⁴ contributed positively to turnaround performance. Capital expenditure was designed to achieve productivity improvement, for example, by building new plants and equipment or computerized processing and monitoring equipment which speeded up production and market response, improved productivity, and reduced cost. Moreover, it also enhanced the firm's competitive advantage, for example, when the firm achieved economy of scale by expanding its output. In support of this argument, Smith and Graves (2005) found that companies that expanded their asset base (as opposed to selling-off productive assets) were more likely to recover from decline. However, it was argued that, since capital expenditures involve cash outflows, firms in decline may only be able to undertake such capital expenditure if cash or credit lines are available (Smith & Graves, 2005).

In addition, Lawton et al. (2011), in their case studies of legacy airlines, found that three airlines recovered through improvement and innovation. These companies deployed a compelling new value proposition to existing and potential customers, sustained by a significant shift in their market position. A value proposition was thereby defined as the offer of a product or a set of related products that a company makes to a customer, including all the experiences that go with making the purchase – before, during, and after the purchase itself. For example, Air Canada radically reworked its fare structures to provide customers with an "à la carte" approach to pricing, allowing them to pick from a number of sub-branded fare structures and improved accessibility to products through internet sales and e-ticketing. A further strategic measure which was found to be successful during the airline's turnaround was to leverage brand equity. Aeroflot, Air Canada, and All Nippon Airlines invested in improving their respective reputations – and by implication – their brands. For

²⁴ Capital expenditure was defined as funds used by the company to acquire or upgrade physical assets, such as property, industrial buildings, or equipment. It was used to undertake new projects or investments by the firm. This type of outlay could also be observed with companies maintaining or increasing their scope of their operations (Sudarsanam & Lai, 2001).

example, All Nippon Airlines implemented an intentional programme of brand consolidation. Air Canada sought to reposition its brand in line with its new efforts for improved customer services as well as modernizing its livery (Lawton et al., 2011).

Researchers (e.g. Chen, 2015; Dowell et al., 2011; Ndofor et al., 2013) have also investigated how environmental conditions affect recovery actions during turnaround. Specifically, turnaround scholars draw a distinction between troubled firms that are in relatively healthy industries vs. those that are in struggling, low-growth industries. If the industry is healthy, growing, and the cause of the problem is not the industry environment, troubled firms have a greater chance to leverage revenue growth and market expansion strategies (Chen, 2015). For example, Ndofor et al. (2013) found that turnaround attempts in a munificent industry (software industry during the 1990s) benefited from strategic actions, specifically from acquisitions, new alliances, and new product introductions. Similarly, Dowell et al. (2011) provided evidence that among firms facing decline, those in growing markets tended to engage in more strategic actions than those in stable or declining industries. Lim et al. (2009) found that strategic actions related to technology were common for firms facing extensive decline.

Although the majority of research supported the view that recovery actions are the true driver of firm turnaround (Lawton et al., 2011; Morrow et al., 2007; Ndofor et al., 2013; Sudarsanam & Lai, 2001; Wan & Yiu, 2009), these actions (e.g. product development, acquisitions, capital expenditure, regional expansion) are costly and may only be feasible for firms that maintain excess slack (cash or borrowing capacity) or the financial support of influential stakeholders (e.g. owners / shareholder and banks; Pajunen, 2006; Smith & Grave, 2005; Tangpong et al., 2015).

2.4.3. Sequence and Integration of Turnaround Actions

Most studies described retrenchment and recovery as contradictory forces and warned against pursuing them concurrently (Collett et al., 2014; Furrer et al., 2007; Lim et al., 2009). According to this view, turnaround firms either opt for retrenchment or recovery, depending on several contingencies, such as environment, industry, severity of decline, or the firm's core rent creation mechanism (Chen, 2015; Lim et al., 2013; Morrow et al., 2004). Conversely, other authors suggested that, since both activities are contradictory, they should be addressed sequentially (Lin et al., 2008; Schoenberg et al., 2013; Tangpong

et al., 2015). The sequential perspective thereby has two, clearly separate, subsequent stages: the retrenchment stage is considered to extend from the onset of the turnaround situation until asset and cost reductions have been carried out. Subsequently, the recovery stage is considered to extend from the cessation of asset and cost reductions until the firm achieves or fails to achieve the turnaround (Tangpong et al., 2015). Lin et al. (2008) explicitly advised against initial recovery activities. The focus should be solely on retrenchment to provide a stable base from which an array of recovery strategies can be successfully undertaken. In criticising this perspective, other scholars argued that engaging in retrenchment without a clear understanding of the recovery strategy may enhance short-term performance, but that retrenched resources may later be required for sustainable adaptation to the market (Lim et al., 2009; McKinley et al., 2014). For example, Lim et al. (2009) warned that retrenchment activities need to consider the firm's strategic long-term orientation. Moreover, an initial focus on retrenchment may reduce the firm's innovation capacity and delay or hinder effective recovery activities (McKinley et al., 2014).

Given the focus on separating the two activities, research has paid little attention to the interrelations between retrenchment and recovery actions. However, some scholars argued that retrenchment and recovery may be mutually reinforcing and their integration beneficial. For example, Pajunen (2006) argued that it may be difficult to retrench effectively without an understanding of which resources should be retained for recovery activities. Schmitt and Raisch (2013) argued that retrenchment and recovery actions form a duality. They are contradictory but also mutually enabling. The authors identified learning complementarities, organizing complementarities, and performing complementarities between retrenchment and recovery which are outlined in the following.

- *Learning complementarities* stem from focus and experimentation strategies. While focus is a variance-reducing practice that supports exploitation, it can also enable exploration by freeing up scarce resources, setting clear priorities, and ensuring coherence between various efforts. During turnarounds, focused retrenchment allows firms to free up redundant resources while ensuring that they retain those resources that are critical to generate and absorb new knowledge during recovery. On the other hand, experimentation has been related to recovery, but it can also contribute to retrenchment as it allows firms to learn how to do the same work with fewer resources.
- *Organizing complementarities* arise from formalization and participation strategies. In a turnaround context, formalization fosters retrenchment by ensuring tighter resource con-

trol, but it can also help define expectations and ensure organizational commitment to recovery objectives. On the other hand, participatory management has particularly strong effects during turnarounds, since the norms of respectful interaction provide employees with the resilience required in a decline situation. This applies to involving employees in recovery activities but also to motivating them to become more rigorous when utilizing resources during retrenchment.

- *Performing complementarities* surface when managers combine profit and breakthrough strategies. While an orientation towards short-term profits is linked to exploitation, it can also build the trust to employ the firm for more radical innovation. During turnarounds, retrenchment's short-term performance outcomes can create the momentum and confidence required for recovery activities. Moreover, the stakeholders of a declining company need to see continuous profit improvements to continue supporting the firm's recovery activities. On the other hand, long-term breakthrough strategies are linked to exploration, but they can also help to build the motivation and moral to ensure stakeholders' commitment to short-term profit goals. For instance, turnaround firms are more likely to gain stakeholders' support for retrenchment if they perceive these activities leading to long-term recovery.

Besides retrenchment and recovery actions, further organizational responses to decline that were identified from the literature review can be categorized in financial and human resource-oriented actions. The respective findings are discussed in the following sections.

2.4.4. Financial Actions

Financial actions in a turnaround context refer, firstly, to the reworking of a firm's capital structure to relief the strain of interest and debt repayments which can be separated into two strategies – equity-based and debt-based strategies (Angwin & Meadows, 2012; Lin et al., 2008; Sudarsanam & Lai, 2001). Equity-based strategies cover dividend cuts or omissions and equity issues, such as rights issues, public offers, or institutional placings. Firms in decline tend to reduce or omit dividends due to liquidity constraints, restrictions im-

posed by debt covenants²⁵, or strategic considerations, such as improving the firm's bargaining position with trade unions. Sudarsanam and Lai (2001) found that large firms responded to decline with rapid and aggressive dividend reductions. Distressed companies may also raise equity funds via share issues more than non-distressed firms because of pressure from creditors concerned with the security of their lending (Lin et al., 2008). However, this strategy may only be feasible for stock-listed companies. Moreover, during an economic downturn, it may not be appropriate as stock markets are depressed (Angwin & Meadows, 2012).

Debt-based strategies refer to the restructuring of the firm's debt. Firms restructure their debt either to avoid financial distress or to resolve existing financial distress. Lin et al. (2008) defined debt restructuring as a transaction in which an existing debt is replaced by a new contract with one or more of the following characteristics: (1) interest or principal reduced; (2) maturity extended; (3) debt-equity swap²⁶. However, Collett et al. (2014) pointed out that attempts to reduce costs via debt restructuring are only possible with the support of powerful creditors.

Moreover, financial management or management accounting techniques were found to be effective strategies in response to decline (Cook et al., 2012; Haron et al., 2013). For example, Cook et al. (2012) found that sound financial management bore some relationship to chances of survival for SMEs. Thus, entrepreneurs are recommended to take appropriate training or professional advice. Haron et al. (2013) found, in a case study of an airline turnaround, that an understanding of the turnaround process and the role of management accounting techniques²⁷ provided greater insight to the turning around of business perfor-

²⁵ A covenant is a contractual promise in an indenture, or any other formal debt agreement, that certain activities will or will not be carried out. In a financial context, covenants most often relate to terms in loan contracts, such as stating the limits at which the borrower can further lend or other such clauses. Covenants are put in place by lenders to protect themselves from borrowers defaulting on their obligations due actions detrimental to themselves or the business (Sudarsanam & Lai, 2001; Lin et al., 2008).

²⁶ A debt to equity swap is a transaction in which debt of a company is exchanged for equity in most cases company shares). More specifically, in the case of a publicly-traded company, this would entail the exchange of bonds for stocks (Collett et al., 2014; Lin et al., 2008).

²⁷ Management accounting can be defined as the process of identifying, measuring, analysing, interpreting and communicating financial information for underlying management decisions. This is also known as cost accounting. The key difference between management and financial accounting is that management accounting aims at helping managers within to make decisions in pursuit of organizational goals, while financial accounting aims at providing information to parties outside the organization (Cook et al., 2012; Haron et al., 2013).

mance and enhancement of the effectiveness of strategic decision-making. The knowledge of the turnaround phases, when integrated with relevant management accounting practices, provided opportunities for the company to add value and to develop a competitive advantage. In the authors' case study, management accounting practices facilitated the turnaround of the company from a distressed state to a return to profitable growth.

2.4.5. Human Resource-oriented Actions

A shortcoming of the reviewed turnaround research was that, with regard to human resource issues, it focused almost exclusively on the senior management of the firm (CEO or members of the TMT / BOD). Only a few studies regarded potentially positive effects of a wider human resource strategy that, for example, emphasizes recruitment and training of staff at lower organizational levels. In particular, Boyne and Meier (2009) found that organizations were better placed to achieve turnaround if they recruited more "core employees" with higher expertise. In this study, core employees were defined as non-supervisory, non-managerial workers involved in making the product or in providing the service and as the workers who were specifying in the core activity of the firm and performing the organization's base operations. In the service sector, these might be lawyers in a legal practice, doctors in a hospital, or teachers in a school. Instead, non-core employees were referred to as administrators and manual workers. Boyne and Meier (2009) argued that failing organizations need to become better in their principal task and that the allocation of resources to more and / or better core employees will enhance the prospects of turnaround. Conversely, organizations perform worse as they have high levels of administrative overheads. It was contended that organizations are tipped into decline when they become top-heavy with non-core staff. However, if in an increase in the non-core ratio either precipitates or reinforces decline, reversing this balance will facilitate recovery (Boyne & Meier, 2009).

Lawton et al. (2011) found that investment in staff development and management-employee relations underpinned turnaround. In their case studies of legacy airlines, all airlines that achieved a turnaround invested in improving relations with their staff and in providing comprehensive training for employees in technical skills, customer service, and change management, especially with regard to revised corporate culture and strategic aims. Moreover, excellent communications between airline management and staff during times of change within the airline also characterized the repositioned airlines.

Teece et al. (1997) observed that winners in scarce times had been firms that demonstrated timely responsiveness and rapid and flexible product and process innovation, coupled with the capabilities to effectively coordinate and redeploy internal and external competences. As set out in section 2.2.2 above, such capabilities of firms are knowledge sets that comprise four dimensions; its content is embodied in (1) employee knowledge and skills and embedded in (2) technological systems. The processes of knowledge creation and control are guided by (3) managerial systems. The fourth dimension is (4) the values and norms associated with the various types of embodied and embedded knowledge and with the process of knowledge creation and control (Leonard-Barton, 1992). In particular, the third and fourth dimensions to build firm capabilities to stem decline (and at the same time prevent the evolution of core rigidities) can be strengthened by human resource-oriented actions.

For example, managerial systems can foster the development of capabilities when they incorporate blends of skills and promote beneficial behaviours of employees. One possibility would be to make employees shareholders to align their financial interests to the well-being of the company, as employees will feel that every turnaround action is an effort to improve a process they own. Another example, as applied in the airline companies studied by Lawton et al. (2011), would be to implement an apprenticeship programme, involving both classroom or online education and on-the-job training.

With regard to the values dimension, capability building can be fostered by strengthening employee empowerment. Empowerment is the belief in the potential of every individual to contribute meaningfully to the task at hand (Leonard-Barton, 1992). In particular during decline periods, the future of the corporation rests on the ability of its employees to find innovative responses, for example by creating new businesses, championing new products and processes, or becoming more efficient in their principle tasks (Boyne & Meier, 2009). A company generally recognized for empowering employees attracts, holds, and motivates talented people who value the knowledge base underlying that capability and join up for the challenges, the camaraderie with competent peers, and the status associated with achieving a turnaround in a supposedly hopeless situation (Leonard-Barton, 1992).

The turnaround actions identified from the literature are summarized in the following narratives.

2.4.6. Summary of Turnaround Actions

The majority of research suggested that retrenchment actions are helpful for organizations in decline (Collett et al., 2014; Furrer et al., 2007; Lawton et al., 2011; Lin et al., 2008). However, it was also suggested that the effectiveness of retrenchment actions would be dependent on several contingency factors, such as, the severity and suddenness of decline (Chen, 2015; Francis & Desai, 2005; Schmitt & Raisch, 2010), their timing (Tangpong et al., 2015), the firm's industry (Morrow et al., 2004), general environmental conditions (Boyne & Meier, 2009; Ndofor et al., 2013), or the firm's core rent creation mechanism (Lim et al., 2013). With regard to recovery actions, it was found that expansionary actions, for example, developing new combinations of existing resources to introduce new products (Morrow et al., 2007), corporate acquisitions (Morrow et al., 2007; Wan & Yiu, 2009), capital expenditure (Smith & Graves, 2005; Sudarsanam & Lai, 2001), introducing a new value proposition to customers, or investing in brand equity (Lawton et al., 2011) positively influenced subsequent performance. Furthermore, it was found that when companies operate in healthy industries and the cause of the problem is not the industry environment, these firms may have a greater change to leverage revenue growth and market expansion strategies (Lim et al., 2009; Ndofor et al., 2013). However, recovery actions usually necessitate greater levels of investment expenditure and are therefore only feasible for companies that maintain excess slack or financial support from stakeholders (Pajunen, 2006; Tangpong et al., 2015). Mixed evidence was provided with regard to whether retrenchment and recovery actions are more effective when they are performed either sequentially (Lin et al., 2008; Schoenberg et al., 2013; Tangpong et al., 2015) or concurrently (Lim et al., 2009; McKinley et al., 2014). However, it was found that, when integrated properly, retrenchment and recovery actions may be mutually reinforcing, enabling learning, organizing and performing complementarities (Pajunen, 2006; Schmitt & Raisch, 2013).

Furthermore, research found that financial actions, such as dividend cuts or equity issues, were applied by distressed companies to improve their financial position (Lin et al., 2008). Moreover, it was found that sound financial management and management accounting techniques were effective strategies in response to decline (Cook et al., 2012; Haron et al., 2013). With regard to human resource-oriented actions, it was found that organizations were better placed to achieve turnaround when they recruited more core employees (Boyne & Meier, 2009). Moreover, investment in staff development and management-employee relationships were found to underpin turnaround (Lawton et al., 2011).

2.5. Turnaround Outcomes

The final section of this literature focuses on turnaround outcomes as the end of turnaround processes. In this respect, two key issues arose in the literature: (1) how a successful reversal of decline is defined and (2) how to operationalize turnaround.

2.5.1. Definitions of Turnarounds

The first issue addresses both the magnitude of performance change needed to qualify as a turnaround and the duration after commencement of decline within which the organization's performance is evaluated to determine whether it has successfully reversed the decline. There is general consensus that, to constitute a successful recovery, performance measures should be at least positive or above the risk-free rate (Abebe, 2012; Ndofor et al., 2013; Schmitt & Raisch, 2013). There is less agreement, however, on how long the reversal of decline has to last to be considered a successful turnaround. While some authors (Chen, 2015; Furrer et al., 2007) argued that one year is sufficient to confirm a turnaround, others (Abebe, 2012; O'Kane & Cunningham, 2012) argued that at least three years of sustained positive performance are necessary to judge a successful turnaround.

2.5.1.1. Profitability-based Measures

Many of the reviewed studies defined turnaround in terms of profitability. 10 studies used pre-tax profits or net income and 14 studies used profitability indicating accounting ratios, such as return on assets (ROA)²⁸, return on equity (ROE)²⁹, or return on investment (ROI)³⁰. For example, Lawton et al. (2011) included companies in their case study-research that achieved three years of consistent growth in net income. In applying an accounting-based ratio, Abebe (2010) defined a successful turnaround by a company achieving minimum three years of increasing and positive ROA above the risk-free rate.

²⁸ Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. It is calculated as net income divided by total assets (Abebe, 2010).

²⁹ Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is calculated by dividing net income over shareholder's equity (Chen, 2015).

³⁰ Return on investment (ROI) measures the amount of return on an investment relative to the investment's cost. It is calculated by net income divided by the current market capitalization (outstanding stocks; Morrow et al., 2004).

However, other researchers (e.g. Abebe et al., 2012; Chen & Hambrick, 2012; Pandit, 2000) argued that to solely base the analysis on accounting-based information is problematic as it ignores the time-lag between profitability and competitiveness. Specifically, Pandit (2000), by conducting a literature review on turnaround research, argued that a gradual loss of competitiveness is often not reflected as a gradual deterioration in profitability. Rather, profitability may decline very slowly at first and then suddenly plummet. Similarly, there may be a time-lag between improvements in competitiveness and subsequent profit improvement. It was suggested that the decline lag may be the result of top management's small-scale and partial response to the initial, admittedly weak, signs of impending failure. Also, Chen and Hambrick (2012) noted that the problem may be exacerbated by the tendency of managerial manipulation of accounting-based measures of profitability ("window dressing") in declining profit contexts. Hence, the definition of turnarounds may be based on manipulated and false information. Going part of the way to address these issues, several researchers used multiple accounting-based indicators of performance. For example, Abebe et al. (2012) used ROA in combination with Altman's bankruptcy prediction Z-score³¹, and Chen (2015) used a combination of ROE and net income. However, with this approach, the problems of performance / indicator lags and accounting manipulation remain.

2.5.1.2. Market-based Measures

Others researchers (e.g. Clapham et al., 2005; Lim et al., 2013; Morrow et al, 2007) based their analysis on market-based measures, such as Jensen's alpha³² or Tobin's q³³. For example, Morrow et al. (2007) defined turnaround in terms of a company achieving two years of inclining market performance measured by Jensen's alpha. Another example was the research of Clapham et al., (2005) who defined a successful turnaround by a company achieving minimum three consecutive years of Tobin's q above 1.0. However, with regard to market-based measures, a further related point on time lags can be made. Specifically,

³¹ Altman's bankruptcy prediction Z-score is the output of a credit-strength test that gauges a publicly traded manufacturing company's likelihood of bankruptcy. The Altman Z-score is based on accounting data found in the annual reports of the companies. Lower values in general indicate higher risk of bankruptcy and a score less than 3.0 suggests a high likelihood of bankruptcy in the short term (Abebe 2010).

³² Jensen's alpha measures the return of a stock relative to the return that was expected by investors (Morrow et al., 2007).

³³ Tobin q defines the ratio of market value to book value. A Tobin's q above 1 implies that the firm's market value is greater than its replacement cost (book value of assets), thus, generating value for the firm's shareholders (Clapham et al., 2005).

Lim et al. (2013) argued that there may be a situation in which a firm that is successful in that its market capitalization is rising rapidly but, at the same time, is making losses. This situation may arise when investors believe the company to be viable and expect profits in the longer term. Clearly, in such cases, assessment of turnaround performance based on current market-based measures alone would be misleading. Lim et al. (2013) went on to argue that the problem with regard to market-based measures is that stock prices may be influenced by non-fundamental factors, such as political factors or investor sentiment.

2.5.1.3. Human Judgement

Other researchers (e.g. Carter & Schwab, 2008; Furrer et al., 2007; Yandava, 2012; Fisher et al., 2004) based their definitions of human judgement (for example, expert opinions³⁴, business press releases, or newspaper articles), either standing on its own or supporting accounting-based information. For example, Carter and Schwab (2008) based their decision to include companies in their case study research by interviewing stakeholders (owners, banks, employees) to find out whether they perceived that the company had achieved a turnaround. Fisher et al. (2004) based their analysis on press releases about the firms that were gathered and rated by an expert panel. Furrer et al. (2007) scanned business press articles that mentioned the firms in connection with the word “turnaround”. Yandava (2012) identified turnaround companies from the Compustat database using accounting-based information and supplemented the data with qualitative information from annual reports and newspaper databases. Furthermore, interviews with management and stakeholders were conducted. Schmitt and Raisch (2013) supplemented accounting data with interview data of turnaround consultants of the company. These approaches did have the advantage of taking contextual variation into account which may be considered particularly valuable given the heterogeneity of turnaround cases.

2.5.2. Operationalizations of Turnarounds

The second issue with regard to turnaround outcomes is the question of how to operationalize a successful turnaround. In this regard, four outcome categories could be identified from the literature: first, a sharp-bend recovery by which the company achieves performance levels that outreach its performance before the decline period (e.g. Ndofor et al.,

³⁴ With regard to the terms expert and expert interviews note Gläser & Laudel (2010) that experts can be defined as people that bear specific knowledge with regard to complex social issues. Expert interviews are a method to access and conceptualize this knowledge.

2013; Trahms et al., 2013; Haron et al., 2013). Second, moderate recovery, when the declining firm's performance has increased but is still below performance levels the firm used to have before the downturn (e.g. Sudarsanam & Lai, 2013). Third, Cook et al. (2012) and Collett et al. (2014) found that firms used insolvency as a reorganizational strategy within the turnaround process. In these pieces of research, turnaround was operationalized either as mere survival after insolvency procedure (without considering performance; Collett et al., 2014) or by the extent of realization of the insolvency plan (Cook et al, 2012). Fourth, Collett et al. (2014) found that firms that were liquidated after a failure to reorganize were smaller in total assets prior to reorganization and experienced more years in decline prior to insolvency filing than those firms that were successful or partially successful at reorganization. Hence, the fourth category of turnaround outcomes could be identified as liquidation after filing for insolvency. Thus, the outcome categories ranged from the most positive result of turnaround – a sharp-bend recovery in which a firm not only recovers but achieves performance levels greater than before crisis – to the most negative outcome of the turnaround process – an organizational failure and liquidation in which a firm is finally forced to close its doors.

2.5.3. Summary of Turnaround Outcomes

The first issue with regard to turnaround outcomes addressed the magnitude and duration of performance change needed to qualify as a turnaround. The majority of the reviewed studies defined turnaround outcomes on the basis of accounting-based indicators, such as ROA, ROE, ROI, pre-tax profits, net income, or Altman's Z-score, focusing on a period of two to three years after the commencement of decline. Either the study's conclusions were based on a single accounting-based indicator or a combination of these. This approach was critiqued by other researchers, arguing that it does not account for time-lags between competitiveness and profitability (Pandit, 2000) and that there may a tendency of managerial manipulation of accounting-based measures ("window dressing") in declining profit contexts (Chen & Hambrick, 2012), distorting the information on which the definitions are based. Other researchers used market-based measures, such as Jensen's alpha or Tobin's q (for example, Clapham et al., 2005 and Morrow et al., 2007), that were based on stock prices of publicly traded companies. However, this approach was also criticised because stock prices could be influenced by non-fundamental factors, such as global or national politics or investor sentiment (Lim et al., 2013). Other researchers based their definition on human judgement that was gathered by interviewing stakeholders / turnaround practition-

ers or analysing business press releases or articles (e.g. Cater & Schwab, 2008; Fischer et al., 2004; Furrer et al., 2007; Schmitt & Raisch, 2013). Given the heterogeneity of turnaround cases, these approaches had the advantage of taking contextual variation into account which could not be achieved by looking at accounting- or market-based indicators alone. Finally in this section, turnarounds were operationalized as sharp-bend recovery (e.g. Ndofor et al., 2013; Haron et al., 2013), moderate recovery (e.g. Sudarsanam & Lai, 2013), reorganization through insolvency (e.g. Cook et al., 2013; Collett et al., 2014), and closure after insolvency (e.g. Collett et al., 2014).

2.6. Literature Review Summary and Conceptual Framework

Within this literature review, 40 studies that were published in the timeframe 2001-2017 were systematically and critically reviewed. On this basis, a conceptual framework was developed by the researcher which is depicted in Figure 1 at the end of this section. The following narratives summarize the findings from the literature review and explain the construction of the framework.

2.6.1. Causes of Decline

The turnaround process starts with causes of organizational decline that can be classified into internal and external causes. Research on external causes of decline mainly built on industrial organization theory (Porter, 1980; Schumpeter, 1943) and posited that corporate failure largely results from the impact of industry factors rather than from the firm's internal factors. Such industry factors included environmental jolts, technological changes, or industry decline to which the organization fails to adapt to and consequently enters decline. Research on internal causes of decline mainly applied the resource-based view of the firm (RBV), positing that a firm achieves competitive advantage by exploiting its resources (that must be valuable, rare, imitable, and not substitutable) to create competencies that are valued in the market place. However, over time, these resources may erode in value and the firm loses its competitive advantage leading to decline. Research on internal causes of decline identified several critical resources a firm must possess in order to survive. Among these, the most important resources were strategic resources that are incorporated by the senior management of the firm. Several researches (e.g. Arend, 2008; Collett et al., 2014; Cook et al., 2012; Heracleous & Werres, 2016) identified a lack of quality in the management of the firm as major cause of decline. Furthermore, a board of directors that was inef-

fective in exercising its monitoring and supervising function led to decline (Heracleous & Werres, 2016). Other internal causes of decline were identified as firm size, operational and administrative processes, the availability of slack resources, and the productivity of human and capital resources (Cook et al., 2012; Filatotchev & Toms, 2006; Francis & Desai, 2005; Latham & Braun, 2009).

2.6.2. Contextual Factors

The next section, specifically addressing the second research question of this study, comprised contextual factors influencing turnarounds that were categorized in managerial cognition, executive compensation, executive replacement, executive compensation, corporate governance, family management, and the firm's stakeholders.

The first aspect of a firm's response to decline, managerial cognition, accounts for how the TMT interprets the factors that caused decline, as such, it forms the interface between causes of organizational decline and the actions organizations take to reverse it (Lohrke et al., 2012). Three cognitive factors were found to affect subsequent turnaround actions: awareness of decline, attribution of decline, and perception of the decline's severity. First, awareness of decline referred to the management's recognition that the firm is in decline. It was found that decline awareness facilitated elevated attention towards the evolving crisis, prompt deliberations, and information-exchange among decision-makers (Abebe, 2012; Clapham et al., 2005; Hurt & Abebe, 2015). Conversely, failing organizations were found to be characterized by denial and lack of emphasis on long-term problems (Clapham et al., 2005). Second, attribution of decline referred to causal factors management identifies as responsible for the decline. It was found that organizational response to decline depended on whether the causes of decline were believed to reside inside or outside the firm. Attributing decline to external causes (such as industry cycles or recessions) was likely to result in small, localized changes. Conversely, an attribution of internal causes (such as inferior products or inefficiency) was more likely to lead managers to focus their efforts towards changing the strategy and activities of the organization. Third, an accurate perception of the decline's severity was found to be essential because poor assessments may result in exercising ineffective turnaround strategies (Musteen et al., 2011). Researchers identified that managerial characteristics such as locus of control, functional backgrounds, and maturity influenced such perceptions.

Additionally, turnaround research examined the effects of the CEO, TMT, and the BOD on the turnaround process. Firm turnaround was found to be affected by the TMT's compensation and ability, the management's "fit" or suitability for the current context, and the composition and vigilance of the BOD (Chen, 2015; Chen & Hambrick, 2012; Dowell et al., 2011; Faghfour, 2013; O'Kane & Cunningham, 2012). First, Chen (2015) found that executive compensation, particularly performance-based pay, tied CEO remuneration to share performance of troubled companies and incentivized the CEO to adopt retrenchment strategies that were found to be positively related to subsequent firm performance.

Next, the topic of executive replacement was widely discussed in recent turnaround research, while the majority supported the need for executive replacement, arguing that poor performance is evidence of executive incompetence and / or inadequacy. Furthermore, poor performance typically necessitates major changes which incumbent CEOs are unable or unwilling to take (Abebe, 2010, 2012; Collett et al., 2014; Ndofor et al., 2013). However, the replacement of top management and its effectiveness are significantly influenced by the contextual requirements at hand. Bruton et al. (2003) and Fisher et al. (2004) noted that East Asian BODs are almost always supportive of top management and very reluctant to authorize change. O'Kane and Cunningham (2012) found that leadership changes and stability were equally effective in initiating turnaround. Chen & Hambrick (2012) argued that the benefits of CEO replacement depend integrally on the attributes of the two individuals involved: the incumbent's degree of misfit and the successor's degree of fit to the contextual requirements at hand, for example, the severity of the firm's decline.

In addition, the composition and influence of the BOD was found to play an important part during the turnaround process. Two BOD facets were identified as relevant to turnaround situations: board independence and board size. There was agreement that independent boards are advantageous for firms in crisis because they are harder for top management to dominate and they may be more likely to encourage changes even in the face of management reluctance (Lawton et al., 2011). However, with regard to board size, countering arguments suggested, on the one hand, a positive effect of larger boards in terms of possession of expertise and acquisition of resources (Carmeli & Markman, 2011); and, on the other hand, a negative effect in terms of the board's ability to act swiftly on its expertise and to monitor management (Dowell et al., 2011). Moreover, turnaround research was concerned with the degree to which CEO power affects firm performance. The evidence

suggested that small firms operating in stable environments could benefit from having strong and powerful CEOs that centralize decision-making, outline vision for the firm, and “take charge” in times of crisis (Faghfour, 2013). However, CEO power may not be beneficial for declining firms operating in increasingly dynamic environments because of the lack of different perspectives, information flows (Abebe et al., 2011), and monitoring (Heracleous & Werres, 2016).

Researchers (e.g. Cater & Schwab, 2008; Courtemanche et al., 2013; Faghfour, 2013; Schmuck, 2013) identified family management as particularly relevant to turnaround situations. Specifically, six turnaround inhibiting factors (reluctance for necessary top management change, conflict avoidance, informal decision-making, ineffective corporate governance structures, lack of motivation and ability to draw on external expertise, difficulties to integrate non-family employees) and three turnaround facilitating factors (high willingness to sacrifice during crisis, long-term goal-orientation; a collegial management style) were identified to be characteristic for family firms in turnaround situations.

Last in this section, stakeholders were found to play an important role for the organization in an existence-threatening crisis. Stakeholders possess means by which to influence organizational behaviour, control access and allocation of critical resources, or regulate the possession of resources (Trahms et al., 2013). In particular, owners and creditors were found to be in the most decisive position during turnaround (Pajunen, 2006). Moreover, after the identification of influential stakeholders, it was found that open and active communication by the management, the use of personal and informal relationships, and the same long-term goal had a positive effect on the stakeholders’ support for organizational survival.

2.6.3. Turnaround Actions

This section, focussing on the first research question of the study, comprised actions firms take in order to reverse decline. Turnaround research has addressed four categories of actions that can be classified as retrenchment, recovery, financial, and human resource-oriented actions. Of these, retrenchment and recovery actions were mostly discussed in recent turnaround research. While retrenchment actions focus on increasing efficiency through cost and asset reductions, recovery actions concentrate on improving the firm’s

market position through strategic change (Lim et al., 2013; Ndofor et al., 2013; Schmitt & Raisch, 2013).

Several studies indicated that asset and cost retrenchment lead to performance improvements because of increased efficiencies brought about by the reduction of expenditures and the elimination of assets (Collett et al., 2014; Furrer et al., 2007; Lawton et al., 2011; Lin et al., 2008). However, other researchers argued that retrenchment actions may reduce a firm's ability to recover by sapping employee morale and causing employees with marketable firms to leave the firm. This exit can cause losses of firm-specific knowledge of products and services as well as processes and routines (Francis & Desai, 2005; Schmitt & Raisch, 2010). With regard to recovery actions, new product developments (Morrow et al., 2007), carefully selected acquisitions (Wan & Yiu, 2009), capital expenditure (Smith & Graves, 2005; Sudarsanam & Lai, 2001), offering a new value proposition, and improving customer services (Lawton et al., 2011) were found to be effective in reversing decline. However these actions generally necessitate funding and are therefore only feasible for companies with excess slack or the financial support of stakeholders (e.g. owners, banks).

The effectiveness of retrenchment and recovery actions was found to be dependent on several contingency factors. Specifically, the effectiveness of retrenchment actions was found to be dependent on the severity of decline (retrenchment is more effective in more severe decline situations; Francis & Desai, 2005), the timing (retrenchment is more effective the earlier it is initiated in the turnaround process; Tangpong et al., 2015), the firm's industry condition (retrenchment is more effective in declining industries; Morrow et al., 2004), the general economic environment (retrenchment is more effective in an environment of low munificence; Boyne & Meier, 2009), and the firm's rent creation mechanism (retrenchment is more effective for firms with a Ricardian rent creation mechanism that is focused on the exploitation of resources; Lim et al., 2013). Recovery actions were found to be more effective in munificent industries (Ndofor et al., 2013). In countering the view that firms either opt for retrenchment or recovery actions or address them sequentially (Lin et al., 2008; Schoenberg et al., 2013; Tangpong et al., 2015), Schmitt and Raisch (2013) identified that retrenchment and recovery actions have mutually enabling complementarities (learning, organizing, and performing complementarities) and, therefore, should be simultaneously addressed in turnarounds.

Besides retrenchment and recovery actions, further firm responses to decline can be categorized in financial and human resource-oriented actions. Financial actions referred to the reworking of the firm's capital structure to relief the strain of dividends, interest and debt repayments, and took the form of equity-based strategies (e.g. dividend cuts, equity issues) or debt-based strategies (interest reduction, debt-to-equity swap; Sudarsanam and Lai, 2001; Lin et al., 2008; Angwin & Meadows, 2012). In addition, financial management and management accounting techniques were found to be effective in response to decline (Cook et al., 2012; Haron et al., 2013). With regard to human resource-oriented actions, it was found that the recruitment of core employees with higher expertise (Boyne & Meier, 2009) and investments in staff development and management-employee relations (Lawton et al., 2011) facilitated turnaround.

2.6.4. Turnaround Outcomes

Finally, the last section of the literature focused on turnaround outcomes. In this respect, two issues arose from the literature: how a successful reversal of decline is defined and how to operationalize a turnaround. The first issue addresses the definition and measurement of performance change needed to qualify as a turnaround. Many studies defined turnaround success in terms of profitability based on accounting data (for example, Abebe, 2012; Chen, 2015; Furrer et al., 2007) which was criticised to be problematic because of time lags between competitiveness and profitability and the tendency of managerial manipulation of accounting-based measures ("window dressing") in declining profit contexts (Chen & Hambrick, 2012; Pandit, 2000). Therefore, approaches that are either based on human judgement or supplement accounting-data with human judgement were seen to have the advantage of capturing the ability of expert witnesses to take contextual variation into account. This was considered valuable given the heterogeneity of turnaround cases (Pandit, 2000). With regard to the second issue, the operationalization of successful turnarounds, three positive outcomes could be identified from the literature, sharp-bend recovery (Haron et al., 2013; Ndofor et al., 2013), moderate recovery (Sudarsanam & Lai, 2001), and reorganization through bankruptcy (Collett et al., 2014; Cook et al., 2012). The fourth negative outcome was identified as firm closure after a liquidation process (Collett et al., 2014).

2.6.5. Research Gaps and Contested Knowledge

This section summarizes the identified research gaps and main disagreements in the reviewed studies. First, turnaround researchers agreed that managerial cognition, accounting for how the top management perceives and interprets the decline situation, influences the actions taken to reverse it. However, there was less agreement what actions result from the different perceptions of managers and what outcomes were achieved by these actions. For example, Musteen et al. (2011) found that when decline situations were perceived as more severe and thus a threat to control, managers reacted with threat-rigidity responses, trying to regain control through centralization and increased efforts to conserve resources by focusing on retrenchment actions. However, on the contrary, Rasheed (2005) found, in a sample of small businesses, that when managers perceived the decline situation as more severe, they reacted with aggressive strategy choices targeting growth and, therefore, saw recovery actions as their only alternative to severe decline. A shortcoming of the reviewed studies was that they only examined which organizational actions were taken (efficiency-oriented retrenchment actions or growth-oriented recovery actions) by managers as a result of their different cognitive perceptions of the decline situation. However, it was not addressed how these perceptions and the resulting actions influenced turnaround outcomes. This would have been useful, since the effectiveness of retrenchment and recovery actions is controversially discussed in the turnaround literature and is seen highly dependent on several contingency factors (as outlined in the discussion of turnaround actions later in this section). A similar argument can be made to the topic of executive compensation, the second factor influencing turnarounds found in the literature. Specifically, it was found that performance-based pay incentivized CEOs to adopt retrenchment actions (Chen, 2015). Chen (2015), in contrary to the previously cited studies, examined how these actions influenced subsequent firm performance and identified a positive effect of retrenchment. However, the greater effectiveness of retrenchment actions over recovery actions was not supported by all studies that were analysed in the course of the literature review.

Next, researchers found that executive replacement positively influenced turnarounds (Abebe, 2010; Collett et al., 2014; Haron et al., 2013; Lawton et al., 2011; Ndofor et al., 2013). For example, Abebe (2010) found that declining firms with longer-tenured TMTs tended to have lower turnaround performance than those declining firms with shorter TMTs. It was concluded that incumbent leaders are more committed to the status quo and may be resistant to undertake significant changes. Instead, new leaders may feel little con-

nection to the organization's existing strategy and, therefore, may be more able to undertake requisite changes. Similarly, Lawton (2011) found that new leaders may be less committed to past policies and may bring an ability to facilitate greater levels of change in the organization's strategies, processes, and structures, indicating a greater level of seriousness about the intended recovery. However, it was also argued that when business activities are based on strong personal relationships, for example, in an East Asian context, a removal of the CEO may lead to a loss of the CEO's personal relationships which may be valuable and hard to replace. These relationships may help the firm to secure credit and may provide key links to government officials and markets (Bruton et al., 2003; Fisher et al., 2004). In addition, O'Kane and Cunningham (2012) found that leadership stability was conducive to turnaround success when the existing leaders exercised humility for their part in the decline. Chen and Hambrick (2012) contended that management turnover is not per se helpful, but its helpfulness depends on the executive's degree of fit with regard to the organizational necessities. Specifically, it was stipulated that a firm in deep trouble may benefit from a CEO with a throughput-oriented functional background (operations, accounting) because such a CEO is more likely to pursue retrenchment actions which were seen as more effective by the authors. Conversely, when the decline is not as severe, a CEO with an output-oriented functional background (e.g. marketing, sales) may be more helpful because he/she is more likely to focus on recovery actions. Next to the controversial arguments with regard to this topic, none of the reviewed studies offered the possibility to support the existing management of the declining firm by an interim-manager that is assigned to manage the company for a limited amount of time during the turnaround process. This possibility will be referred to in the results and discussion section of this study.

Moreover, controversial arguments were found with regard to the question how the size of the board of directors (BOD) affects turnarounds. It was argued that smaller boards may be more effective in monitoring the firm's management because of greater individual commitment and decisiveness and may be more involved in the organization's strategy formation because of their decision-making speed advantage (Filatotchev & Toms, 2006). However, larger boards may possess greater potential for bringing multiple perspectives to bear in advising the management on strategic decisions. In addition, larger boards may be more capable of providing resources to the firm because they possess greater potential for more valuable relationships (Carmeli & Markman, 2011). It was argued that the decision-making speed of smaller boards may outweigh the lesser access to resources in a discon-

tinuously changing environment in which decision-making speed is most important to the firm (Dowell et al., 2011). Next, with regard to corporate governance, the issue of CEO power was controversially discussed in the turnaround literature. It was suggested that, for firms facing a crisis, powerful CEOs may be beneficial due to their ability to make rapid decisions without the need to build consensus. However, it was argued that dominant CEOs may restrict information flow within the TMT or BOD by neglecting or ignoring other board members who are less powerful or may hinder their meaningful participation in the organization's strategic decision-making process. This behaviour may compromise the comprehensiveness and accuracy of strategic decision-making and ultimately lead to lower turnaround performance for the firm (Abebe et al., 2011; Heracleous & Werres, 2016).

With regard to retrenchment actions, several researchers found that asset and cost retrenchment led to performance improvements because increased efficiencies were achieved through the reduction of costs and assets (Collett et al., 2014; Furrer et al., 2007; Lawton et al., 2011). However, other researchers (Francis & Desai, 2005; Lin et al., 2008) argued that particularly cost retrenchment, accomplished through downsizing and lay-offs, may even reduce a firm's ability to recover by sapping employee morale and causing that valuable employees leave the firm which may result in losses of firm specific knowledge of products, services, processes, or routines. Next, other researchers (Chen, 2015; Francis & Desai, 2005; Schmitt & Raisch, 2013) found that the effectiveness of retrenchment actions depends on the extent of the organization's decline. Specifically, more suddenly or severely declining organizations were found to be more likely to benefit from retrenchment actions. Other authors argued that retrenchment actions were more effective, the earlier they were initiated in the process (Tangpong et al., 2015). Next, other researchers suggested that retrenchment may be more effective in mature industries (Morrow et al., 2004) or in an environment of low munificence and less effective in growth-oriented industries or munificent environments (Boyne & Meier, 2009; Ndofor et al., 2013).

With regard to recovery actions, controversies were also apparent in the literature. It was found that introducing new products (Morrow et al., 2007), acquisitions (Morrow et al., 2007; Wan & Yiu, 2009), capital expenditure (Smith & Graves, 2005; Sudarsanam & Lai, 2001), innovation (Lawton et al., 2011), and market expansions (Ndofor et al., 2013) were positively related to firm performance. However, other researchers found that recovery actions in the form of acquisitions and subsequent integration problems led to corporate

failure (Heracleous & Werres, 2016). Furthermore, other researchers suggested that recovery actions may only be effective in healthy and high-growth industries in which firms have greater chances to leverage revenues (Ndofor et al., 2013). On the contrary, recovery actions may not be effective in mature and low-growth industries in which firms may develop overcapacities when enacting in recovery actions (Morrow et al., 2004). Next, it was argued that recovery actions may not be helpful for severely declining firms because in such a situation of high pressure and low resources, it may be difficult, if not impossible, to boost revenue enough to get back to profit (Chen, 2015).

Several researchers recommended that firms in turnaround situations should either opt for retrenchment or recovery actions, depending on the circumstances at hand, such as the severity or suddenness of decline, the firm's industry, or the general economic environment (Chen, 2015; Lim et al., 2013; Morrow et al., 2004). However, other researchers argued to integrate both activities but execute these sequentially. Specifically, it was suggested to first enact in retrenchment to provide a stable base from which a recovery strategy may be initiated (Lin et al., 2008; Tangpong et al., 2015). However, other researchers recommended to pursue both activities simultaneously because retrenchment and recovery may be mutually reinforcing (Pajunen, 2006; Schmitt & Raisch, 2013).

In summary, the main controversies in recent turnaround literature relate, first, to the questions whether management replacement is effective in turnaround situations and what factors may influence its effectiveness (e.g. strong personal relationships, exercising humility, or functional background). Second, strongly controversial discussions were led about the effectiveness of retrenchment and recovery actions to reverse the decline, in which situations retrenchment and recovery may be most appropriate (suddenness or severity of decline, industry structure, general economic environment, perception of the decline situation by the management), and when these actions may be conducted (either retrenchment or recovery actions, subsequently, or concurrently). These controversial arguments about management replacement and retrenchment / recovery actions form the first two research gaps that will be addressed within the analysis of empirical data later in this study.

Moreover, the most apparent gap in the literature is that only two of the reviewed studies (Collet et al., 2014; Cook et al., 2012) mentioned a turnaround plan. However, these studies focused on firms undergoing insolvency procedures in which the turnaround plan was

prepared by the company's liquidators as part of the insolvency plan to settle creditor claims and secure the continuation of the business. For example, Collett et al. (2014) observed Finish SMEs that attempted turnaround under the Finish Restructuring of Enterprises Act that deals with the rehabilitation of viable enterprises and the rescheduling of debts by emphasizing the active continuation of business after bankruptcy (similar to the Chapter 11 bankruptcy of the United States Bankruptcy Code; Collett et al., 2014). Similarly, Cook et al. (2012) researched a sample of 1522 British companies that filed for bankruptcy under the UK Company Voluntary Arrangement (CVA) which is a debtor rehabilitation process intended to help financially troubled companies, particular SMEs, resolve their difficulties without being forced into liquidation. This regime is also similar to the Chapter 11 bankruptcy of the United States Bankruptcy Code (Cook et al., 2012). However, this study focuses on a formalized turnaround plan that is prepared outside of court proceedings, as outlined by the BGH and other regional German courts. Such a formalized turnaround plan is different to turnaround plans in an insolvency procedure because it is not prepared by a liquidator, but by an independent third party, such as a turnaround consultancy firm, with expertise in the field. Secondly, creditors are not settled by insolvency proceedings but have to be negotiated with and convinced to support the company throughout the turnaround process. Third, the situation does not offer the possibilities of insolvency regimes in which, for example, long-term supplier contracts or employee contracts may be easily terminated but it focuses on reversing the firm's decline under ordinary circumstances. There is some conceptual work about formalized turnaround plans available in practitioner-oriented publications (e.g. Groß, 2015; Krystek & Klein, 2010; Leschke & Rost, 2013), but no empirical work was found when conducting the systematic literature review on the topic. Even the reviewed studies that were carried out in a German context (Faghfour, 2013; Schmuck, 2013) did not cover formalized turnaround plans.

2.6.6. Conceptual Framework

As referred to in the beginning of this summary section, a conceptual framework was devised to reflect the findings and gaps in the existing literature. Maxwell (2013) defined a conceptual framework as a system of concepts, assumptions, expectations, beliefs, and theories that supports and informs the research. Miles et al. (2014) elaborated that a conceptual framework is a visual or written product, one that explains, either graphically and / or in a narrative form, the main things to be studied – the key factors, concepts, or variables – and the presumed relationships among them. As such, a conceptual framework is a

constructed simplified view of a complex reality, built by the researcher. It is a simplification of the world, but a simplification aimed clarifying and explaining some aspect of how it works (Maxwell, 2013). It then serves as a tool to guide the research. This study's conceptual framework is reflected on in the following narratives. It depicts the main gaps found in the contemporary turnaround literature which this study is going to address. A gap may be either referred to as strong disagreements between authors or a topic which has been neglected so far by turnaround researchers. The conceptual framework served as a basis for the collection and analysis of empirical data which is outlined in the following chapter.

In the beginning of the process, a turnaround situation is imposed on companies when they enter into a period of organizational decline, being defined as when a firm's performance deteriorates over a sustained period of time (Schmitt et al., 2019) and the actual performance level is low enough that the survival of the firm would be threatened without performance improvement (Collett et al., 2014). Causes of organizational decline can originate from either external factors, such as environmental jolts (Wan & Yiu, 2009), technological changes (Walton, 2018), or industry decline (Francis & Desai, 2005); or from internal factors, such as poor management (Collett et al., 2014), ineffective monitoring by the board of directors (Heracleous & Werres, 2016), or deficient operational and administrative processes (Cook et al., 2012). In such a situation, two questions (constituting the first two research questions of this study) become important: (1) what actions do companies take in order to effectively overcome decline processes and restore sustainable competitive advantage and profitability (this question refers to the content and process of turnarounds) and: (2) what differentiates companies achieving successful sustainable turnaround from those who failed or achieved only short-term improvements (this question relates to contextual factors affecting turnarounds)? These questions affect the turnaround process and lead to specific outcomes (sharp-bend recovery, moderate recovery, reorganization through bankruptcy, or firm closure after a liquidation process) in the end of the turnaround process (Collett et al., 2014; Cook et al., 2012; Haron et al., 2013; Ndofor et al., 2013).

With regard to the first question, existing research has examined several categories of turnaround actions: retrenchment, recovery, financial, and human resource-oriented actions; of which retrenchment and recovery were most frequently (and controversially) discussed in the literature. While some researchers found that retrenchment actions led to performance

improvements because increased efficiencies were achieved through the reduction of costs and assets (Collett et al., 2014; Furrer et al., 2007; Lawton et al., 2011), other researchers (e.g. Francis & Desai, 2005; Lin et al., 2008) argued that retrenchment actions, such as downsizing and employee lay-offs, reduce the firm's ability to recover by sapping employee morale leading to increased turnover of valuable employees. However, other researchers (e.g. Boyne & Meier, 2009; Chen, 2015; Morrow et al., 2004; Schmitt & Raisch, 2013; Tangpong et al., 2015) suggested that the effectiveness of retrenchment and/or recovery actions may depend on the severity of decline (Chen, 2015), the industry condition (Morrow et al., 2004), the general economic environment (Boyne & Meier, 2009), the timing (Tangpong et al., 2015), and the effective integration of both activities simultaneously pursued (Schmitt & Raisch, 2013). These controversies with regard to the effectiveness of retrenchment and recovery actions constitute the first research gap that this study is going to address.

Second, turnaround research has examined several contextual factors that influence the turnaround process: managerial cognition (accounting for how the top management perceives and interprets the factors that caused decline), executive compensation (how performance-based pay influences the management to react to decline), executive replacement (how the replacement of the management affects subsequent turnaround performance), corporate governance (how the board of directors influences the process), family management (specific factors for family firms in turnaround situations), and stakeholder management (accounting for what role stakeholders, such as banks, owners, customers play in the process). Among these, the topic of executive replacement was most controversially discussed in the literature. While some authors found that the replacement of the executives positively affected subsequent turnaround performance (Abebe, 2010; Collett et al., 2014; Haron et al., 2013; Lawton et al., 2011), other researchers argued that the replacement of top executives may have detrimental effects (e.g. Bruton et al. 2003; Fischer et al., 2004; Chen & Hambrick, 2012). These controversial arguments with regard to executive replacement form the second research gap that this study is going to focus.

Next, the most apparent gap in the current literature is that the reviewed studies focused only on formalized turnaround plans that were developed in an insolvency situation as part of the insolvency plan (Cook et al., 2012; Collett et al., 2014). This study focuses on formalized turnaround plans that are prepared outside of insolvency proceedings, as being

applied in Germany due to the legal context. This study critically assesses the contribution of formalized turnaround plans in the process; and, based on this analysis, develops recommendations for the effective development and application of formalized turnaround plans in Germany. This forms the third research gap this study is going to address.

A visual depiction of the conceptual framework is presented in figure 2.1. Table 7.2., in the appendix provides an overview from which studies the sections of the figure were derived from.

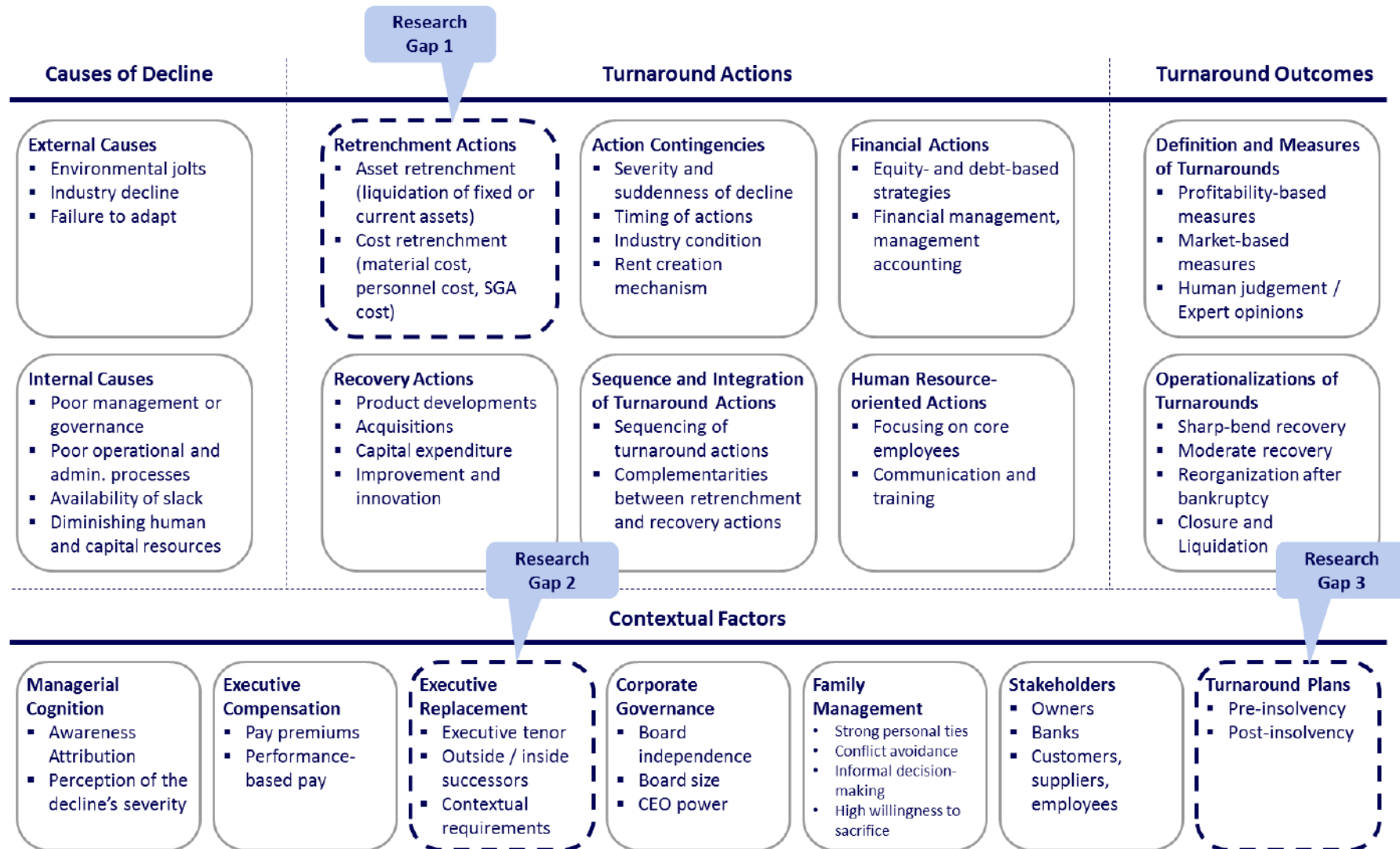


Figure 2.1.: Conceptual Framework³⁵

³⁵ Author's own construction

3. Research Approach

3.1. Introduction

The following section discusses the research approach that was applied by the researcher in this study. Research approaches were defined by Creswell and Creswell (2018) as plans and procedures for research that span the steps from broad philosophical assumptions to detailed methods of data collection, analysis, and interpretation. Furthermore, Creswell and Poth (2018) argued that two important components of a research approach are the philosophical paradigm (or worldview) the researcher brings to the study and the procedures of inquiry, referred to as research design, that involve specific research methods of data collection, analysis, and interpretation. Yin (2017) added that the research design is the logical sequence of connecting the empirical data to a study's initial research questions and, ultimately, to its conclusions.

3.2. Philosophical Paradigm

Creswell and Creswell (2018) defined the term philosophical paradigm as a researcher's basic set of abstract assumptions and beliefs that guide the research. Patton (2014) pointed out that a philosophical paradigm is a way of thinking about and making sense of the complexities of the real world. As such, paradigms are deeply embedded in the socialization of researchers. Paradigms tell researchers what is important, legitimate, and reasonable. Simply put, paradigms are a way of distinguishing different perspectives in science about how to best study and understand the world.

Saunders et al. (2016) pointed out that four philosophical assumptions lead to an individual choice of a research paradigm that consist of the researcher's view of reality (ontology), how the researcher knows reality (epistemology), the value stance taken by the researcher (axiology), and the procedures used in the study (methodology). These assumptions are brought to the process of research and they may be called philosophical paradigm or worldview. Although there are nuances, four polar types of paradigms, being broadly mentioned in the literature and frequently applied in contemporary organizational research, are discussed in the following narratives: positivism or postpositivism, realism, constructivism or social constructivism, and pragmatism. The discussion is followed by the justification for the choice of the paradigm guiding this research.

3.2.1. Positivism / Postpositivism

Saunders et al. (2016) argued that positivism relates to the philosophical stance of the natural scientist and entails working with a singular, external, independent, and observable social reality. With regard to the field of business studies, positivist researchers see organizations or other social entities as real in the same way as physical objects and natural phenomena are real. Epistemologically, the positivist researcher focuses on discovering observable and measurable facts and regularities, and only phenomena that one can observe and measure would lead to credible and meaningful knowledge. Positivist researchers look for causal relationships in their data in order to create law-like generalizations. With regard to the field of business studies, positivists would use these universal rules and laws to explain and predict behaviour in organizations. With regard to axiology, positivists try to remain neutral and detached from their research and data to avoid influencing the findings. This means that positivist researchers undertake research, as far as possible, in a value-free way. Methodologically, positivists conduct research deductively, as they deduce hypotheses from theory which are tested by quantitative research methods and large sample sizes.

Positivism following August Comte (1798-1857) asserted that only verifiable claims based directly on experience could be considered genuine knowledge (Patton, 2014). Comte was especially interested in distinguishing the empirically based “positive knowledge” of experience from theology and metaphysics, depending on fallible human reason and gullible belief. Logical positivism then emerged in Austria and Germany in the early part of the 20th century by combining Comte’s emphasis on direct experience with a rigorous and systematic application of rational thought based on logic. Logical positivism subsequently came to be associated with philosophical efforts to specify the basic requirements for what could be considered truly scientific knowledge which is limited to what can be logically deduced from theory, operationally measured, and empirically validated (Creswell & Creswell 2018; Creswell & Poth, 2018; Patton, 2014).

However, though influential in the first half of the 20th century, logical positivism has been more and more rejected as a basis for social science because of its narrow definition of both truth and reality (Saunders et al., 2016). A number of authors (e.g. Creswell & Creswell, 2018; Creswell & Poth, 2018; Patton, 2014; Saunders, 2016) contended that post-positivism, taking into account the criticisms against and weaknesses of rigid positivism,

now informs much of contemporary organizational research. Specifically, postpositivism tempers positivism by positing that

- discretionary judgement is unavoidable in social science;
- providing causality with certainty is problematic in human affairs;
- knowledge is inherently embedded in historically specific paradigms and is therefore relative rather than absolute; and
- all methods are imperfect, so multiple methods, both quantitative and qualitative, are needed to generate and test theory, and improve understanding over time of how the world operates.

3.2.2. Realism

Saunders et al. (2016) argued that realism focuses on explaining what we see and experience, in terms of the underlying structures of reality that shape the observable events. Realists see reality as external and independent, but not directly accessible through our observation and knowledge of it. Rather, what we experience is the empirical, in other words, sensations which are manifestations of the things in the real world rather than the actual things. Realists embrace epistemological relativism which recognises that knowledge is historically situated (in other words, it is a product of its time and is specific to it) and that social facts are social constructions agreed on by people rather than existing independently. A realist's axiological position follows from the recognition that our knowledge of reality is a result of social conditioning and cannot be understood independently of the social actors involved. A realist researcher would strive to be aware of the ways in which one's social-cultural background and experiences might influence the research and would seek to minimise such biases and be as objective as possible. Methodologically, much of realist research takes the form of in-depth historical analysis of social and organisational structures and how they have changed over time.

Patton (2014) argued that realism emphasizes that truth is context-dependent. Philosophically, realism begins with the premise that reality exists independent of perception. Realism holds the assumption that there is a real world and that it is patterned, such that it can be studied, known, and explained. Maxwell (2013) posited that the idea that there is a real world with which we interact and to which our concepts and theories refer, has proved to be a resilient and powerful one that has attracted increased philosophical attention following the demise of positivism. Theory about how the world works informs realist research.

Realists aim to move beyond description to explanation. Miles et al. (2014) argued that social phenomena exist not only in the mind but also in the world – and that some reasonably stable relationships can be found among the idiosyncratic messiness of life. There are regularities and sequences that link together phenomena. From these patterns, they can derive the constructs that underlie individual and social life. The fact that most of those constructs are invisible to the human eye does not make them invalid. Furthermore, Miles et al. (2014) went on to argue that human relationships and societies have unique peculiarities and inconsistencies that make a realist approach to understanding them more complex – but not impossible. Unlike researchers in physics, organizational researchers must contend with the institutions, structures, practices, and conventions that people reproduce and transform. Meanings and intentions are worked out within the frameworks of these social structures that are invisible – but nonetheless real.

3.2.3. Constructivism / Social Constructivism

With regard to the next paradigm being discussed, Saunders et al. (2016) pointed out that constructivism emphasises that humans are different from physical phenomena because they create meanings. Constructivism stipulates that human beings and their social worlds cannot be studied in the same way as physical phenomena and, therefore, social science research needs to be different from natural science research rather than trying to emulate the latter. As different people of different cultural backgrounds, under different circumstances, and at different times make different meanings and create and experience different social realities, constructivists believe that rich insights into humanity are lost if such complexity is reduced entirely to a series of law-like generalizations (as in positivism). Epistemologically, the purpose of constructivist research is to create new, richer understandings of social worlds and contexts. Furthermore, constructivist researchers try to account for the complexity of human experiences by collecting what is meaningful to their research participants. For example, constructivists see meaning as something that emerges out of interactions between people and focus on the observation and analysis of social interaction, such as conversations, meetings, or teamwork. They emphasize the importance of language, culture, and history in the shaping of our interpretations and experiences of social and organisational worlds. The axiological implication is that constructivists recognise that their interpretation of research material and data, and thus their own values and beliefs, play an important role in the research process. Crucial to this philosophy is that the researcher takes an empathetic stance, which means, to enter into the social world of the research par-

ticipants and understand that world from their point of view. Methodologically, constructivist researchers work typically inductively with small samples, in-depth investigations, and qualitative methods of analysis – with a range of data which can be interpreted.

Lincoln et al. (2018) argued that constructivists believe that individuals seek understanding of the world in which they live and work. Individuals develop subjective meanings of their experiences – meanings directed towards certain objects and things. These meanings are varied and multiple, leading the researcher to look for the complexity of views rather than narrowing meanings into a few categories or ideas. The goal of the research is to rely as much as possible on the participants’ views of the situation being studied. The questions become broad and general, so that the participants can construct the meaning of a situation, typically forged in discussions or interactions with other persons. The more open-ended the questioning, the better, as the researcher listens carefully to what people say or do in their life settings. Often these subjective meanings are negotiated socially and historically. They are not simply imprinted on individuals but are formed through interaction with others – hence, the term social constructivism – and through historical and cultural norms that operate in individuals’ lives.

3.2.4. Pragmatism

Saunders et al. (2016) argued that pragmatism mainly asserts that theories are only relevant where they support action. It strives to reconcile objectivism and subjectivism, facts and values, accurate and rigorous knowledge, and different contextualised experiences. It does this by considering theories, concepts, ideas, hypotheses, and research findings not in an abstract form, but in terms of the roles they play as instruments of thought and action, and in terms of their practical consequences in specific contexts. Ontologically speaking, reality matters to pragmatists as practical effects of ideas. With regard to epistemology, knowledge is valued for enabling actions to be carried out successfully. For pragmatists, research starts with a problem and aims to contribute practical solutions that inform practice. With regard to axiology, pragmatist researchers’ values drive the process of inquiry which is initiated by doubt and a sense that is something wrong or out of place and which re-creates belief when the problem has been solved. As pragmatists are more interested in practical outcomes than abstract distinctions, their research may have considerable variations in terms of how objectivist or subjectivist it turns out to be. Methodologically, the most important determinants of the research design are the research aim and the research

questions that are being addressed. The research questions, in turn, are likely to incorporate the pragmatist emphasis on practical outcomes. If the research aim does not suggest unambiguously that one particular type of knowledge or method should be adopted, this only confirms the pragmatist view that it is perfectly possible to work with different types of methods. Patton (2014) argued that pragmatists believe that methods can be separated from the epistemology out of which they have emerged. For example, one can use statistics without doing a philosophical literature review of logical positivism or realism. One can make an interpretation without studying hermeneutics. And one can conduct open-ended interviews without reading treaties of phenomenology. The research methods stand on their own as reasonable ways to find out what is happening in human settings.

Furthermore, Creswell and Creswell (2018) provided the following principles and ideas for pragmatist research:

- Pragmatism is not committed to any one system of philosophy and reality.
- Truth is what works at the time; it is not based on a dualism between reality independent of the mind or within the mind.
- Pragmatists agree that research always occurs in social, historical, political, and other contexts.
- Individual researchers have a freedom of choice. They are “free” to choose the methods, techniques, and procedures of research that best meet their needs and purposes.

3.2.5. Justification of Choice

For this research, the pragmatist approach was chosen. Pragmatism asserts that theories are relevant where they support action and in terms of their practical contribution in a specific context. The aim of this research is to analyse and evaluate the content, context, and process of turnarounds that lead to the achievement of sustainable competitiveness and profitability after experiencing decline; and, in particular, to assess the effectiveness of formalised turnaround plans in that process based upon the experience of German companies. Thus, this research aims to contribute practical solutions that inform organizational practice for a specific audience. The specific audience comprises turnaround practitioners (in particular managers, consultants, lawyers, owners, and banks) who develop, support the development, receive, or implement formalized turnaround plans in Germany. Since the research aim specifically focuses on solutions to inform and improve organisational practice (recommendations for the development and implementation of formalized turnaround

plans), the pragmatist paradigm was most appropriate to guide the research and to make a valuable contribution to organizational theory and practice.

The word pragmatism is commonly used in the English language to denote the practicalities of just getting on and doing what the situation demands. Critics may argue that this paradigm seems to invite easy compromise, short-term expediency, and taking the path of least resistance without the encumbrance of theoretical principles or values (Simpson, 2018). Pragmatism is often presented as philosophically neutral, a “non-philosophy” that skims over the surface rather than trying to resolve ambiguities in any of the assumptions underpinning different research questions and approaches (Ormerod, 2006). However, pragmatism is also seen as a thoroughly elaborated philosophy that accounts for the social experience of living and working together (Smith & Cavaleri, 2008). It presents a coherent philosophy that goes beyond “what works”. Pragmatism points to the importance of joining beliefs and actions in a process of inquiry that underlies any search for knowledge, including the specialized activity that is referred to as research (Morgan, 2014). It argues against the adoption of abstract principles as ends, preferring to examine the outcomes of means in a particular context. However, pragmatism is not against theory, it simply gives it a different less exalted role. According to pragmatism theory should come out of a requirement of practice / action (Ormerod, 2006). In the following narratives the author discusses major concepts of pragmatism (truth, sense-making, context, experience, and practical relevance) and shows how such concepts informed the questions of this study. Moreover, implications for the selection of research methods are drawn.

Truth

Questions around what is truth are core to pragmatism and also core to the idea of formalized turnaround plans in their capacity to provide “true and fair” information of the companies under review by an independent third party. Pragmatism maintains a challenging view of truth, wherein the truth value of a statement resides not in how accurately it represents the external world but rather in how useful it is for enacting change. The aim of exploring truth is to gain a kind of understanding which is necessary to deal with problems as they arise rather than to uncover the antecedently real (Baker & Schaltegger, 2015). Understanding how truth serves in dealing with problems necessitates an exploration of the practical relevance of ideas for individuals in relation to their own objectives (Simpson, 2018). Pragmatism rests on the belief that ideas do not exist as timeless and pre-existing

perfect forms but instead are formed contingently and experimentally in response to particular needs as people live out their lives in a given place and time (Fendt et al., 2008). Ideas do not have truth outside a particular context but rather operate as tools to accomplish tasks – in this case to improve the effectiveness of formalized turnaround plans in a German business context. The character of knowledge under pragmatism is social in the way it needs to be useful in social contexts, that is to enable humans to accomplish their purposes. Underpinning this need for usefulness is the belief that humans constantly face unpredictable circumstances or inhabit radical contingency (whose presence culminates in turnaround situations) against which knowledge and ideas need to adapt in order to provide practical advantage (Elkjaer & Simpson, 2011). Adopting this meliorating quality of truth may redirect seeing formalized turnaround plans from a passive descriptive account to seeing it as a tool used by stakeholders with the potential to enact change within organisations. From a pragmatist standpoint what gives formalized turnaround plans truth value is their usefulness to allow turnaround stakeholders better causal interaction with their situation. A methodology that follows pragmatism would thus involve exploring how the individual turnaround stakeholders derive meaning from formalized turnaround plans and in what ways they find those plans useful.

This study considered findings as “true” when they were judged to be helpful in achieving this study’s aim, thus improving the effectiveness with regard to the development and application of formalized turnaround plans in Germany. All theories concepts, ideas, hypotheses, and research findings were not considered in an abstract form but in terms of how they could be applied as instruments of thought and action. The pragmatist paradigm’s specific emphasis on practical consequences of research made it the most appropriate choice to guide this study and achieve the intended aim and objectives.

Sense-making

Moreover, pragmatism is also concerned with the process by which individuals come to understand truth when engaging with the world – this is the concept of sense-making (Baker & Schaltegger, 2015). In a business context, the process of sense-making is a core organisational activity whereby managers interpret key events and their task is to significantly influence organisational decisions and strategic change (Fendt et al., 2008). The basic idea of sense-making is that reality is an ongoing accomplishment that emerges from efforts to create order and make retrospective sense of what occurs. Thus, sense-making

allows people to deal with uncertainty and ambiguity by creating rational accounts of the world which then enables action. This concept can be appositely applied to the preparation of formalized turnaround plans. Turnaround stakeholders (banks, owners, managers, employees) face unpredictable circumstances in which a formalized turnaround plan may serve as a rational account of the company's situation on which actions to improve performance can be taken. Sense-making does not just involve a process of translating events and developing models of understanding – it involves changing the outer world (Morgan, 2014). In doing this, pragmatic experimentation should not be based on just highlighting the successful; rather it should accept and understand failures or deficiencies as further motivation to search for new ideas and improvement (Ormerod, 2006).

Context

In addition, pragmatists agree that research always occurs in a specific context. Truths were held because they worked at that time in that context. Theories developed out of the need to shape, simplify, and make memorable the multitude of contingent facts that action threw up (Elkjaer & Simpson, 2011). A universe in which events are uncertain and perception is fallible, knowing cannot be a matter of the individual mind mirroring reality. Each mind reflects differently – even the same mind reflects differently at different moments and in any case reality does not stand still long enough to be accurately mirrored – therefore, knowledge must be contextual (Baker & Schaltegger, 2015). This study's context comprises German companies that experience organizational decline and aim to achieve a turnaround; and for which a formalized turnaround plan is being prepared. Due to the capital market situation (German companies are often financed by bank loans) and legal context (as outlined in the introduction chapter), a formalized turnaround plan is prepared in most organizational decline situations in Germany. The findings are not meant to be generalizable and helpful to all companies in time and space but to companies that operate in this specific context.

Experience

Morgan (2014) stipulated that on one hand, experiences in the world are necessarily constrained by the nature of that world; on the other hand, people's understanding of the world is inherently limited to their interpretations of their experiences. Elkjaer and Simpson (2011) argued that experience is a consistent theme in pragmatist research. Specifically, experience is seen not as a mere accretion of past impressions but as the intercourse of a

living being with its physical and social environment. Meaning arises in experience through gaining insight into situations by attempting to see them through the eyes of others. Experience is a temporal flux that is located in the living present and is informed by both the interpreted past and the projected future. Lives are lived and meanings are enacted by drawing on the past to anticipate future consequences. Experience, in turn, arises in the continuous interplay between past and future which informs and gives meaning to social actions in the living present (Morgan, 2014). Pragmatism rests on the argument that the meaning of an event cannot be given in advance of experience. Experiences always involve a process of interpretation. Experiences must be interpreted to generate actions and actions must be interpreted to generate experiences (Farjoun et al., 2015). In this study, to capture the experiences of turnaround stakeholders, a qualitative interview design was chosen (which will be elaborated in the following narratives). To generate useful knowledge, the researcher sampled participants who each had a long history in the field (ranging from 8 to 30 years) and therefore a broad practical experience. From the interpretation of these experiences the recommendations for practice were developed.

Practical Relevance

Finally, pragmatism emphasizes practical relevance of research which is particularly necessary in management studies. Fendt et al. (2008) postulated that management practice is progressing at unprecedented pace and often academia is lagging behind. Pragmatism may likely increase the relevance of management research. Many scholars engaging in practice may face a dilemma which is that they live in two worlds. The world of practice demands and rewards speculations about how to improve performance; however, the world of academia demands and rewards adherence to rigorous standards of scholarship. Pragmatism may allow dissolving this dilemma by focusing on asking the right questions and providing empirical answers to those questions. Pragmatism focuses on interfacing science and practice; it emphasizes the link between action and truth, arguing that the ultimate test of a belief is the willingness to act on it (Farjoun et al., 2015). Pragmatism aims at creating useful knowledge by addressing contemporary problems and translating knowledge into action (Simpson, 2018). Farjoun et al. (2015) postulated that pragmatist principles may help to address several core challenges that are particularly relevant to turnaround situations. In such situations, swift and sweeping changes in technology, competition, tastes, values, boundaries, and regulations interact with growing interdependencies to cause deep uncertainty, frequent shock, and associated confusion. This state of affairs forces individuals and

organizations to act flexibly and creatively, to cope with surprises, and to resolve conflicting imperatives between continuity and change, routine, and novelty. Pragmatism compels to generate knowledge and help devise novel practices and designs that have direct utility for practitioners.

Methodological Implications

Pragmatism takes maximum advantage of the benefits to be gained from using methodologies premised upon alternative paradigms (Ormerod, 2006). Pragmatist researchers have a freedom of choice with regard to the methods, techniques, and procedures of research that best meet their needs and purposes. The emphasis of a pragmatist's research design lies on the study's research aim and questions. Pragmatist researchers then select research methods with which the aim and questions can be, from their point of view, best be addressed and answered (Creswell & Poth, 2018). This methodological flexibility of pragmatism was particularly facilitative for achieving the research aim and objectives, since it allowed the researcher to acquire rich and context-specific data which was necessary for answering the research questions of this study. The process and justification for the selected research methods is discussed in the following sections.

3.3. Research Design

As defined in the introduction of this section, a research design comprises the plan and procedures for data collection, analysis, and interpretation (Creswell & Creswell, 2018). The following sections outline the research methods applied in this study. The justification for the method selection is linked to this study's underlying philosophical paradigm of pragmatism.

3.3.1. Qualitative vs. Quantitative Research

The first choice relates to whether a quantitative or qualitative research design is applied. This design type-choice is discussed in the following narratives. In addition, there is also the possibility to apply simultaneously both design types and conduct a mixed-method study.

Philosophers of science and methodologists have been engaged in a long-standing epistemological debate about the nature of reality and knowledge (Sinkovics & Alfoldi, 2012).

That philosophical debate has found its way into research and into differences of opinion about what constitutes good research and high-quality evidence. Patton (2014) argued that in its simplest and most strident formulation, this debate has centred on the relative value of two different and competing research designs: (1) using quantitative and experimental methods to generate and test hypothetical-deductive generalizations vs. (2) using qualitative approaches to inductively and holistically understand human experience in context-specific settings.

Creswell and Creswell (2018) argued that the distinction between qualitative and quantitative research is often framed in terms of using words (qualitative) rather than numbers (quantitative), or using closed-end questions (quantitative hypotheses) rather than open-ended questions (qualitative interview questions). However, a more complete way to view the gradations of differences between them is in the basic philosophical assumptions researchers bring to the study, the types of research strategies used in the research (e.g. quantitative experiments or qualitative case studies), and the specific methods employed in conducting these strategies (e.g. collecting data quantitatively on instruments vs. collecting qualitative data through observing a setting). Another possibility would be to conduct mixed methods research that combines quantitative and qualitative strategies. Creswell and Creswell (2018) provided the following definitions for the different research design types.

- First, *quantitative research* is an approach for testing objective theories by examining the relationships among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analysed using statistical procedures. The final written report has a set structure consisting of introduction, literature and theory, methods, results, and discussion. Those who engage in this form of inquiry have assumptions about testing theories deductively, building in protection against biases, controlling for alternative explanations, and being able to generalize and replicate the findings.
- Second, *qualitative research* is an approach for exploring and understanding the meanings individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant's setting, data analysis building from particulars to general themes, and the researcher making interpretations of the meaning of the data. The final report has a flexible structure. Those who engage in this form of inquiry support a

way of looking at research that honours a focus on individual meaning and the importance of rendering the complexity of a situation.

For this research, a qualitative research design was chosen. Pragmatist research always occurs in a context-specific setting. In this study's context, the findings are meant to be helpful for German companies attempting turnaround and do not claim to be generalizable. As a quantitative research design mainly focuses on testing hypothetical-deductive generalizations, it was not appropriate in the context of this study. Rather, a qualitative design that seeks understanding in context-specific settings was more appropriate with regard to the pragmatists' emphasis on context. Moreover, Creswell and Poth (2018) argued that it is appropriate to conduct qualitative research because a problem or issue needs to be explored – which, in this research, is to facilitate the effective development and implementation of formalized turnaround plans in Germany. Patton (2014) added that researchers conduct qualitative research because they need a complex and detailed understanding of the issue and want to understand the contexts or settings in which participants address a problem or issue. They use qualitative research to develop theories when partial or inadequate theories exist for certain populations and samples or existing theories do not adequately capture the complexity of the problem they are examining. They also use qualitative research because quantitative measures and the statistical analysis simply do not fit the problem. Miles et al. (2014) argued that qualitative data are a source of well-grounded, rich descriptions and explanation of human processes. With qualitative data, one can preserve chronological flow, see which events led to which consequences, and derive fruitful explanations. Then, too, good qualitative data are likely to lead to serendipitous findings and to new integrations. As turnaround processes involve high complexity and contextual variety, the ability of qualitative research to generate rich, holistic, and high context specific in-depth results was particularly facilitative to answer the research question and achieve the research aim.

3.3.2. Data Collection

The procedures to collect empirical data are outlined in the following narratives. The method selection was guided by this study's philosophical paradigm of pragmatism. The goal of the selection process was to choose those methods that were considered to be most useful for achieving the research aim – independent of their philosophical original background (Fendt et al., 2008; Simpson, 2018).

3.3.2.1. Method

Forms of qualitative data can be grouped into five basic types of information: observations, interviews, questionnaires, documents and audiovisual material. For this research, the interview method was chosen for the following main arguments. Interviews are conducted to find out from people those things one cannot directly observe. The issue is not whether observable data are more desirable, valid, or meaningful than self-reported data. The fact of the matter is that not everything can be observed. For instance, it is difficult to observe feelings, thoughts, and intentions. One cannot observe behaviours that took place some previous point in time, observe situations that preclude the presence of an observer, or observe how people have organized the world and the meanings they attach to what goes on in the world. The people need to be asked. (Tinggaard, 2008). The choice of the interview method was based on similar arguments for why a qualitative research design was chosen to best achieve the research aim. Interviews may produce richer, more meaningful and relevant, and more context-specific data than observations, documents, audiovisual material, or questionnaires. While questionnaires can provide evidence of patterns amongst large populations, qualitative interview data often gather more in-depth insights on participants attitudes, thoughts, and actions (Harris & Brown, 2010). In contrast do documents and audiovisual material, with interviews the researcher has the possibility to focus directly on the research aim and questions by developing and applying an interview guide that has direct fit to the relevant questions at hand. In contrast to observations, interviews may better capture the experience (the participants in this research have a long professional experience with regard to turnaround cases and situations) and thoughts of the participants (Opdenakker, 2006).

Gläser and Laudel (2010) contended that, when interviewing, it is the responsibility of the interviewer to provide a framework within which people can respond comfortably, accurately, and honestly to these kinds of questions. Any interviewer faces the challenge of making it possible for the person being interviewed to bring the interviewer into his or her world. Different research traditions emphasize different questions and fieldwork methods. Interviewing varies in important ways within different research traditions. Traditional social science interviewing emphasizes standardized questions and consistency across interviewers and interviewees. On the other side of the continuum, social constructionist interviewing places priority on individualized interactions and adapting the interview as appropriate to the emergent relationship that is formed between the interviewer and the inter-

viewee in the course of an interview. The pragmatist asks straightforward questions about real-world issues aimed at getting straightforward answers that yield practical and useful insights. In most cases, pragmatist interviews tend to be relatively short, focused, and often lasting an hour or less (Creswell & Poth, 2018; Gläser & Laudel, 2010; Maxwell, 2013; Patton, 2014).

Considering this study's underlying philosophical paradigm, the interviews were conducted based on the pragmatist approach for its focus on real-world issues and on aiming to generate practical and useful insights (in a specific context and for a specific audience). Furthermore, in keeping the interviews short and focused (the interviews in this research lasted on average one hour), more participants could be included leading to the achievement of a broader range of different perspectives.

Reflection upon the operationalization of pragmatism in the context of experiential interviews

A central theme in pragmatism is the notion of experience. Pragmatism promotes to reorient philosophy away from abstract concerns and to turn it instead toward an emphasis on human experience (Morgan, 2014). Human experiences always involve a process of interpretation. Experiences must be interpreted to generate action, and actions must be interpreted to generate experience. For pragmatists, experience is the source of practical, actionable knowledge. It is through people's experimental and reflexive engagement with each other and the natural and social worlds of which they are part that over time, people affirm habits and uncover new insights to inform their ongoing conduct (Farjoun et al., 2015). Experience is recognised as a temporal flux that is located in the living present, and is informed by both the interpreted past and the projected future (Elkjaer & Simpson, 2011).

Pragmatists view people's experience of the world and their ability to navigate it as real, however, people's access to that reality is only ever, at best, partial (Bachkirova & Borrington, 2019). People's knowledge of this reality is arrived at through their interacting with the external world in a bidirectional process, where the world acts upon them, and they act upon the world. Therefore, people only know the world through experience, and experience is best understood at an ontological level in terms of relationships. Experience, while rooted in subjectivity, only gains meaning intersubjectively; thereby knowledge

building becomes a communal enterprise demanding cooperation and dialogue to be effective (Simpson, 2018). For the pragmatist, epistemology involves not taking a privileged, disengaged perspective, but understanding that people develop knowledge through embedded interactions with their environments. Thus, pragmatist inquiry primarily takes place in a social context (Visser, 2019).

To study the participants' experience with regard to organizational declines, turnaround processes, and formalized turnaround plans, the interview method seemed to be most appropriate to the researcher. Although questionnaires may be viewed as a more objective research tool that can produce generalizable results, those results can be threatened by many factors, such as non-response errors, misunderstanding, or reticence (Peer & Gamliel, 2011). Such factors can be also present in interviews, however, the researcher has the possibility to explain the questions, answer to interviewee concerns, and use uptake questions to inquire about participant reasons for responses (Silverman, 2016). Additionally, questionnaire research is over-reliant on instruments and, thus, may be disconnected from everyday life, with measurement processes creating a spurious or artificial sense of accuracy. Instead, interviews provide contexts where participants can ask for clarification, elaborate on ideas, and explain perspectives in their own words (Harris & Brown, 2010). Carcary (2011), contends that the interview method helps to understand the world from the subject's point of view, to unfold the meaning of people's experiences, and to uncover their lived world. Interviews involve a dual aspect – personal interrelations between the interviewer and participant, and the knowledge, meaning, and understanding the results from their dialogue and interaction. Thus, interpretative interviews can be seen as a more appropriate tool to build up a relationship to the participants and study their experience embedded in their social environments.

3.2.2.2. Time-Frame

Two fundamentally different approaches with regard to the time-frame of data collection involve how much contact the researcher has with the people from which data will be collected, the cross-sectional and the longitudinal research approach (Creswell & Poth, 2018; Gläser & Laudel, 2010; Patton, 2014; Silverman, 2016):

- The cross-sectional approach (or sometimes referred to as the one-point-in-time approach) involves one interview per person or one site-visit per place. The strength of this approach is that the researcher gets all the data needed at one time. This

makes comparisons across interviewees or sites easier on common questions. Moreover, the whole study can take place in a relatively narrow time-frame. Furthermore, larger sample sizes can be studied because more people can be interviewed for a fixed amount of resources compared to a longitudinal design. However, a weakness of this approach is that potential changes of opinion must be captured retrospectively rather than as they happen.

- A longitudinal study, in contrast, involves multiple points of contact over some period of time. The strength of this approach is that it captures changes over time to document how things unfold, evolve, and emerge. It allows the researcher to gather more in-depth data over time and provides the opportunity for the researcher to build a relationship to the people studied that may enhance trust and openness. A smaller number of cases can be followed over time to get multiple data points compared with all data collection occurring at one point in time. The weakness of this approach is that the researcher has missing data if interviews or site visits cannot be carried out.

For this study, the cross-sectional approach was chosen. For studying the research problem and questions from multiple perspectives, a broad range of interviewees was needed and this was best achieved by applying a cross-sectional approach. The data collection focused on interviews with participants belonging to four professional groups that are involved in turnarounds (creditors, investors, managers, and liquidators; the next section discusses why these particular professional groups were chosen), so that the research could be deeply grounded in the multiple and rich experiences and perspectives of the participants of each professional group. Furthermore, it was possible for the researcher to acquire sizeable and rich data in a manageable time frame. Moreover, this approach facilitated the researcher to draw meaningful comparisons between the different perspectives of the professional groups this study focused on. These factors outweighed the limitation that the issues and themes were only reflected on retrospectively by the participants.

3.3.2.3. Sampling

Silverman (2016) argued that perhaps nothing better captures the difference between quantitative and qualitative methods than the different logics that undergird sampling approaches. Qualitative research focuses in depth on relatively small samples, selected purposefully. Patton (2014) pointed out that the logic and power of purposeful sampling lie in selecting

information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the research purpose, thus the term purposeful sampling. Studying information-rich cases yields insights and in-depth understanding rather than empirical generalizations. Purposeful sampling focuses on selecting information-rich cases whose study will illuminate the questions under research (Patton, 2014; Silverman, 2016).

Given the high level of complexity and contextual variation of turnaround processes in general, and the specific aim of this study that focuses on highly context-specific understanding, a purposeful sampling approach was chosen. Based on the research questions and the findings from the literature review, the researcher sampled research participants from four professional groups (creditors, investors, insolvency lawyers, and managers) that are the main stakeholders of formalized turnaround plans and the most significant actors in turnaround situations. First, research identified creditors as being significantly influential stakeholders in turnaround situations (Cook et al., 2012; Pajunen, 2016; Schmuck, 2013; section 2.3.6). For example, Schmuck (2013) found in their sample of German companies that major creditors to a firm in decline, such as banks or other financial institutions, applied considerable pressure for decisive action, such as, for example, the removal of the CEO. Furthermore, Cook et al. (2012), by researching a sample of 1522 companies that filed for bankruptcy under the UK Company Voluntary Arrangement (CVA), noted that the appropriate management of creditor relationships can make or break an attempt at survival. Moreover, the authors found that firms that had access to organizational slack through banking relationships had greater survival rates than firms that were mainly financed by accounts payable to suppliers. Next, Collett et al. (2014), in their study of a sample of Finnish companies, argued that a turnaround can only be attempted if creditors are confident that the firm has a viable future. Thus, the firm's management and its advisors have to demonstrate that the financial position of the firm is under control and that the turnaround plan is implemented successfully. As the capital structure of German companies contains commonly a significant amount of bank debt (Schmuck, 2013), banks usually form the majority of creditors in turnaround situations in Germany. Creditors are the main receiver of formalized turnaround plans because of the legal situation as pointed out in this study's first chapter.

Owners were identified to wield considerable power over the decision-making of firms in distress (Courtemanche et al., 2013; Pajunen, 2006). For example, Pajunen (2006), in his historical case study of the Finnish pulp and paper manufacturing firm Kymi Corporation, found that one of the main owners had significant influence over all decisions. Besides possessing the best knowledge of the firm, holding its shares, and partly financing its operation, he was able to control the allocation of resources inside the organization and, therefore, possessed a high degree of resource dependence power. Moreover, Courtemanche et al. (2013) found that the background influence of ownership structure affected the implementation of turnaround strategies through inside directors. The owners' side in this study is represented by investors that buy the majority of shares of companies in turnaround situations. Investors were chosen over founders because of their greater availability. In addition, investors may possess more credibility than founders. Due to the greater personal involvement of founders in their firms (often representing their life's work), founders may have lesser willingness to admit that their firm is in distress and share insights about the situation. For example, turnaround researchers argued that founder-CEOs may lose their legitimacy because of their long tenure and commitment to the status quo (Abebe et al., 2012). Investors have often more turnaround firms in their portfolio and, therefore, may possess a broader level of experience, supervising the management of different companies as well as more personal distance with regard to the situation.

Because of the legal complexity of turnaround situations, such as companies being close to insolvency or receiving a formalized turnaround plan, lawyers, specializing in insolvency law, are usually involved at some point in the process. This professional group was chosen by the researcher because lawyers may add particular insights with regard to the question how a formalized turnaround plan must be prepared to fulfil the legal requirements. Furthermore, as the lawyers have worked with turnaround companies for several years, they may also add insights with regard to managerial issues, such as turnaround actions, contextual factors, or the implementation of formalized turnaround plans.

Finally, turnaround researchers found that the firm's management plays a key role in the turnaround process. Broadly speaking, the strategic leadership of the firm can act as an impediment or facilitator of turnaround. More specifically, firm turnaround can be affected by the TMT's compensation and ability (Chen, 2015; Yandava, 2012) and the management's "fit" or suitability for the current context (Chen & Hambrick, 2012; O'Kane & Cunningham, 2012). Furthermore, turnaround researchers found that managerial cognition,

accounting for how the top management team (TMT) perceives and interprets the factors that caused decline influences subsequent turnaround actions (Abebe, 2012; Abebe et al., 2012; Barker et al., 2001; Clapham et al., 2005; Lohrke et al., 2012; Musteen et al., 2011). A turnaround situation may impose a subjective representation of reality in organizational leaders' mind sets that is affected by the personalities, cognitive features, and knowledge bases of those leaders (Clapham et al., 2005; Musteen et al. 2011, sections 2.3.1 and 2.3.2). Following these arguments, the researcher chose turnaround managers as the fourth professional category of research participants. More specifically, the researcher sampled interim-managers which are assigned when companies enter a turnaround situation with the specific task to guide the company through the turnaround process and implement the actions devised in the turnaround plan. Each participant of this group had a long professional experience (an overview is provided in table 3.2) and each had managed several companies in turnaround situations.

There are several different strategies for purposefully selecting information-rich cases (Creswell & Poth, 2018; Miles et al., 2013; Patton, 2014; Silverman, 2016). In this research, a combination of the strategies of *purposeful random sampling* and *snowball sampling* was applied.

Purposeful Random Sampling

First, the strategy of purposeful random sampling was applied. A purposeful sampling strategy does not automatically eliminate any possibility for random selection of cases. For many audiences, random sampling, even of small samples, will substantially increase the credibility of the results. In purposeful random sampling, the cases are randomly selected in advance of knowledge of how the outcome would appear. The credibility of systematic and randomly selected case examples is considerably greater than the personal, ad hoc selection of cases selected and reported after the outcomes are known (Patton, 2014). However, it is critical to understand the difference between a purposeful random sample and a representative random sample. The purpose of a small random sample is credibility, not representativeness. A small, purposeful random sample aims to reduce suspicion about why certain cases were selected for study, but such a sample still does not permit statistical generalizations (Miles et al., 2014; Patton, 2014). This strategy was chosen to improve the credibility of this research which will be further outlined in the section 3.3.4.

The first criterion of inclusion for the participants was that they had to belong to one of the four professional groups (e.g. bank employees working in the bank's department serving turnaround clients, employees of investment companies that focus on buying shares of companies in turnaround situations, insolvency lawyers consulting clients in turnaround or insolvency situations, and managers, taking interim mandates in companies in turnaround situations). Furthermore, the participants had to have a higher education (university or college) degree, at least eight years of professional experience relevant to turnaround situations, and to carry out a leading function in their organisation (for example, team leader or department leader). These criteria were chosen to ensure that the participants had sufficient experience (at least eight years of relevant professional activity) and expertise (the achievement of a higher education degree as well as the promotion to a leading position in their organisation may imply a certain degree of expertise for each participant) in the field.

16 of the 20 research participants were sampled from attendance lists of conferences or other events of turnaround practitioners (e.g. conferences of universities, colleges, or other higher education institutions or publishing houses; marketing events of consultancy and law firms) which the researcher has either attended himself or were given access to by colleagues or supervisors. A short internet search was conducted for each of the listed names to determine whether the participants would meet the criteria of inclusion, for example by searching webpages of professional networks on which mostly a short CV is included on the participant's profile. When the participants met the criteria for inclusion (or no excluding information were found), an email explaining the purpose of the study and asking for an interview appointment was sent. Candidates for whom no information with regard to the inclusion criteria was found on the internet were asked in the beginning of the interview whether the inclusion criteria would apply. If the candidates did not respond to the email, after a week, a telephone call was conducted. In some cases, an interview appointment was affirmed by the participants, in other cases, the candidates rejected the interview or could not be reached by telephone.

In addition to this procedure, snowball sampling was applied. Patton (2014) argued that snowball sampling is an approach for locating information-rich participants. The process begins by asking well-situated people for knowledgeable informants. By asking the interviewees who else to talk with, the snowball gets bigger and bigger as new participants are accumulated. Those people, recommended as valuable by a number of different inform-

ants, take on special importance. The chain of recommended informants would typically diverge initially, as many possible sources are recommended, and then, converge, as a few key names get mentioned over and over. The last question in the interview guide asked the research participants if they could name knowledgeable informants who can provide valuable input with the regard the questions under study. This strategy particularly aimed to identify participants that could not be recruited by the first strategy which was limited to the conferences and events in which the researcher had personally participated in or had access to the attendance lists. By applying the snowball sampling strategy, four additional interviewees were identified.

The table below provides an overview of the 20 interviewees (five from each professional group) that participated in the study, their current functions, their professional backgrounds and work experience, as well as their pseudonyms which were used in the results and discussion section of this study.

Table 3.1.: Overview of Research Participants

Parti- pant	Current Function	Background / Work experience	Pseu- do-nym
F. A.	<ul style="list-style-type: none"> ▪ Director M&A of a private equity firm 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 8 years of work experience as consultant ▪ 3 years of work experience a manager ▪ 5 years of work experience in the investment industry 	I-1
M. B.	<ul style="list-style-type: none"> ▪ Director Investments & Performance Improvement of a private equity firm 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 8 years of work experience in the banking industry ▪ 7 years of work experience in the investment industry 	I-2
T.B.	<ul style="list-style-type: none"> ▪ Head of Turnaround Investments of a private equity firm 	<ul style="list-style-type: none"> ▪ Education: business studies graduate (doctoral degree) ▪ 20 years of work experience in the investment industry 	I-3

Partici- pant	Current Function	Background / Work experience	Pseu- do-nym
U.H.	<ul style="list-style-type: none"> ▪ Managing Director of a private equity firm 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 10 years of work experience in the banking industry ▪ 9 years of work experience in the investment industry 	I-4
F.H.	<ul style="list-style-type: none"> ▪ Managing Director of a private equity firm 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 14 years of work experience in the investment industry 	I-5
H.G.	<ul style="list-style-type: none"> ▪ Director Workout & Recovery Management (Region Germany) of a national German Bank 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 35 years of experience in the banking industry 	C-1
H.H.	<ul style="list-style-type: none"> ▪ Head Restructuring (Region Bavaria) of a national German bank 	<ul style="list-style-type: none"> ▪ Education: business studies degree ▪ 30 years of work experience in the banking industry 	C-2
R.L.	<ul style="list-style-type: none"> ▪ Head of Restructuring of a regional German bank 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 22 years of work experience in the banking industry 	C-3
M.S.	<ul style="list-style-type: none"> ▪ Head of Restructuring of a regional German bank 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 23 years of work experience in the banking industry 	C-4

Partici- pant	Current Function	Background / Work experience	Pseu- do-nym
M.T.	<ul style="list-style-type: none"> ▪ Head Re-structuring (Region Northern Germany) of a national German bank 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 20 years of work experience in the banking industry 	C-5
A.J.	<ul style="list-style-type: none"> ▪ Insolvency lawyer / liquidator 	<ul style="list-style-type: none"> ▪ Education: legal studies (doctoral degree) ▪ 8 years of work experience as liquidator 	L-1
S.K.	<ul style="list-style-type: none"> ▪ Insolvency lawyer 	<ul style="list-style-type: none"> ▪ Education: legal studies (doctoral degree) ▪ 15 years of work experience as insolvency lawyer ▪ 6 years of work experience as liquidator 	L-2
J.O.	<ul style="list-style-type: none"> ▪ Insolvency lawyer 	<ul style="list-style-type: none"> ▪ Education: legal studies graduate ▪ 11 years of work experience as insolvency lawyer 	L-3
A.R.	<ul style="list-style-type: none"> ▪ Insolvency lawyer / liquidator 	<ul style="list-style-type: none"> ▪ Education: legal and business studies graduate ▪ 17 years of work experience as insolvency lawyer and liquidator 	L-4
G.S.	<ul style="list-style-type: none"> ▪ Insolvency lawyer / visiting professor for insolvency law 	<ul style="list-style-type: none"> ▪ Education: legal studies (doctoral degree) ▪ 20 years of work experience as insolvency lawyer 	L-5
O.B.	<ul style="list-style-type: none"> ▪ Chief Executive Officer of a furniture manufacturing firm 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 20 years of work experience in financial and managerial functions 	M-1

Partici- pant	Current Function	Background / Work experience	Pseu- do-nym
W.H.	<ul style="list-style-type: none"> ▪ Chief Re-structuring Officer of an automotive supplies manufacturing firm 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 15 years of work experience in a accountancy firm ▪ 17 years of work experience in managerial functions (finance, treasury, financial and management accounting) 	M-2
A.P.	<ul style="list-style-type: none"> ▪ Chief Executive Officer of a printing machines manufacturing firm 	<ul style="list-style-type: none"> ▪ Education: legal studies graduate (doctoral degree) ▪ 11 years of experience as a lawyer (M&A, restructuring) ▪ 16 years of experience as a turnaround manager in internationally operating manufacturing companies 	M-3
H.S.	<ul style="list-style-type: none"> ▪ Chief Re-structuring Officer of a beverages manufacturing firm 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 15 years of work experience in line-functions ▪ 10 years of work experience as a turnaround manager 	M-4
H.T.	<ul style="list-style-type: none"> ▪ Chief Executive Officer of a printing floor coverings manufacturing firm 	<ul style="list-style-type: none"> ▪ Education: business studies graduate ▪ 25 years of work experience in financial and managerial functions 	M-5

3.3.2.4. Interviewing

The next step in the data collection process was to design an instrument including questions that could be applied in the interviews. With regard to the format of questions, there are basically three approaches for collecting qualitative data through open-ended inter-

views. These approaches involve different types of preparation, conceptualization, and instrumentation. Each approach has strengths and weaknesses, and each serves a different purpose (Gläser & Laudel, 2010; Mason, 2002; Patton, 2014; Saunders et al., 2016; Silverman, 2016):

- First, the *unstructured interview approach* is the most open-ended approach to interviewing. It relies entirely on the spontaneous generation of questions in the natural flow of an interaction, often as part of the ongoing participant observation fieldwork. The conversational interview offers maximum flexibility to pursue information in whichever direction appears to be appropriate, depending on what emerges from observing a particular setting or from talking to one or more individuals in that setting. Most of the questions will flow from the immediate context. The strength of the informal conversational method resides in the opportunities it offers for flexibility, spontaneity, and responsiveness to individual differences and situational settings. Questions can be personalized to deepen communication with the person being interviewed, to make use of the immediate surroundings and situations, and to increase the concreteness and immediacy of the interview questions. On the other hand, a weakness of the method is that the information is not as systematic and comprehensive as with other approaches because different questions are posed. Furthermore, the go-with-the-flow-style of interviewing may be susceptible to interviewer effects, leading questions, and biases.
- Second, the *interview guide* or *semi-structured interview approach* lists the questions or issues that are to be explored in the course of an interview. An interview guide is prepared to ensure that the same basic lines of inquiry are pursued with each person interviewed. The guide provides topics or subject areas within which the interviewer is free to explore, probe, and ask questions that will elucidate and illuminate that particular subject. The interviewer remains free to build a conversation within a particular subject area, to word questions spontaneously, and to establish a conversational style, but with the focus on a particular subject that has been predetermined. The advantage of the method is that it makes sure that the interviewer has carefully decided how best to use the limited time available in an interview situation. The guide helps making interviewing a number of different people more systematic and comprehensive by delimiting in advance the issues to be explored. However, a weakness of this method is that important and salient topics may be inadvertently omitted by the interviewer. Moreover, the interviewer's flexi-

bility in sequencing and wording questions can result in substantially different responses from different perspectives, thus reducing the comparability of responses.

- The third method is the *structured interview approach*. This method requires carefully and fully wording each question before the interview to ensure that each interviewee gets asked the same questions in the same way and order. The structured interview consists of a set of questions, carefully worded and arranged, with the intention of taking each respondent through the same sequence and asking each respondent the same questions with essentially the same words. The standardized open-ended interview is used when it is important to minimize variation in the questions posed to interviewees. The weakness of the standardized interview approach is that it does not permit the interviewer to pursue topics or issues that were not anticipated when the questions were written. Moreover, a structured interview reduces the extent to which individual differences and circumstances can be queried.

Mason (2002) noted that all three of these formats for qualitative interviewing share the commitment to ask genuinely open-ended questions that offer the persons being interviewed the opportunity to respond in their own words and to express their own personal perspectives. While the three strategies vary in the extent to which the wording and sequencing of questions are predetermined, no variation exists in the principle that the response format should be open-ended. The interviewer must never supply or predetermine the phrases or categories that must be used by the respondents to express their own perspective, as this is the case in fixed-response questionnaires. Irvine et al. (2013) added that the purpose of qualitative interviewing is to capture how those being interviewed view their world, to learn their terminology and judgements, and to capture the complexities of their individual perceptions and experiences. The fundamental principle of qualitative interviewing is to provide a framework within respondents are encouraged to express their understandings in their own terms / language.

For this research, the interview guide approach was chosen. As opposed to the informal conversational interview, the interview guide adds more credibility to the research because it helps to interview a number of different people more systematic and comprehensive by delimiting in advance the issues to be explored. As opposed to the standardized interview, the interview guide offers greater flexibility, allowing individual perspectives and experi-

ences to emerge, however, while keeping the interview focused. Miles et al. (2014) argued that, with an interview guide at hand, the researcher has a rough travel itinerary with which to negotiate the interview. It does not specify precisely what will happen at every stage of the interview, but it does establish a clear sense of the direction of the journey and the ground it will cover. The advantage of the interview guide is that it makes sure that the interviewer has carefully decided how best to use the limited time available in an interview situation.

Interview guides can be developed in more or less detail, depending on the extent to which the interviewer is able to specify important issues in advance and the extent to which it is important to ask questions in the same order to all respondents. The construction of the interview guide was informed by the research questions as well as findings from the literature review. The following table provides a linkage between the questions of the interview guide which was used in this study with the research questions and the findings from the literature review. Given the limited amount of time of the interview participants and the focus of this study, it was not possible to ask a specific question with regard to each section / subsection of the literature review. Rather, the interview guide focused on the two main sections of the conceptual framework (turnaround actions and contextual factors corresponding to the first and second research questions of this study and the first and second research gaps identified in the framework). Furthermore, the interview guide included questions that specifically addressed the role / contribution of formalized turnaround plans in the turnaround process (corresponding to this study's third and fourth research questions and the third identified research gap in the literature).

Table 3.2. Interview Guide

Research Question	Section / Subsection of the Conceptual Framework	Interview Question
A	Turnaround Actions (Retrenchment Actions)	What retrenchment actions did the company take to overcome decline and how effective were these actions?
A	Turnaround Actions (Recovery Actions)	What recovery actions did the company take to overcome decline and how effective were these actions?
A	Turnaround Actions (Financial Actions)	What financial actions did the company take to overcome decline and how effective were these actions?

Research Question	Section / Subsection of the Conceptual Framework	Interview Question
A	Firm Actions (HR-oriented Actions)	What human resource-oriented actions did the company take to overcome decline and how effective were these actions?
B	Contextual Factors (Overall)	What contextual factors contributed to the recovery of the company? What were negative influences?
B	Contextual Factors (Executive Replacement)	Was the top management replaced during the turnaround attempt? How did the replacement or continual affect the turnaround process?
B	Contextual Factors (Stakeholders)	Which role did important stakeholders play in the turnaround process (in particular owners and creditors)?
C/D	n/a	Which primary objectives do you strive for when asking for a turnaround plan
C/D	n/a	What are your main and material requirements / expectations for turnaround plans?
C/D	n/a	How does a formalized turnaround plan contribute to the successful turnaround of a firm?
C/D	n/a	What are your main points of critique with regard to formalized turnaround plans?
C/D	n/a	What factors positively or negatively influence the effective application of formalized turnaround plans?
n/a	n/a	Can you name further interview participants who could contribute to the study from your point of view?
n/a	n/a	Please give a short overview of your professional experience / history in turnaround management.

The interviews were conducted by telephone in the time frame April to August 2018. They lasted on average one hour, ranging from 30 minutes up to two hours. All interviews were audio-recorded (with the consent by the participant, as presented in section 3.3.5.) and transcribed by the researcher.

3.3.3. Data Analysis

While quantitative research methods seek to count and provide statistical relevance related to how often a phenomenon occurs and then generalize the findings, qualitative research methods provide opportunities to delve into the phenomenon and determine its meaning while and after it occurs (Williams & Moser, 2019). Miles et al. (2014) pointed out that the challenge of qualitative analysis lies in making sense of massive amounts of data. This involves reducing the volume of raw information, sifting the trivial from the significant, identifying significant patterns, and constructing a framework for communicating the essence of what the data reveal. The following sections provide an overview of the data analysis process conducted.

The first step in the process was to develop a coding scheme. Simplifying and making sense out of complexity constitutes the challenge of qualitative data analysis. Developing a manageable classification or coding scheme should be the first step of analysis, because without classification, there may be chaos and confusion (Patton, 2014). Coding in qualitative research is comprised of processes that enable collected data to be assembled, categorized, and thematically sorted, providing an organized platform for the construction of meaning. Coding methods employ processes that reveal themes embedded in the data, in turn suggesting thematic directionality towards categorizing data through which meaning can be negotiated, codified, and presented (Williams & Moser, 2019).

Miles et al. (2014) defined codes as labels that assign symbolic meaning to the descriptive information. Codes can be attached to text passages of varying size. Saldaña (2013) expanded this definition by elaborating that a code is most often a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of language-based or visual data. Codes are primarily used to retrieve and categorize similar data chunks, so that the researcher can quickly find, pull out, and cluster the segments relating to the particular research questions. Thus, codes are prompts or triggers for deeper reflection on the data's meanings.

Miles et al. (2014) concluded that coding is analysis. The authors argued that the coding process can be seen as deep reflection about and thus deep analysis and interpretation of the data's meanings. Saldaña (2013) explained that coding is an interpretative act that enables the researcher to retrieve the most meaningful material with regard to the research

questions, to assemble chunks of data that go together, and to further condense the bulk of data into readily analysable units. Coding data ultimately results in the creation of theory, leading the researcher to construct deeper theoretical meaning. It provides researchers with nuanced access to study informants' thoughts, perspectives, and reactions to the study topic (i.e. turnaround processes and formalized turnaround plans; Williams & Moser, 2019).

In the course of the analysis process, two coding schemes were developed and applied. The first coding scheme (as set out in table 3.3.) was developed based on the research questions and the findings from the literature review. An initial coding was conducted deductively, in which all interview transcripts were coded to this pre-defined coding scheme. Subsequently, sub-codes to each pre-defined main-code were inductively developed based on the findings and themes in the data (Creswell & Poth, 2018; Miles et al., 2014; Saldaña, 2013). This coding process was, for example, recommended by Saldaña (2013), calling it "second-cycle-coding" because it begins with a pre-defined list of deductive codes which is enriched by inductive sub-codes as review and re-review of the data continues.

In the first-cycle deductive coding step, every statement of the participants was labelled with at least one code. If a statement related to none of the pre-defined codes, it was labelled with the category "other". These statements were again reviewed in the second cycle inductive coding step. This step was taken to ensure that themes / codes which were not originally on the coding scheme were not missed. Saldaña (2013) argued that there will always be passages of minor or trivial consequence scattered throughout a given data set of, for example, interview transcripts. This first deductive step of the coding process was necessary to condensate the bulk of data to identify and extract what is meaningful with regard to the research aim and questions of this study, and to keep the analysis focused on these.

Table 3.3.: Predefined Deductive Coding Scheme

Main Codes	Research Question	Conceptual Framework
Retrenchment actions	1	Turnaround actions
Recovery actions	1	Turnaround actions
Financial actions	1	Turnaround actions
Human resource-oriented actions	1	Turnaround actions

Main Codes	Research Question	Conceptual Framework
Executive replacement	2	Contextual factors
Stakeholders	2	Contextual factors
Other contextual factors	2	Contextual factors
Objectives for formalized turnaround plans	3/4	Turnaround plans
Requirements for formalized turnaround plans	3/4	Turnaround plans
Contribution of formalized turnaround plans	3/4	Turnaround plans
Critique of formalized turnaround plans	3/4	Turnaround plans
Application / implementation of formalized turnaround plans	3/4	Turnaround plans

After this first step, the statements attached to each deductive code were reread and sub-codes were developed inductively based on the themes in the data. Miles et al. (2014) defined sub-codes as second order tags assigned after a primary code to detail or enrich the entry. The authors argued that inductive coding may have the advantage of being better grounded empirically and may show that the researcher is open to what the data has to say. Sub-coding is appropriate when main-code entries require more extensive indexing, categorizing, and subcategorizing for more nuanced qualitative data analysis. Williams and Moser (2019) advanced that using deductive and inductive approaches to data analysis combined can maximize analytic acuity and enable precise thematic categorization. The second inductive step in this study’s coding process was particularly facilitative in drawing deeper meaning from the data and enriching the concepts that were retrieved from the literature.

Table 3.4.: Inductive Sub-coding Scheme

Main Codes	Sub-codes
Retrenchment actions	Material expenses; personnel expenses; working capital
Recovery actions	Critique; support; timing
Financial actions	Optimizing the firm’s capital structure; financial management and management accounting
Human resource-oriented actions	Employee communication; decision-making speed

Main Codes	Sub-codes
Executive replacement	Management failure; executive replacement; interim-management
Stakeholders	Owners; creditors; other stakeholders
Objectives for formalized turnaround plans	Legal requirements; basis for negotiation with creditors; transparency; independent assessment
Requirements for formalized turnaround plans	Overall structure and comprehensibility; analysis of the firm's current situation; turnaround actions; integrated business plan
Contribution of formalized turnaround plans	Providing transparency to externals; providing guidance and setting a basis for monitoring; initiating change; providing an independent perspective; restoring confidence of banks
Critique of formalized turnaround plans	Length / size; complexity; analytical depths; market orientation and sales development; applicability; conflict of interest
Application / implementation of formalized turnaround plans	Willingness for change; external support; monitoring; flexibility

After the sub-codes had been developed, the statements were coded, again, to the different sub-codes of each main-code. It was possible that a statement was attached to several sub-codes (or main codes). The statements in the category "other" were again reviewed and decided over if they could be attached to one of the sub-codes. If they showed no relevance to the research aim and questions of this study, they were excluded from further analysis. After these two steps, the statements attached to each single sub-code were read again in order to check and revise the codes. Several readings of the data were necessary before the interview transcripts could be completely coded. The transcripts of each interview were treated equal in rank, i.e., the statements were coded regardless of the professional group the participant belonged to. An equal number of participants of each professional group was sampled to increase the credibility of the research, or more specifically, to minimise the risk that the interview data is biased to the interests or perspectives of one professional group.

The coding was carried out with the help of the qualitative data analyses software *f4analysis*³⁶ (after testing several qualitative data analysis software programs, i.e. *NVivo*, *MaxQDA*, *f4analysis*, the researcher chose *f4analysis* on the basis of analytic features, convenience of use, and price). While, of course, the intellectual work has to be carried out by the researcher, several authors, such as Creswell and Poth (2018), Miles et al. (2014), Sinkovics and Alfoldi (2012), and Sinkovics et al. (2008) noted several advantages for using qualitative analysis software in comparison to hand-coding. For example, qualitative analyses software provides an organized storage file system for ease of retrieval. It may help to locate material with ease for the purposes of sorting; retrieving and reviewing common passages or segments that relate to two or more codes. Moreover, it can assist in comparing and relating among code labels, supporting the researcher to conceptualize different levels of abstractions, i.e. main-codes and sub-codes, without jeopardising the analytical and interpretive process carried out by the researcher (Creswell & Poth, 2018; Miles et al., 2014; Sinkovics & Alfoldi, 2012; Sinkovics et al., 2008).

Qualitative data analysis software substitutes hand-coding processes, for example, colour coding aligned themes, cutting them out (producing small paper fragments with the themes), or adhering the paper fragments on index cards which may be more subject to possible errors in overlooking or miscoding the themes (Williams & Moser, 2019). With the help of the software, the researcher was relieved from those manual tasks and enabled to concentrate on the conceptual work of analysis and on reflection and interpretation on the evidence base (Carcary, 2011). The software increased the researcher's closeness with the data and supported the development of theory. For example, capabilities of the software like "jump to the source" promoted a level of closeness difficult to achieve manually ("jump to the source" allows the user to view a coded excerpt within its original context).

Moreover, the software supported the creation of an efficient data management system whereby the large volumes of unstructured interview data could be systematically analysed. Carcary (2011) stipulated that an efficient and well-structured data management system is critical to tracking, accessing, and documenting the data and the analyses applied to it. This data management system helped the researcher in transforming the data into the final research report in a systematic manner as opposed to a disorganized stumble through a mass of data, full of "insightful" observations of a mainly anecdotal nature (Silverman,

³⁶ <https://www.audiotranskription.de/f4-analyse>

2016). During the course of the coding process, the software became particularly helpful for the structural organization of the data, since each code with the attached statements could be easily sorted and printed out for the development of the sub-codes. Furthermore, several main-codes / sub-codes could be easily attached to one statement or passage which supposedly would have been more time-consuming carried out manually (Sinkovics & Alfoldi, 2012).

The researcher still moved through each phase of the coding process; the software simply supported an easier capture of the researcher's coding and construction of meaning. Although it would have been possible, the software was not used to automatically find key words in the data (for example, by utilizing a command to count particular key words in the transcripts), but the data analysis relied exclusively on the interpretative skills of the researcher. The count strategy was considered as being too reductive to produce meaningful results out of complex texts as it disregards the contexts in which those key words have been said (Gilbert, 2002). Moreover, there may have been typing errors in the transcripts that would have distorted the results from the word count analysis. Instead, interpretation suggests that there are no clear rules and that the researcher's judgement, intuition and ability to highlight issues play an important part in the research process (Carcary, 2011). However, with the use of data analysis software, the process of interpretation could be conducted in a more transparent manner where the logic of the researcher's interpretations can be more easily traced enhancing this study's credibility.

In addition, reflective of Miles et al. (2014), qualitative data analysis software can be helpful for documentation purposes, since all data can be easily stored in a well-organized electronic file. Sinkovics et al. (2008) argued that the documentation features of qualitative data analysis software also add more rigour and, therefore, more credibility to the qualitative research process. For documentation purposes, all interview transcripts as well as the codes (and their attached statements) have been stored in a database and are available on request.

In analysing the data, existing knowledge, gained through systematically reviewing recent turnaround literature, was tested with the data. Secondly, areas with regard to turnaround actions and contextual factors for which a new understanding was being created by the data analysis were identified (relating to research questions 1 and 2 of this study). Third, the

role of formalized turnaround plans in the turnaround process was critically assessed (research question 3). On this basis, it was evaluated how effective and useful the establishment of such formalised turnaround approach has been in Germany (research question 4). The main findings from the data analysis are presented and discussed in Section 4, followed by a conclusion in section 5.

3.3.4. Methodological Rigour / Quality

Creswell and Poth (2018) argued that qualitative researchers strive for understanding the deep structure of knowledge that comes from talking to participants, spending time in the field, and obtaining detailed meanings. However, Creswell and Poth (2018) also argued that researchers need to face the questions whether the account is valid and by whose standards, as well as how the quality of qualitative research is evaluated. Patton (2014) pointed out that there are specific quality criteria for qualitative research being embedded in and flowing from the researcher's philosophical paradigm. Patton (2014) went on to argue that philosophical paradigms provide distinct criteria for determining quality, or at least priorities and emphases, for what constitutes a quality contribution within those particular paradigms. For example, positivist or post-positivist research focuses to increase credibility based on traditional scientific research criteria. This approach has traditionally emphasized objectivity, so that qualitative research conducted within this paradigm emphasizes procedures for minimising investigator bias. With regard to data analysis, multiple coders are used and inter-coder consistency is calculated to establish the validity of the analysis. On the other hand, constructivists or social constructivists contended that research should be judged by authenticity which is the reflexive consciousness about one's own perspective, appreciation for the perspectives of others, and fairness in depicting constructions in the values that undergird them. As opposed to positivists, constructivists embrace subjectivity as a pathway into deeper understanding the human dimensions of the world. Constructivist research is explicitly informed by attention to reflexivity – i.e., understanding how one's own experiences and background affect the research. However, pragmatist research begins with the premise that studies should be judged by their utility and actual use (Baker & Schaltegger, 2015; Fendt et al., 2008). To be useful, specific intended users must be identified and their information needs met. In this research, the specific stakeholders of turnaround plans were identified and asked for their needs with regard to formalized turnaround plans. Ormerod (2006) suggested that interactive engagement with intended users enhances relevance and use. The research findings must be understandable and ac-

tionable. The methods used need to be credible to those who will use the findings. Therefore, researchers need to facilitate the research process and design with careful consideration of how everything is done, from beginning to end, will affect use.

In a qualitative research context, strategies to ensure the quality of the study refer to *credibility*, *dependability*, and *transferability* which may be seen as equivalents to validity, reliability, and generalizability in a quantitative research context (Creswell & Poth, 2018; Lincoln & Guba, 1985; Miles et al., 2014; Patton, 2014; Silverman, 2016; Sinkovics & Alfoldi, 2012; Sinkovics et al., 2008). These qualitative criteria (and how they were ensured in this research) are discussed in the following narratives.

3.3.4.1. Credibility

Lincoln and Guba (1985) defined credibility, as substitute for validity in quantitative research, as to carry out the research in such a way that the probability that the findings will be found to be credible is enhanced. More specifically, it determines the “truth value” of the study, meaning to establish confidence in the truth of the research findings. Creswell and Poth (2018) considered credibility in qualitative research to be an attempt to assess the accuracy of the findings, as best described by the researcher, the participants, and the readers. The authors viewed the process to achieve credibility as a distinct strength of qualitative research in that the account made through several strategies. In this research, credibility was addressed by *prolonged engagement* and *triangulation* (Creswell & Poth, 2018; Lincoln & Guba, 1985; Patton, 2014).

Prolonged Engagement

The first strategy applied, prolonged engagement, was defined by Lincoln and Guba (1985) as the investment of sufficient time to achieve learning the culture as it may not be possible to understand any phenomenon without reference to the context in which it is embedded. It was argued that objects and behaviours take not only their meaning but their very existence from their contexts. Therefore, Lincoln and Guba (1985) recommended that the qualitative researcher should spend enough time in becoming oriented to the situation to be certain that the context is thoroughly appreciated and understood. Unless the researcher becomes an accepted member of the group or culture being studied, personal distortions may not be overcome. Distortions may take the form of preconceptions by the researcher, or with regard to the participants, misconstructions of the interview questions, situated motives of

wanting to please the researcher, or distortions to deceive or confuse (such as lies, fronts, and deceptions that may be practiced by the participants). During the period of prolonged engagement, the researcher must become able to decide whether he/she has risen above his/her preconceptions, whether misinformation has been forthcoming, whether that misinformation is deliberate or unintended, and what posture to take to combat the problem. The researcher has worked as a turnaround consultant for eight years and has prepared many formalized turnaround plans which can be classified as prolonged engagement in the culture. He had worked together with creditors, investors, lawyers, and turnaround managers (not those being interviewed) for several years and, thus, became an accepted member of the community. Thus, the interviewees accepted the researcher as part of their culture (emic perspective) and, therefore, were willing to discuss issues important to them more openly.

Triangulation

With regard to the second strategy applied, Creswell and Poth (2018) defined the process of triangulation in that the researcher makes use of multiple and different sources, methods, or investigators to provide corroborating evidence. It was argued that this process typically involves corroborating evidence from different sources to shed light on a theme or perspective. For instance, when qualitative researchers locate evidence to document a code or theme in different sources of data, they are triangulating information and providing credibility to their findings. This line of argument was supported by Patton (2014) who pointed out that triangulation not only provides diverse ways of looking at the same phenomenon, but in adding to the credibility of the study by strengthening confidence in whatever conclusions are drawn. Patton (2014) went on to argue that there are several kinds of triangulation that can contribute to the validation of qualitative analysis, for example triangulation of different data sources within the same method, mixed qualitative and quantitative methods, or triangulation with different analysts. Triangulation in whatever form increases the credibility of the study by countering the concern that the study's findings are simply an artefact of a single method, source, or investigator.

In this research, different data sources (interview participants) were triangulated by using the same method (semi-structured interviews). The interview participants are all actors in turnaround processes. However, the participants were recruited from different professional groups (as outlined in section 3.3.2.3) that are involved in turnaround processes differently,

acting in different contexts, and pursuing different objectives. Therefore, each group provides a distinguished, unique perspective on the questions under study. For example, creditors are external to the company and act at the side-line, viewing the turnaround process from outside, not taking specific actions, as for example owners or managers. They might also pursue different goals. For example, if creditors own substantial collaterals on their loans that are granted to a company, they may prefer the company's insolvency and liquidation, so that the collaterals can be sold off and the loans repaid by the proceeds. Next, owners provide a different perspective because they are more involved in the process than creditors and are able to take greater influence on organizational decisions, for example, replacing the top management. The company's liquidation is most often not desirable for owners because in insolvency proceedings, creditors get paid out first with the proceeds generated by the sale of insolvency assets, often leaving no remaining assets to repay liabilities to owners or contributed equity capital. Furthermore, lawyers are external to the company, providing consultancy services with regard to legal issues and adding specific value to this study because of the legal complexity of turnaround processes, insolvency situations, and formalized turnaround plans. Finally, turnaround researchers found that managers, the fourth professional group of interviewees, play a key role in turnaround processes (Chen, 2015; Chen & Hambrick, 2012; Yandava, 2012) and their perceptions and interpretations of turnaround situations significantly influence the actions organizations take to reverse the decline (Abebe, 2012; Abebe et al., 2012; Barker et al., 2001; Clapham et al., 2005; Lohrke et al., 2012; Musteen et al., 2011).

3.3.4.2. Dependability

Lincoln and Guba (1985) referred to dependability, being the substitute for reliability in quantitative research, as a question of consistency: how can one determine whether the research findings would be repeated if the research were replicated by other researchers, with the same or similar participants, or in the same or similar context? Similarly, Miles et al. (2014) argued that the underlying issue with regard to reliability or dependability is whether the process of the study is consistent, reasonably stable over time as well as across researchers and methods. In a quantitative research context, reliability is seen as precondition for validity (an unreliable measure cannot be valid) and is usually tested by replication – if two or more repetitions of essentially similar research processes under essentially similar conditions yield essentially similar findings, the reliability of the research is established (Lincoln & Guba, 1985). However, in a qualitative research context, Patton (2014) referred

to dependability as establishing a systematic research process that is systematically followed by the researcher. The process needs to be well documented and the data held accessible to allow others to trace and replicate the findings (Lincoln & Guba, 1985; Patton, 2014; Silverman, 2016). Lincoln and Guba (1985) compared this to a fiscal audit in which an auditor is called in to authenticate the accounts of a company to examine the process by which the accounts were kept to satisfy the stakeholders that the company's financial position is fairly represented. To establish dependability, the data collection (method, time-frame, sampling, interviewing, transcribing) and data analysis process (first-cycle deductive coding, second-cycle inductive coding, interpretation, software use, documentation, data accessibility) were described as explicitly and detailed as possible in the respective sections to allow a third to trace the findings and conclusions of the researcher. All interview audio files, transcriptions, and coding results are electronically stored and available on request.

3.3.4.3. Transferability

Lincoln and Guba (1985) referred to transferability as how one can determine the extent to which the research findings have applicability in other contexts. It may be seen as the equivalent to generalizability in quantitative research, inferring that an identified causal relationship can be generalized to and across different types of persons, settings, or times. With regard to questions of generalizability of the study's findings, again, different paradigms offer different answers. For example, while the positivist paradigm includes generalizability, constructivist criteria, in contrast, emphasize particularity and eschew or are sceptical about generalizability. Patton (2014) argued that, in a pragmatist research context, social phenomena may be too variable and context-bound to permit very significant empirical generalizations as in comparison in to natural sciences. He argued that an organizational researcher collecting data in a particular situation is in a position to appraise a practice or a proposition in this setting and context. What becomes useful understanding is a full and thorough knowledge of the particular, recognizing it also in other contexts. To address transferability, *thick description* and *applicability of the findings* were emphasized.

Thick Description

Lincoln and Guba (1985) argued that the burden of proof whether the research findings are transferable lies less with the original investigator than with the person to make an application elsewhere. The original researcher cannot know the sites to which transferability

might be sought but the applicators can do. The best advice to make a transfer is to accumulate empirical evidence about contextual similarity. Lincoln and Guba (1985) argued that the responsibility of the original researcher ends in providing sufficient descriptive data to make such similarity judgements possible. In that, the applicator may decide on the basis of the evidence whether sending and receiving contexts are sufficiently similar to allow a transfer. For while a quantitative researcher may be expected to make relatively precise statements about generalizability (expressed, for example, in the form of statistical confidence limits), a qualitative researcher can only set out working hypotheses together with a detailed description of the context in which they were found to hold. Whether they hold in some other context may depend upon the degree of similarity between sending and receiving contexts. Therefore, a qualitative researcher cannot specify the generalizability of the research, he/she can only provide thick description necessary to enable someone interested in judging the ability to make a transfer to another context.

Similarly, Creswell and Poth (2018) suggested that the researcher allows readers to make decisions regarding transferability because the writer describes in detail the issues under study. With such a detailed description, the researcher enables readers to transfer information to other settings and to determine whether the findings can be transferred because of shared characteristics. Thick description means that the researcher provides details when writing about a theme. Patton (2014) pointed out that good description takes the reader into the setting being described. It shares the capacity to open up a world to the reader through rich, detailed, and concrete descriptions – in such a way that we can understand the phenomenon studied and draw our own interpretations about meanings and significance. Maxwell (2013) argued that sufficient description and direct quotations should be included to allow the reader to enter into the situation observed and the thoughts of the people represented in the report. However, Maxwell (2013) warned that description should stop before becoming trivial and mundane. The reader does not have to know everything that was done or said. Focus comes from having determined what is substantively significant and providing enough detail and evidence to illuminate and make that substantive case. Yet, the description must not be as thin as to remove context and meaning. In providing thick description and rich contextual information, the legal context in Germany with regard to formalized turnaround plans were described as explicitly and detailed as possible, as for which all relevant verdicts of German courts have been compiled, analysed, and summarized by the researcher in the introduction of this study. Furthermore, the results and discussion section

includes many direct quotes from the participants, so that their voice is acknowledged and set out. These direct quotes transfer contextual information to the reader und prospective appliers of the knowledge that was generated by this research.

Applicability of the Findings

Furthermore, in a pragmatist research context, Patton (2014) recommended to identify and articulate applicability as a way of extracting useful and actionable knowledge from qualitative context-specific research. Rather than being stated in the form of traditional science or positivistic empirical generalizations, application takes the form of principles of practice that must be adapted to particular settings in which the principle is to be applied. Lessons learned that constitute guidance triangulated from multiple sources to increase transferability as cumulative knowledge that can be adapted and applied to new situations may be the form of pragmatic generalizability. This study developed specific recommendations for the effective preparation and application of formalized turnaround plans for German companies facing decline. This knowledge is particularly useful for stakeholders of companies in turnaround situations in the German legal context in which a turnaround plan is often compulsory. When effectively prepared and implemented, the instrument of formalized turnaround plans may add value to companies in a different context.

3.3.5. Ethical Issues

Ethical issues were recognized within this study and the research abided to the principles and procedures outlined in the University of Gloucestershire's Ethics Handbook as well as in the General Data Protection Regulation (GDPR).

The interviews were audio-recorded, with all participants asked for and provided their consent prior to the interview. Before the interview, participants were reminded that they may have withdrawn from the study at any point which none of the participants made use of. The participants were also provided with privacy information regarding the collection, usage, and retention of their personal data prior to conducting the interview. Furthermore, the participants were informed of their privacy rights under the GPDR, including their right to revoke consent to data processing at any time, view their personal data and access an overview of how it is being processed, their right to obtain a portable copy of their stored data, the right of erasure of data, and the right to file complaints with an EU data protection au-

thority. All participants have given consent to the processing of their data for the purposes of this study.

All interviews were transcribed shortly after the interview took place. All transcripts are kept anonymous and confidential. The names of individuals and institutions are not mentioned in the research. In order to protect the anonymity of participants, pseudonyms are used in such a way that the resulting data cannot be attributed to a specific participant without the use of additional information (GDPR Art. I). If direct quotations are cited, indicative information is removed. Business-related information has been kept strictly confidential in general as well as between participants. The data is solely used for research purposes, stored safely, and will be deleted when it will be no longer needed for research purposes.

3.3.6. Chapter Summary

This section outlined and discussed the research approach being applied in this study. This included a discussion of different philosophical paradigms and the choice and justification of pragmatism guiding the research and, in particular, the development of the research design. The discussion of the research design, being defined as the plan procedures for data collection, analysis, and interpretation (Creswell & Creswell, 2018), included the choice and justification for conducting qualitative research, applying the interview method for data collection, the time-frame in which the data was collected (cross-sectional approach), the sampling approaches (purposeful random sampling and snowball sampling), and the construction of the interview guide. With regard to the data analysis process, the analysis method (first-cycle deductive coding and second-cycle inductive coding) as well as the construction of the coding schemes were discussed. Moreover, this section outlined the strategies applied by the researcher to ensure methodological rigour and quality, by specifically ensuring credibility, dependability, and transferability of the research (Lincoln & Guba, 1985; Patton, 2014). Finally, procedures for complying with the ethical guidelines outlined by the University of Gloucestershire's Ethics Handbook and the General Data Protection Regulation (GDPR) were delineated.

4. Results and Discussion

Based on the research questions of this study, five major themes were identified from the empirical data (content and process of turnarounds; context of turnarounds; objectives and requirements for formalized turnaround plans; contribution and critique of formalized turnaround plans; and implementation of formalized turnaround plans). The themes are outlined and discussed in the following sections.

4.1. Introduction

As set out at the end of Chapter Two (conceptual framework; section 2.6.6) of the literature review, when companies enter a period of decline, either induced by external or internal causes, two questions developed from the content, context, and process framework become essential. These questions constitute this study's first two research questions:

RQ 1: What actions do companies take in order to effectively overcome decline processes and restore sustainable competitive advantage and profitability (turnaround), when faced with threats to organisational survival?

RQ 2: What differentiates companies achieving successful sustainable turnaround from those who failed or achieved only short-term improvements?

Also derived from the conceptual framework, the most apparent gap in the current literature was that the reviewed studies focused exclusively on turnaround plans that were developed in an insolvency situation as part of the insolvency plan. However, none of the reviewed studies dealt with formalized turnaround plans that are prepared outside of insolvency proceedings, as being applied in Germany. To close this gap, this study critically assesses the contribution of formalized turnaround plans in the process; and, develops recommendations for the effective development and application of those plans in a German business context – referring to the third and fourth research question of this study:

RQ 3: How significant is the role played by the creation and application of a formalised turnaround plan?

RQ 4: How effective has the establishment of such formalised turnaround approach been in Germany and how useful are the lessons to be learned?

The results from the data analysis are discussed in two distinct sections of this chapter. The identified key themes of each section are depicted in figure 4.1. Referring to Table 3.1

(Overview of Research Participants), the following shortcuts for the pseudonyms were used: I = Investor; C = Creditor; L = Insolvency Lawyer, Liquidator; M = Turnaround Manager.

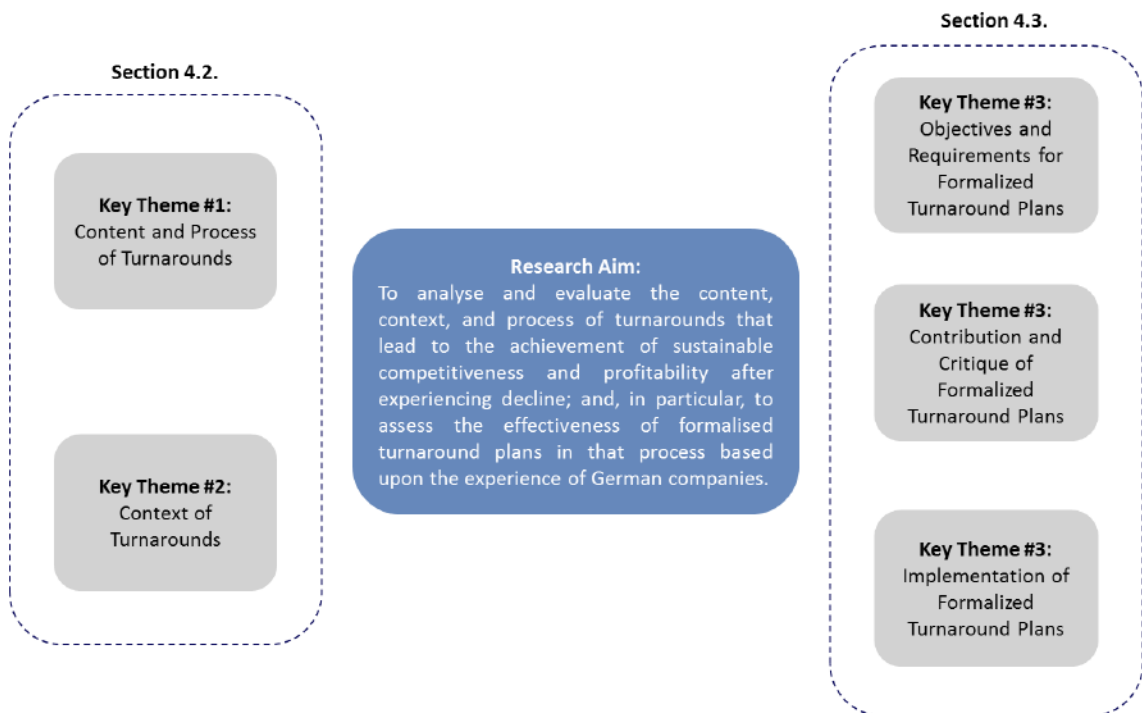


Figure 4.1: Key Themes from the Data Analysis

4.2. Content and Process of Turnarounds

The content and process dimensions of turnarounds refer to actions companies take in order to reverse decline and the process by which they are implemented. Four essential categories of turnaround actions could be identified from the literature: retrenchment actions, recovery actions, financial actions, and human resource-oriented actions.

4.2.1. Retrenchment Actions

With regard to retrenchment actions, turnaround research referred to asset retrenchment (net reduction of assets such as closing plants, selling financial assets, equipment, or inventory) and cost retrenchment which referred to the net reduction of total costs such as material costs, labour costs, selling, general, and administrative expenses (SGA); and interest expenses. Moreover, the reduction of working capital (in particular inventories and trade accounts receivable) was operationalized as a retrenchment action (Bruton et al., 2003; Sudarsanam & Lai, 2001). When such items are reduced, the firm will require less capital

and the financing costs are lowered as well. The effectiveness of retrenchment actions was controversially discussed in the turnaround literature. More specifically, the effectiveness of retrenchment actions was mainly seen dependent on several contingency factors, such as, for instance, the severity of decline (Francis & Desai, 2005), industry and environmental factors (Boyne & Meier, 2009; Morrow et al., 2004), or timing (Tangpong et al., 2015).

After reviewing the statements that were coded to retrenchment actions within the first-cycle-coding process, it was decided to develop sub-codes for the second cycle-coding process based on the target areas that the retrenchment actions aimed to improve. With regard to cost retrenchment, the participants referred to the reduction of *material expenses* to save production cost and, thus, improve gross profit as well as the reduction of *personnel expenses* to improve earnings. With regard to asset retrenchment, the participants referred to the net reduction of *working capital*, such as reducing inventories and accounts receivable. Second, also with regard to working capital, stretching accounts payable was referred to as an effective action to improve liquidity on a short-term basis. Retrenchment actions were seen by the participants, in general, as effective actions to reverse firm decline. However, the effectiveness of retrenchment actions in a turnaround situation may be highly dependent on several contingency factors which will also be discussed in the following narratives.

4.2.1.1. Material Expenses

In this study, the participants argued that the reduction of material cost may be an effective turnaround action, however, the effectiveness may be dependent to a great degree on the kind of material the firm uses for production. Specifically, the possibility of reducing prices by negotiations with suppliers may be elevated when there is strong competition among suppliers, for example among packaging manufacturers. In illustrating this, I-1, an investor, provided insight by commenting,

“(...) actions that focus on optimizing procurement can be very effective. However, it depends on the kind of material the company uses in its production process. For example, when the company purchases steel or zinc, you are dependent on the market price developments of those commodities. However, in an area of strong competition among suppliers, for example in the field of

packaging manufacturers, I have seen that price negotiations with suppliers can reduce the company's material cost significantly."

It was also indicated that the effectiveness of material cost retrenchment may be dependent on the current state of the economy. This dependence on the economic climate was articulated by several researchers, such as in the studies of Boyne and Meier (2009), Morrow et al. (2004), and Ndofor et al. (2013), stipulating that retrenchment actions are more effective in a weak economic environment as opposed to be taken in an environment of economic munificence. The participants indicated that in a weak economic state, for example during the global financial crisis in 2009, the firm's suppliers may be also suffering and, therefore, be more likely to accept price cuts. This implication was reflected on by M-3 who stated,

"(...) with regard to procurement, one can realize significant quick-wins. Except when you are in the year 2018 and have a weak company and all your suppliers are doing great. But, for example, in the year 2009, when all are suffering, the biggest quick-win one can gain is in procurement. In this kind of situation, you can say to your suppliers: we pay 10% less. Take it or leave it."

4.2.1.2. Personal Expenses

Based on the literature review, a common practice in turnaround situations is to downsize staff in order to reduce personnel cost (e.g. Lawton et al., 2011; Morrow et al., 2004). However, due to severance payments, personnel cost may even increase in the short run when downsizing employees. Referring to such severance payments which may not be affordable for companies in a distressed state, I-4 indicated,

"(...) the next thing one has to look at is personal expenses. Here, it is difficult to act in the short run. (...) In order to avoid the severance payments, the company should, instead, rather omit to hire new personnel when employees are leaving the firm."

However, several researchers warned against downsizing personnel in a turnaround situation for another reason than extraordinary cost induced by severance payments. Specifically, Francis and Desai (2005) warned that the exit of employees can cause losses of firm specific knowledge of products and services as well as processes and routines. In line with this argument, L-4 contended,

“(...) reducing personnel is an action that only cuts. What do I mean by that? Most of the employees surely did not twiddle their thumbs. And that means, I have to think about actions to compensate for their exit, for example, by re-ordering processes, so that I can do the same amount of work with less people. And this is not trivial.”

The warning articulated by L-4 potentially indicates that, when reducing personnel, it may not be an easy task to compensate the loss of firm specific knowledge of long-standing employees, at least not in the short run. However, a reorganisation of processes to compensate for the diminished human resource base may be difficult and time-consuming. These factors need to be considered by the company’s management when deciding over the reduction of firm staff.

However, it was also contended that in turnaround situations, some degree of downsizing may not be unavoidable. For example, M-4 stated,

“(...) in all of my turnaround cases, a downsizing of personnel was not avoidable.”

However, it was also argued by the participants that, if conducted, the lay-off has to be singular, comprehensive, and fast in order to maintain staff morale. Specifically, this was articulated by M-3 who asserted,

“(...) the lay-off has to be singular, comprehensive, and fast. Then, it works. It would be a mistake to reduce personnel bit by bit over an extended period of 18 months. The organization would turn crazy. You have to communicate and execute it at once with a big bang. Otherwise, it turns out to be a nightmare.”

These views potentially relate to the research of Schmitt and Raisch (2010) who indicated that retrenchment activities, such as downsizing personnel, may reduce a firm’s ability to recover by sapping employee morale and causing employees with marketable skills to leave the firm. This means, when the organisation’s staff experiences a continuous departure of colleagues, even those employees that need to be maintained may lose the faith in a viable future of the organisation and may leave the firm intentionally. This implicates that, in consideration of the concerns raised by several researchers with regard to downsizing (Francis & Desai, 2005; Schmitt & Raisch, 2013), and the participant’s statements, it may be more effective to follow the advice of I-1 to omit to hire new personnel when employ-

ees are leaving the firm. In this respect, the firm avoids high severance payments and may have more time to implement processual changes or other actions to compensate the reduction of manpower. However, in a situation close to insolvency, when the firm has to reduce expenses by a significant amount, a singular, comprehensive, and fast lay-off (as recommended by M-3) may be the best option. In these situations, a severance payment scheme may be negotiated with the workers' council in order to reduce such payments, so that they are affordable for the firm and do not cause the firm's insolvency.

4.2.1.3. Working Capital

With regard to asset retrenchment, in the reviewed turnaround studies, the optimization of working capital was operationalized by reducing inventories (trying to maintain production with lower levels of inventories) or accounts receivable (for instance, by reducing payment terms to customers or by dunning customers), leading to less capital requirements and financing costs (Bruton et al., 2003; Sudarsanam & Lai, 2001). However, I-5 warned,

“(...) reducing working capital can have negative consequences with regard to the operations. Specifically, reducing inventory can have significant adverse effects on the company's production processes as well as its delivery capability, leading to high follow-up costs.”

This opinion indicates that the reduction of inventories may have deleterious impacts on the company's production processes and delivering capacity, for example, when spare parts are not available when needed, slowing down production. This may lead to that customer orders cannot be served on time leading to a decline of firm revenues. I-5 went on to argue,

“(...) a company having too much inventories is often the result of deficient organizational structure and processes. And you cannot cure the symptoms without curing the disease. If the firm's processes are inefficient, decreasing working capital will not be of any help.

This perspective indicates that high levels of inventories may be result of inefficient processes. Thus, when production processes are not efficient, so that spare parts have to be warehoused for long periods without being processed, the firm's inventory levels eventually rise. That leads to the conclusion that the production processes have to be reordered (prior to cutting down purchase quantities) to be more efficient. As a result, inventory lev-

els will decline eventually. This may be more effective than cutting down the purchase of materials without paying attention to the inefficiency of production.

Next, with regard to working capital, turnaround researchers suggested that the reduction of accounts receivable may be an effective turnaround action (Sudarsanam & Lai, 2001). This may be achieved, for example, by reducing payment terms to customers or by systematic dunning in order to collect overdue accounts receivable. However, researchers also warned that this may hurt important customer relationships (Bruton et al., 2003). In this regard, M-1 recalled that the reduction of overdue accounts receivable had been necessary in one of his turnaround cases, by elaborating,

“(...) we had to reduce overdue accounts receivable at the risk of burdening the friendships with our customers who got accustomed to extended payment terms. (...) As a chief executive you have to first talk to your most important clients and tell them about the turnaround situation. In most cases, I have experienced that they acted supportive and cleared their overdue accounts.”

This viewpoint implies that communication with important customers about the difficulties the firm is facing may be a more effective means to deal with this situation. If customers strongly appreciate or even rely on the products or services of the firm in trouble, they would suffer from the firm's liquidation and, therefore, are more likely to act supportive by paying on time or even earlier than initially contracted. This, for example, may happen in the automotive industry, when large automotive manufactures need specific parts from their suppliers on time to maintain their production schedule.

Another working capital-oriented action in a turnaround situation may be to stretch accounts payable, meaning to exceed payment terms to suppliers. In this regard, I-1 elaborated,

“(...) if the crisis is severe, needless to say, you have to target working capital in order to generate liquidity in the short run, for example, by stretching the payment terms to suppliers. However, in a crisis situation, suppliers are already stressed to the limit, so that you have to be careful not to lose them.”

This statement indicates that stretching accounts payable be appropriate in a severe crisis, when the firm is short on liquidity and close to insolvency. However, this action may be considered very carefully, since it may stress the relationships to suppliers. This, in turn,

can lead to a situation in which suppliers may tighten payment terms, ask for cash in advance of delivery, or even refuse to deliver at all.

The optimization of working capital, either by reducing inventories and accounts receivable or by stretching payments to suppliers, may be considered as a great opportunity to generate liquidity in the short run. However, since there are significant risks involved with these actions, they may be only taken in a severe crisis when liquidity is urgently required. The short-term reduction of inventories without improving production processes may impair the firm's delivering capability, leading to significant follow-up costs. Furthermore, stretching accounts payable may overstress the relationships to suppliers with the risk of shortened payment terms or cessation of delivery. Cutting payment terms to customers or systematic dunning may also damage relationships to important customers.

4.2.2. Recovery Actions

Recovery actions, also referred to as strategic actions, relate to diversification activities such as new product developments (Morrow et al., 2007), acquisitions (Wan & Yiu, 2009), capital expenditure (Sudarsanam & Lai, 2001), or strategic change through improvement or innovation (Lawton et al., 2013). In particular, while retrenchment actions focus on reducing costs in order to reverse negative earnings, recovery actions focus on increasing the firm's revenues in order to offset costs. Although recovery actions were seen as the true driver for firm turnaround by the majority of turnaround researchers, these actions are costly and only feasible for firms that maintain excess slack or the financial support of stakeholders (Sudarsanam & Lai, 2001).

Based on the results of the first-cycle deductive coding process, the statements attached to recovery actions were inductively coded within the second-cycle coding process. From the inductive second-cycle coding, the codes *critique*, *support*, and *timing* emerged to be relevant in this category. First, recovery actions were strongly critiqued by the participants, suggesting that recovery actions may not be as effective as retrenchment actions or even not effective at all in a turnaround situation of pressure to improve liquidity and earnings in the short run. However, it was also argued that recovery actions may be more appropriate in a less severe turnaround situation. Furthermore, it was even suggested that there may be no sustainable turnaround at all without stabilization and growth of revenues which can

only achieved through recovery actions. In addition, it was contended that the effectiveness of recovery actions may be dependent on their timing by the firm's management.

4.2.2.1. Critique

Several participants took a critical stance towards recovery (or strategic) actions, arguing that they may be ineffective, in particular during a severe crisis when short-term effects are required. In articulating scepticism, C-4 stated,

“(...) I am very sceptical that a turnaround attempt by increasing revenues will be successful. Strategic issues are regularly very difficult to assess and implement in a crisis.”

I-3 warned,

“(...) to achieve a turnaround by implementing recovery actions, such as new sales activities to raise market shares, is most difficult for companies in a severe crisis.”

This line of argument was also supported by I-4 who stipulated,

“(...) the classical retrenchment actions, such as reducing working capital, layoffs, or eliminating unprofitable sites, segments, or products, are most effective in the short run. Instead, what is not relevant in my opinion, are issues such as a vision or a long-term strategy. These issues are too unspecific in a situation under pressure.”

These statements potentially support the view of researchers, such as Francis and Desai (2005), who posited that extremely troubled companies, having only few resources available, are more likely to extensively retrench than those with more available resources. Similarly, Chen and Hambrick (2012) stipulated that if a troubled firm operates substantially below its break-even point (this was operationalized as being in a severe crisis), it is very difficult to increase revenues enough to achieve a profit position. Instead, it is only by reducing the break-even point by eliminating costs and / or assets (retrenchment) that successful turnaround becomes feasible. In a later study, Chen (2015) added that firms in a severe crisis have to focus on cutting costs, reducing assets, and refocusing its products and market.

4.2.2.2. Support

However, this line of critical arguments was not shared by all of the interviewed participants. For example, I-1 took an opposite stance by suggesting that increasing product prices may be an often overlooked but effective recovery action, however, being only applicable in a situation with low crisis severity. Specifically, I-1 asserted,

“(...) increasing product prices can be a very effective turnaround action. This action is often ignored in turnaround situations because the management focuses only on cost-cutting. (...) However, in a severe crisis with tight liquidity, this action may not be feasible, as it may lead to decreases of turnover quantities in the short run. But when the situation is not as severe, so that one can act more strategically, pricing is an important lever.”

This view further relates to the finding from the literature review, suggesting that more severely declining firms will be more likely to implement retrenchment actions as opposed to firms who experience a less severe decline. Specifically, Francis and Desai (2005) argued that declining firms in less severe situations may be able to implement a multitude of strategies, such as increased marketing to promote sales or moving into more market niches, while those in severe situations are close to bankruptcy and have limited range of actions due to acute resource depletion.

It was articulated by the participants that it would most often not be possible to achieve a sustainable long-term turnaround by cost-cutting alone without stabilization or growth in revenues. This was postulated by M-1 who noted,

“(...) my personal experience is that there is no sustainable turnaround without stabilization and growth of the top line.”

In this regard, M-1 referred to the company’s revenues which are shown at the top of the profit and loss statement – hence, using the term top line. M-1 continued,

“(...) this means, the issues market, competitors, customers, products, and sales volumes are the most important things to look at in a turnaround situation. These do not change overnight and are dependent on the company’s industry. For trading companies, revenue growth is often easier to achieve than for manufacturing companies. But this is a crucial factor for turnaround success. And to achieve this, you usually need at least one new head for your sales activities.”

This viewpoint indicates that the sales director plays a key role during a turnaround situation, next to the firm's top management. If the sales director strongly contributed to the firm's misery, a replacement may be appropriate. The replacement of top executives will be covered in the section on contextual factors relating to the second research question of this study. Furthermore, this statement indicates that strategic actions require the sound analysis of markets, competitors, customers, and products. This supports the view of researchers, such as Lawton et al. (2011) or Ndofor et al. (2013) seeing recovery actions as the true driver of turnaround.

In conclusion, the question of the greater effectiveness of retrenchment or recovery actions cannot be definitely answered. As indicated in the literature review, the effectiveness of retrenchment or recovery actions is dependent on the firm's situation. Factors, such as severity of decline, the sequence and timing of actions, the firm's industry condition, the general economic environment, or the specific skills of the company's management all influence the effectiveness of the selected action set. Therefore, experience as well as balanced and wise decision-making of the top management in selecting appropriate actions becomes vitally important in a turnaround situation.

4.2.2.3. Timing

With regard to process, it was identified from the literature review that the effectiveness of recovery actions may be dependent on their timing. In this regard, M-4 stipulated,

“(...) strategic actions have nothing to do with immediate turnaround management. That becomes a question when the first 12-18 months lie behind me. And I and my colleagues have reached a state where the company earns an acceptable EBIT³⁷ and the liquidity situation leaves space to breeze.”

I-2 added,

“(...) it is very difficult, in particular in the beginning of the turnaround process, to implement actions to boost revenues such as price increases or changes in the product mix, in particular in the first 12-18 months of the turnaround process.”

³⁷ Earnings before Interests and Taxes

These accounts relate to the view of scholars, such as Lin et al. (2008), Schoenberg et al. (2013), or Tangpong et al. (2015) who regarded the turnaround process as two, clearly separate, subsequent stages: the retrenchment stage was considered to extend from the onset of the turnaround situation until asset and cost reductions have been carried out. Then, recovery actions, in order to be effective, may only be carried out after the successful implementation of retrenchment actions.

However it was also warned not to postpone the development of strategic initiatives for too long in order to maintain staff morale. In particular, M-3 indicated,

“(...) I have to communicate a strategy and a vision in order to keep the employees – the good employees. I have to sit down with the leading employees and tell them: parallel to the brutalities which we have to do at the moment, we have to build up something that provides for us a future in the next ten years. Therefore, I think it is extremely important for the forward movement of the company, for the employees’ faith in the future of the company, and for the continuance of valuable employees that you start the strategic work very early.”

This statement implies that the hardships of retrenchment actions (such as lay-offs of colleagues or pay-cuts) may deplete staff morale, causing that valuable employees leave the firm. In order to remedy this situation, parallel to the implementation of retrenchment actions, a long-term strategic plan needs to be developed and communicated.

4.2.3. Financial Actions

Based on the literature review, financial actions, in a turnaround context, referred to the reworking and optimizing of the firm’s capital structure, either by equity or debt-oriented actions (Angwin & Meadows, 2012; Lin et al., 2008; Sudarsanam & Lai, 2001). Furthermore, sound financial management or management accounting techniques were found to be effective strategies in response to decline (Cook et al., 2012; Haron et al., 2013). The statements that were coded to financial actions in the course of the first-cycle deductive coding process reflected this differentiation from the literature review. Thus, the statements were recoded to the sub-codes *optimizing the firm’s capital structure* and *financial management and management accounting*.

4.2.3.1. Optimizing the Firm's Capital Structure

The research participants articulated that turnaround actions targeting to optimize the firm's capital structure can be significantly effective in the short run. However, in order to achieve a sustainable turnaround, financial actions must be succeeded by retrenchment and recovery actions, for example, realigning the firm's business model that the firm may generate earnings and cashflow in the future. Specifically, L-4 noted,

(...) in the short run, actions that cut are most effective.

In this respect, L-4 referred to financial actions that decrease the liabilities of a company through debt waivers of the company's creditors, also referred to the term "haircut". This can be achieved either through an insolvency procedure or without insolvency through negotiations with the creditors. I-4 went on,

(...) needless to say, when I can significantly reduce my liabilities, it is helpful for me in the short run. However, this is only curing the symptoms. But the actual work is on the operating side, to adjust the business model that it works again.

The short-term effectiveness of financial actions was also articulated by L-5 who stated,

"(...) financial actions are very effective – and we as lawyers have the possibility to prescribe the haircut. That is always possible – maybe not during pre-insolvency negotiations – but in an insolvency procedure, it is always possible that you achieve a reasonable solution. However, the financial restructuring, either by insolvency or pre-insolvency negotiations, is not enough. If you think of effective in the sense of sustainable, you need to implement operating actions. Otherwise, the company is in three, four, five years again in the situation that it needs a haircut. We have experienced such cases. That is very painful."

This interview data implies that financial actions to restructure the company's balance sheet may be only of short-term effectiveness. In an insolvency, the liabilities are dissolved by the liquidator who is paying an insolvency quote to the creditors. In a pre-insolvency situation, debt waivers can be achieved by negotiations with the main creditors. In this regard, the company can reduce its liabilities which may be helpful in the short run. However, if the company continues to make losses, liabilities will eventually increase, leading to a similar situation in the future. Therefore, financial actions are only the starting point, they

must be followed by retrenchment and recovery actions to enable the firm to achieve profitability. Financial actions that are aimed to restructure the firm's balance sheet are only complementary.

4.2.3.2. Financial Management and Management Accounting

Turnaround researchers (e.g. Collett et al., 2014; Cook et al., 2012; Haron et al., 2013) argued that soundly executed financial management and management accounting techniques facilitated strategic decision-making and turnaround success. In this regard, C-3 elaborated,

“(...) with regard to our customer structure, we have only a few large companies, but many small- and medium-sized companies. And with regard to the financial data we receive from these companies, the question arises how valid these numbers actually are. We often experience that the personnel of small- and medium-sized companies often lack the necessary management accounting or financial skills.”

I-5 expressed,

“(...) in particular with regard to small- and medium-sized companies, there are ineffective accounting processes. That means, when we buy a company we build up new accounting and financial reporting units with new accounting systems in order to gain transparency. By doing this, we are able to clearly separate the company's various activities. This re-ordering can be a very tedious task. But, only when you have gained this transparency, it is possible to develop effective turnaround actions.”

These data suggest that particularly small- and medium-sized companies often suffer from ineffective financial and accounting processes, as they often lack the skilled human resource base that may be more often found in larger companies. When investors buy those companies, they build up and implement new accounting systems in order to gain transparency over the firm's various divisions and activities. This transparency can enhance the effectiveness of the turnaround actions.

With regard to financial management, the research participants attached specific emphasis to the need to focus on liquidity or cashflow that may be highly strained, in particular during immediate turnaround situations. M-5 elaborated,

“(…) an important factor is to focus on the main issues. I have experienced that organizations care about side issues as much as they care about important issues which, in turnaround situations, are most of the time cashflow issues. For example, side issues were the development of a new webpage, the implementation of a work time-recording system, or the implementation of a new phone system. In this regard, I missed the company’s awareness with regard to what is most important during crisis.”

By further highlighting the importance of a focus on liquidity, M-2 argued,

“(…) it was good to have some degree of suffering in the organization in order to pick up speed with regard to the implementation of turnaround actions – bottleneck-oriented actions. In my cases, the bottleneck was always liquidity, so that liquidity-oriented actions were timely implemented. There was no question what to do first. At first you had to do all necessary actions to improve liquidity.”

These perspectives, focusing on the importance of implementing strong financial and cash flow control mechanisms, refer to situations in which companies are in a severe crisis and close to insolvency. In order to prevent running into an insolvency situation, the BGH recommends to prepare a short-term cash flow plan for at least three months in advance.³⁸ This becomes particularly important for managers (both statements were made by participants from the turnaround managers’ group) because as responsible directors, they face legal risks that might entail even criminal consequences (for example, delaying insolvency is considered as a criminal act which may entail up to three years of imprisonment³⁹). Furthermore, the managers can be sued for damages by the liquidator or the owners of the company.

³⁸ BGH, 12.05.2016 - IX ZR 65/14

³⁹ § 15a German Insolvency Act

4.2.4. Human Resource-oriented Actions

With regard to human resource-oriented actions, researchers, such as Boyne and Meier (2009), found that organizations were better placed to achieve turnaround if they recruited more core employees (defined as non-supervisory, non-managerial workers involved in making the product or in providing the service). In addition, Lawton et al. (2011) found that investment in staff development and management-employee relations underpinned turnaround. Based on the results of the first-cycle coding process, *employee communication* emerged as only sub-code. Statements, supporting the argument of Boyne and Meier (2009) that it would be conducive to turnaround success to recruit more core employees were not apparent in the analysed data. This may be due to the reasons that the term core employees cannot clearly be defined and differentiated, and that this may be an action that is only effective in the long run. Specifically, in their study, Boyne and Meier (2009) observed a time frame of five years in which they discovered the effectiveness of this strategy. Thus, in a severe crisis, this action may not be helpful to see results in the short run. Third, as pointed out in section on retrenchment actions, getting rid of non-core employees may entail severance payments which the firm cannot afford in a severe crisis situation.

Employee Communication

As being apparent in the recent turnaround literature (e.g. Lawton et al., 2011), the participants underlined that communication between the management and employees significantly influences (either positively or negatively) turnaround success. Specifically, I-4 mentioned,

“(...) communication is a very significant factor in turnaround situations. The goals have to be communicated. The people have to be taken alongside. It is very important that the management intensively communicates with the employees. (...) Communication is essential – in a positive or negative sense. Omitted communication promotes rumours and fear. And only a clear and open communication is of help in these situations.”

In supporting this line of argument, M-2 added,

“(...) it is important to integrate the employees and executives of the company into the turnaround process – as early as possible. That is my first point – to take the people on board early in the process and communicate achievements and failures on a regular basis.”

These opinions potentially support the arguments of researchers, such as Lawton et al. (2011) who found, in their airlines case study, that excellent communications between airline management and staff during times of change within the airline characterized the repositioned airlines. All airlines that achieved a turnaround invested in improving relations with their staff and in providing comprehensive training for employees in technical skills, customer service, and change management, especially with regard to revised corporate culture and strategic aims. The need for investment in employee staff was underlined by M-4 who stated,

“(...) an important aspect is to integrate the employees in the change process – in the turnaround process.”

M-4 who contended,

“(...) I have to communicate a strategy and a vision, in order to keep the employees – the good employees. I have to tell them: You have a future!”

These viewpoints underline the findings of the literature that integrating the employees in the turnaround process and communicating a vision and long-term strategy may be key success factors in turnaround attempts.

4.2.5. Section Summary

In this section, the first key theme, content and process of turnarounds, was outlined and discussed. The discussed theme related to actions companies take in order to reverse decline and the process by which they are implemented. Four categories of actions were identified: retrenchment, recovery, financial, and human resource-oriented actions.

Firstly, retrenchment actions referred to cost and asset retrenchment. Cost retrenchment related to cutting down material and/or personnel expense. With regard to material expense, it was found that cost retrenchment actions can be effective in a turnaround situation, however, their effectiveness may depend on the kind of material the company utilises for production. Material cost retrenchment was found to be effective, (1) the less dependent the material is from the development of global commodity markets; (2) the more the company's suppliers compete against each other (whereby competition among suppliers is intensified in a weak economic climate). With regard to personnel cost retrenchment, it was warned that downsizing firm staff may entail high severance payments which the

company cannot afford. Even worse, the exit of employees may cause losses of firm specific knowledge products, services, processes, or routines. However, in a situation in which downsizing is inevitable, the lay-off may be executed at once or during a very short period of time. Otherwise, when the organization's staff experiences a continuous departure of colleagues, even those employees that need to be maintained may lose faith in a viable future of the firm and may eventually depart from the organization.

With regard to asset retrenchment, it was found that reducing inventory levels may slow down production and may impede the firm's capability for the timely delivery of client orders. High inventory levels may be the result of inefficient production processes, thus, when those processes are reordered to be more efficient, inventory levels will eventually decline. In addition, it was found that reducing accounts receivable by cutting down customer payment terms or systematic dunning may hurt relationships to important customers. Rather, effective and open communication with those crucial customers about the turnaround situation may lead to the customers' support of the organization. Moreover, it was found that stretching accounts payable can be an effective action to generate cash in the short run, however, as supplier relationships may be already stressed during crisis, it may lead to a situation in which the company's suppliers tighten payment terms, ask for cash in advance of delivery, or may even cease to deliver at all.

Second, recovery actions, aiming to increase firm revenues through strategic initiatives, were criticised to be not appropriate during turnarounds because they are too difficult to implement for troubled companies that have only few resources available. Those companies are more likely to extensively retrench by cutting costs, reducing assets, and refocusing its product and market offerings. However, as other participants suggested, it may not be possible to achieve a sustainable turnaround by retrenchment alone without stabilization and growth in revenues. To achieve this, it needs a sound analysis of the firm's market, competitors, customers, and market offers. It may further be helpful to replace the firm's head of sales director. With regard to process, it was found that retrenchment actions may be taken first in immediate turnaround actions, to provide a stable cost basis from which recovery actions are pursued, after 12-18 months, when retrenchment actions have been successfully implemented. However, a long-term strategic vision and plan may be communicated to the employees early in the process to maintain the staff's faith in the company's future and to prevent valuable employees from leaving the firm.

Third, financial actions referred to optimizing the firm's capital structure and financial management and accounting techniques. It was found that a "haircut" of company liabilities, either achieved through insolvency or pre-insolvency negotiations, may be a very effective action in the short run. However, to prevent the company to re-entering a same situation in which it is unable to repay its liabilities, financial actions must be accompanied by sound retrenchment and/or recovery actions to reorganize the business that the firm is able to sustainably generate positive earnings and cashflow. In addition, it was found that, often, small- and medium-sized companies lack skilled personnel to implement and execute effective management accounting techniques. Thus, it becomes important to generate transparency with regard to the company's financial situation early in the process before implementing actions. Moreover, it was found that strong cash flow control mechanism must be implemented to prevent the company from insolvency and reduce legal risks for the firm's directors.

Finally, it was found that sound employee communication facilitates turnaround. Specifically, the management must intensively talk to employees, communicate a vision, strategy and goals, and explain intended actions. Conversely, omitting such communication promotes fears and rumours and may deplete staff morale.

4.3. Context of Turnarounds

This section discusses the second key theme, relating to the second research question of this study:

RQ 2: What differentiates companies achieving successful sustainable turnaround from those who failed or achieved only short-term improvements?

By systematically reviewing the current literature on the topic, six contextual factors were identified that influence turnarounds: managerial cognition, executive compensation, executive replacement, corporate governance, family management and the firm's stakeholders. The research participants related to the two factors *executive replacement* and *firm stakeholders*. With regard to the other factors, the research participants had either no point of contact within their turnaround cases or they experienced those factors, however, they were not perceived as to significantly influence the turnaround process.

4.3.1. Executive Replacement

The majority of the reviewed turnaround studies supported the need for top management replacement to facilitate turnaround (e.g. Collett et al., 2014; O’Kane & Cunningham, 2014; Ndofor et al., 2013), relying on the arguments that poor performance is evidence of executive inadequacy: incumbents are unable or unwilling to make major changes necessary to fix struggling companies. In line with these arguments, the results from the first-cycle coding process were recoded to the sub-codes *management failure* and *replacement*. Furthermore, the participants referred, in this regard, to the *implementation of an interim-management*.

4.3.1.1. Management Failure

The first argument, made by turnaround researchers, that poor performance is evidence of executive inadequacy was supported by the research participants. For example, C-1 reasoned,

“(…) of course, the existing management is usually the problem. Either they took the wrong strategic decisions or they have just overslept important developments. It is rather seldom in a turnaround case that the crisis is only due to external factors and not the fault of the management. Of course, there are cases in which the firm’s industry development does not turn out as it was expected. However, a good management has to anticipate and react to those industry changes.”

C-2 added,

“(…) in most cases the management plays a major role when considering the reasons for failure. At this moment, we see that crises are less due to adverse market or industry developments but rather due to ineffective leadership.”

These perspectives suggest that it may be rather unusual that a crisis is caused by external factors, but the main reason would be the existing management. Even if there had been significant deleterious external factors, such as a weak economy, the firm’s management failed to adequately react to the situation.

4.3.1.2. Replacement

Secondly, the need for executive replacement in turnaround situations was supported by the research participants. Specifically, C-3 outlined,

“(…) the most classic action is the replacement of the management – as long as that is possible. However, with regard to family-owned companies, this is more difficult. In these cases, one has to find other possibilities, such as the implementation of a CRO.”

C-3 referred to the issue that with regard to family-owned companies, often the management consists of family members, so that the owners are more reluctant to replace them. This was also apparent, for example, in the studies of Cater and Schwab (2008) and Courtemanche et al. (2013) that researched family firms in turnaround situations.

In taking a similar stance, M-4 stated,

“(…) in the majority of cases in which companies ran into difficulties, the management is the problem; and, in these cases the question arises: can then be the management also the solution? - and commonly, this question cannot be answered affirmatively.”

These opinions offer potential support to the view of researchers, such as Boyne and Meier (2009), O’Kane and Cunningham (2014), and Abebe (2010) who claimed that poor performance typically necessitates major strategic and organizational changes which incumbent CEOs are not inclined to undertake. For example, Abebe (2010) found that declining firms with longer-tenured TMTs tended to have lower turnaround performance than those declining firms with short-tenured TMTs, suggesting that tenure is an important indicator that incumbents are cognitively and socially committed to the status quo and that only new leaders are seen as able to undertake the requisite changes.

Other researchers (e.g. Bruton et al., 2003; Fisher et al., 2004; Chen & Hambrick, 2012) stipulated that the effectiveness of executive replacement is dependent on contextual factors (for example, executive replacement is less effective in a business context which is built on strong personal relationships, such as in an East Asian context; Bruton et al., 2003; Fisher et al., 2004; or the effectiveness depends on the fit between the severity of the crisis and the functional background of the executive; Chen & Hambrick, 2012). In this study, all

participants had the same cultural business context (small and medium-sized German companies that face difficult situations). Moreover, they did not draw as subtle distinctions between crisis severity and functional background, such as Chen and Hambrick (2012) who researched in a context of larger companies. An explanation may be that the management of small and medium-sized companies may require broader and more personal and communicative skills and less functional expertise than it may be required for managers of larger companies.

4.3.1.3. Interim-management

None of the turnaround studies reviewed within this study focused on the assignment of an interim-manager or a so called “chief restructuring officer (CRO)”. However, this was a topic that the research participants referred to. An interim-manager with crisis and turnaround experience is usually placed in the company for a limited amount of time either to replace or to support the existing management and with the specific task to lead the company successfully through the turnaround process and to implement the actions that were proposed in the turnaround plan. Legally, interim-managers are assigned either in connection with an organ function or a power of attorney.

It was argued that the existing management, in most cases, does not have the necessary experience to succeed in a turnaround attempt. For example, C-3 stipulated,

“(...) most turnaround situations require an external influence, for example in the appearance of a CRO. Does the existing management have turnaround experience? This is very unlikely in the majority of cases.”

It was pointed out that, in particular with regard to small- and medium-sized companies, grown organizational structures and personal relationships may hamper the existing management to introduce unpleasant but necessary changes. For example, C-4 elaborated,

“(...) with regard to small- and medium-sized companies, there are often organizational structures and long-standing personal relationships that have grown over the years. In these cases, to my opinion, it is difficult for the existing management to flip up the lever and say for example: now, we have to reduce staff. These are unpleasant decisions. Therefore, the question arises whether the existing management is capable of doing this.”

Moreover, it was argued that the CRO, in order to make a significant contribution in the process, needs to bring along power and self-assertion as well as financial independency. Specifically, L-5 postulated,

“(…) clearly, the CRO is the most significant factor in a turnaround process. You need to send someone in the company who has power and self-assertion – who can implement unpleasant actions. Furthermore, it is important that the CRO is not financially reliant on the job, so that he/she can resign from the mandate if the owners are not willing to compromise.”

The last viewpoint implies that a CRO can add particular value if he/she is not financially reliant on the mandate. In this, the CRO is more able to develop an independent stance. In contrast, being financially dependent on the owners’ favour may lead to a behaviour that may accept wrong guidance from the owners in order to please them.

4.3.2. Stakeholder Management

Turnaround researchers (e.g. Bruton et al., 2003; Collett et al., 2014; Cook et al., 2012; Pajunen, 2006; Schmuck, 2013; Trahms et al., 2013) found that the firm’s stakeholders significantly influence turnaround processes. In particular, owners and creditors were found to be in decisive positions throughout the turnaround process (Pajunen, 2006). Other stakeholders, such as customers, suppliers, employees, and the government were found to have moderate influence on the organization’s operations (Bruton et al., 2003). In line with this differentiation, the sub-codes *owners*, *creditors*, and *other stakeholders* were developed and applied in the course of the second-cycle coding process.

4.3.2.1. Owners

As in the reviewed studies, the significance of owners in turnaround situations was highlighted by the participants. Specifically, it was argued that in particular with regard to small- and medium-sized companies, the ownership structures and personalities significantly influence the turnaround process. For example, L-1 stated,

“(…) with regard to small- and medium-sized companies, to my opinion, one of the biggest factors that can make or break an attempt to survival are the ownership structures and the personalities of the owners.”

More specifically, C-2 stipulated,

“(...) of central importance is the behaviour of the owners” side – and the willingness to make financial contributions, if this is possible. That is always a big issue. Is the owner willing to back up his company? And is he/she capable of making further financial contributions?”

These perspectives indicate that the owners may significantly contribute to turnaround success when they show ability and willingness to provide financial resources to the company during the process. In such a case, banks may be more willing to financially support the company when there are also contributions from the owners” side. However, if the owners are not willing to make financial contributions, banks may withdraw their support, so that the turnaround attempt may not turn out to be successful.

4.3.2.2. Creditors

Furthermore, it was identified from the literature review that creditors are often in the most decisive position throughout the turnaround process. Several authors (e.g. Collett et al., 2014; Cook et al., 2012; Pajunen, 2006) highlighted the importance of managing creditor relationships during turnarounds.

The significance of banks in turnaround situations was also articulated by the research participants. For example, I-3 elaborated,

“(...) necessary for a successful turnaround is the facilitative support of the banks which is not self-evident nowadays. The banks have to be willing to show stable support through the turnaround process. Otherwise, if they withdraw their support, it may lead to failure.”

Similarly, L-4 stipulated,

“(...) in these situations, in which turnaround companies find themselves, the banks have the finger on the trigger.”

The research participants also highlighted the necessity for effective communication with the company”s banks in a turnaround situation. For example, I-4 claimed,

“(...) what you should always bear in mind is the fast, open, transparent, and consequent communication with the banks. You should always bear in mind

how important the banks are in such situations; and, therefore, one should communicate as open and transparent as possible.”

I-2 added,

“(…) a further significant factor is, from our point of view, the good communication with the banks and the establishment of transparency. This accompanies successful turnarounds. One should always communicate the goals one pursues. But also the clear communication of failures is for us a significant and substantial issue.”

Next, researchers, e.g. Pajunen (2006), found that communication with the banks, to be effective, had to be based on the same long-term goal: to improve the firm’s performance, so that in the near future, the firm would show a profit and be able to settle its debts. Conversely, a short-term goal of the banks may be to drive the organization into bankruptcy and then call in its assets. It would be unlikely to achieve the turnaround without agreement on this consensual goal and the resulting creditors’ support for the organization. This issue was picked up by L-4 who proposed,

“(…) in some cases it is helpful if the banks have their own problems, in the sense of needs for write-downs in case the turnaround attempt fails; because otherwise, if they have substantial collaterals, they may say: we would like to see cards. Therefore, it is helpful when all parties sit in the same boat.”

This opinion underlines the importance that the company and its banks pursue the same goal. More specifically, it may even be detrimental if the banks own substantial collaterals. In this case, the firm’s insolvency may be more advantageous to the banks because, in such as case, they can liquidate their collaterals. Otherwise, if the banks do not obtain collaterals and need to write off their loans in case of failure, they may be more willing to support the company in the process.

Moreover, the research participants ascribed specific emphasis to the role of turnaround consultants who may act as mediator role in the communication process between the company and its banks. Specifically, I-4 pointed out,

“(…) with regard to communication with the company’s banks, the turnaround consultants play a central role because they know the thinking and decision-making processes of banks from other projects.

Similarly, I-3 noted,

“(...) it is of central importance that the consultants take a mediator position between the company and its stakeholders and unify their diverging interests. This is a central condition for turnaround success.”

However, C-2 contended,

“(...) I think that sometimes a little bit more confrontation with the banks would be appropriate. Some banks have abstruse ideas which one does not need to follow every time. It starts with the ideas that banks have regarding a risk adequate interest rate. It makes no sense to request 8% or more interests or high extra fees. I will be cutting of my own nose. The company will never earn an industry-like return. It must be the duty of banks to hold still until the turnaround process ends. Not all banks are happy with this.

This last view implies that the turnaround consultants need to show some kind of readiness or delight to enter into conflict with the company’s banks, in particular when the banks’ demands seem inappropriate. In charging high extra fees in such a situation, the company may fail to achieve the turnaround because of the financial burden that is imposed on it. In the long run, this will be detrimental to the banks because the company may fail to repay outstanding loans that may be larger than the banks’ earnings from the fees.

4.3.2.3. Other Stakeholders

With regard to other stakeholders, turnaround research highlighted that managing the perceptions of customers is important for keeping the basic functions of the business running while attempting a turnaround (Bruton et al., 2003). The importance of firm customers in a turnaround situation was underlined by I-4 who expressed,

“(...) an important issue is the loyalty of the customers. Companies which are single-source suppliers have usually less trouble than companies whose offering is interchangeable. You have to ask the question if this company ceases to exist, who would be hurt and how long? And the more customers would be hurt, the greater is your negotiation potential for pre-payments or other financial commitments from the customers’ side.”

This viewpoint suggests that it may be crucial to obtain the customers' support which may take the form of pre-payments or long-term selling contracts. In this regard, the more customers would be hurt if the company ceases to exist, the more willing they may be in showing their support to the company in a difficult situation.

Moreover, researchers, such as Tangpong et al. (2015), highlighted that equally important may be to maintain the idiosyncratic human capital essential to competitive advantage and the high morale needed in a workforce faced with layoffs and downsizing. In this regard, C-2 stipulated,

“(...) the integration of the employees so that they support the turnaround plan is one of the most crucial factors for turnaround success.”

M-4 outlined,

“(...) a pivotal success factor in my projects so far, was to integrate the employees in the turnaround process. Not I have as a manager the solution. The employees who know everything in the company have to participate. They have to generate the solution. For a successful change process, you have to include the employees.”

These perspectives infer that employees may be also an influential stakeholder group in turnaround situations. It is crucial to turnaround success that the employees are integrated in the efforts to achieve turnaround and that they support the turnaround plan.

Additionally, in Germany, the workers' council is granted significant co-determination and decision rights with regard to organizational decisions by the Works Council Constitution Act which was constituted in 1952. A worker's council is an institution representing the rights of employees. Every company that has a minimum of five employees is permitted to establish a workers' council by electing a representative. The number of workers' council representatives is dependent on the company's size, reaching up to 35 members for large companies with 7,000 or more employees. Larger companies also have to establish workers' council members working on a full-time basis, representing employee rights. The workers' council is granted significant co-determination rights of organizational decisions that affect employee rights, for example, relocations of workplaces, changes in the company's divisional structure, or lay-offs. In a turnaround situation, when profound organizational changes, including lay-offs, may be necessary, the workers' council may exert sig-

nificant influence. Negative experiences with the workers' council were articulated by I-4 argued who elaborated,

“(...) a destructive factor can be an intransigent workers' council. We often experienced that actions were impeded just for the cause of harping on about principles. I remember one case, there was a workers' council of whom I had the feeling that its leadership was bribed by a competitor. Otherwise, I would not be able to understand their behaviour.”

In articulating a different experience, M-5 posited,

“(...) I have never had a problem with the workers' council for all my life. Many people make a big bugaboo out of this issue. So, they have a scapegoat when something does not work out as expected. That is not my experience at all. Of course, negotiations with the workers' council are tough, tedious and difficult. But in the end, it is all about maintaining jobs and maintaining a hope for the future.”

These perspectives infer that it is important in a turnaround situation that all stakeholder parties work for the same goal. This holds not only for banks (which may aim to liquidate the company to receive collaterals) but also for the workers' council. The main goal of the workers' council is to maintain the employment status of the current employees. As M-5 showed, the workers' council can be convinced to support the turnaround actions, when they perceive that the turnaround actions are aimed to achieve the company's existence in the long run and thus the continuance of jobs. Instead, when the workers' council perceives the actions to be unbalanced (for example raising profits by firing employees), they are more likely to combat the actions.

4.3.3. Section Summary

This section discussed the second key theme referring to the context of turnarounds. Two contextual factors were apparent in the empirical data, executive replacement and the firm's stakeholders.

First, with regard to executive replacement, it was found that, in most cases, the decline situation is not caused by external factors, such as market or industry changes, but by management failure to appropriately react to such changes. Therefore, the replacement of the

existing management in a crisis situation may be supported. Moreover, long-standing relationships between the incumbent management and employees may hamper the management to implement unpleasant changes and, therefore, need to be replaced. However, in family-owned companies, where owners of family members are part of the management, their replacement may not be enforceable. In such cases, an interim-management that supports the existing management for a specific period of time until the turnaround process is completed may be a possible solution. In such a case, it becomes important that the interim-manager is not financially reliant on the mandate, so he/she can resign, if owners are not willing to compromise.

Second, with regard to firm stakeholders, the following stakeholder groups were found to be influential during turnarounds: owners, banks, and other stakeholders, such as customers, employees, and the workers' council. First, the ownership structures and owner personalities were found to be influential in turnarounds and, in particular, their capability and willingness to make financial contributions to the company. Banks are more willing to financially support the company when there are also contributions from the owners' side.

Next to owners, creditors were identified to significantly influence the turnaround process. It was found that fast, transparent, and consequent communication with the firm's banks facilitates turnaround. If banks perceive to be informed on a regular, fair, and transparent basis, they are more likely to show their support in terms of financial contribution to the company. The communication with the banks can be led either by the firm's management or by turnaround consultants. Turnaround consultants have the advantage that they know the thinking and decision-making processes of banks from other projects and are independent from the company and can take a mediator role. Moreover, it was found to be detrimental if banks own substantial collaterals. In such a case, the firm's insolvency may be more advantageous to the banks because they can liquidate their collaterals. Conversely, it was found that if banks do not own collaterals, they may be more interested in the company's survival and, thus, are more willing to provide support.

With regard to other stakeholders, customers were identified to be important to the firm attempting turnaround. The customers need to maintain their orders in order to stabilize firm revenues. In addition, the management may talk to major customers and ask for pre-payments or other financial commitments from their side. The more the customers are de-

pendent on the company's offerings, the more willing they are to provide support. Moreover, the support of employees was found to be a crucial factor for turnaround success. Therefore, the company's management must integrate the employees into the process, so that they support the intended actions. Finally, in Germany, the workers' council (which is present in every firm exceeding a certain size) is granted significant co-determination and decision rights with regard to organizational decisions affecting employees. In a turnaround situation, when major decisions have to be taken, the workers' council is able to either to support or hamper the management. Therefore, it was found to be important for the management to communicate with the council on a regular basis and work on a common solution. If the council perceives the managerial actions to be fair and balanced, it is more likely to act supportive.

4.4. Formalized Turnaround Plans

The next section focuses on the findings relating to the third and fourth research question of this study:

RQ 3: How significant is the role played by the creation and application of a formalised turnaround plan?

RQ 4: How effective has the establishment of such formalised turnaround approach been in Germany and how useful are the lessons to be learned?

The following codes were applied in the first-cycle deductive coding process and are discussed in the respective sections leading to the following three key themes relating to formalized turnaround plans: objectives and requirements; contribution and critique; and implementation (each of the following subsections covers one key theme). First, formalized turnaround plans are usually demanded by the company's banks or, in some cases, by the company's owners. Second, Section 4.4.1., refers to the motivation of these demands, or put differently, the *objectives* which are pursued by the demanders of formalized turnaround plans. Furthermore, this section addresses the main *requirements or expectations* the participants have with regard to such plans. In section 4.4.2., the *contribution* of formalized turnaround plans in the turnaround process is addressed as well as the main points of *critique* of the participants. Finally, factors that promote the successful application or *implementation* of formalized turnaround plans are covered in section 4.4.3.

4.4.1. Objectives and Requirements

In this section, the following sub-codes emerged from the data: the main objectives for initiating the preparation of a formalized turnaround plan were referred to as complying with the *legal requirements*, obtaining a *basis for negotiation with the firm's creditors* (which was mainly pointed out by the firm's investors), gaining *transparency* over the firm's business, in particular for externals, and *obtaining an independent assessment*. Finally the participants expressed desire for a sound overall *structure and comprehensibility* of the plan.

4.4.1.1. Legal Requirements

As pointed out in the introduction of this study, a significant objective of creditors with regard to formalized turnaround plans is to comply with the legal requirements. In this regard, C-1 elaborated,

“(…) according to the jurisdiction of the BGH, it is necessary for us banks to seek an opinion from an independent third – you know these verdicts. Therefore, our primary goal is to comply with the legal requirements.”

C-2 added,

“(…) the main objective for initiating the preparation of a formalized turnaround plan is to comply with the legal requirements. If I grant a restructuring loan, I have to safeguard myself. There is this evil word: embezzlement.”

In this regard, C-2 referred to a decision of the BGH in 2001 in which potential embezzlement of a bank director was decided over. The bank director was accused of having omitted the necessary information-seeking and assessment of the client's situation before granting a loan. The BGH argued that there would be no embezzlement when the bank director could reasonably assume the client's turnaround success (when granting the loan) based on a conclusive turnaround plan.⁴⁰ This issue was also referred to by L-5 who pointed out,

“(…) the main objective of a formalized turnaround plan is to convince the banks – turnaround processes are expensive – to further grant loans to finance the turnaround process. The banks have to grant the loan with a clear conscience, in the sense that all legal requirements have been addressed by the

⁴⁰ BGH 15.11.2001; 1 StR 185/01

turnaround plan. A turnaround attempt can always fail. But the turnaround plan has to document, at the point of its preparation, why it was reasonable to expect a successful turnaround attempt.”

As pointed out in the introduction of this study, the law requires that a bank, before supporting the turnaround process of a company in crisis, must assess the turnaround ability of the company. The assessment and final decision has to be based on a turnaround plan that is prepared by an independent third party with expertise in this regard. When the turnaround plan is conclusive and the bank has verified the plan with diligence, the bank can financially support the company, for instances, by granting a loan to finance the turnaround process.

4.4.1.2. Basis for Negotiation with Creditors

Investors, representing owners in this study, do not face the legal requirements as creditors do. With regard to the owners’ perspective, I-1 elaborated,

“(…) when we require a formalized turnaround plan, it is driven by the requirements of banks that are involved in the case.”

I-2 stipulated,

“(…) the formal requirements of the BGH are not necessary for us as an investor. However, there are advantages to those when banks are involved in the case. Ultimately, a formalized turnaround plan accelerates the turnaround process because it is valuable within negotiations with the stakeholders, such as banks, trade credit insurers, or other financiers.”

Similarly, I-4 outlined,

“(…) in some cases, we initiate the preparation of a formalized turnaround plan with the main objective to establish stability and trust with the banks and other creditors of the company.”

These views indicate that the company’s owners demand a formalized turnaround plan when banks or other significant creditors are involved, so that their legal requirements are met. The turnaround plan may serve as a basis for negotiations between owners and creditors or other stakeholder groups being influential in the specific case.

4.4.1.3. Transparency

A further objective was articulated as to gain more transparency by a formalized turnaround plan. For example, C-3 postulated,

“(…) a further goal for initiating the preparation of a formalized turnaround plan is that we obtain deeper insights into the business. As financing partner, we are dependent on the information that the company provides to us – but to gain deep insights into the company’s processes, the economic environment and industry, is of course difficult for an external.”

C-4 stipulated,

“(…) a primary goal, next to the legal requirements, is to gain transparency.”

The objectives of gaining transparency of and deeper insights into the company’s business were in particular emphasized from the creditors’ side. In being external to the firm, they may not be provided with the required information by the company’s management. However, this objective was not only addressed by creditors, also investors referred to gaining transparency by the preparation of a formalized turnaround plan. For example, I-2 postulated,

“(…) a formalized turnaround plan can support the analysis we perform during a due diligence because we obtain a higher level of transparency when the documents are prepared by an external.”

I-3 stated,

“(…) the transparency we gain through a formalized turnaround plan facilitates our decision-making process and provides assurance for our investment decisions.”

These viewpoints indicate that, for investors, gaining transparency over the company’s business activities becomes particularly important during the pre-investment phase when an analysis of the company and its environment (due diligence) is performed and the investors are still external to the company.

4.4.1.4. Independent Assessment

The research participants articulated that an additional objective for initiating the preparation of a formalized turnaround plan would be to obtain an independent assessment from a third on the company's condition. More specifically, by initiating the preparation of a formalized turnaround plan, the participants seek to obtain an assessment of the company's current situation, its market environment, its competitive position and business model, its management, the proposed turnaround actions, and the financial figures in the business plan.

First, with regard to the company's current situation, C-3 claimed,

“(...) one of the primary goals is that we obtain from an independent third a critical analysis of the company's situation.”

I-3 argued,

“(...) when initiating the preparation of a formalized turnaround plan, we seek a neutral and critical assessment of the company's condition.”

In addition, L-2 contended,

“(...) I think that the BGH has clearly put it in a nutshell. First, I need an analysis of the current situation. I have to know my condition and also why I am in this condition.”

Moreover, as pointed out in the introduction of this study, the BGH jurisdiction requires that it has to be analysed whether the company has to file for insolvency.⁴¹ According to German insolvency law, a firm is insolvent when it is not able to fulfil its due payment obligations.⁴² Solvency is being assessed by comparison of available liquidity sources (cash, undrawn credit lines) with due payment obligations. When available liquidity sources are higher than due payment obligations, the company is solvent. However, when due payment obligations are higher than available liquidity sources, a short-term liquidity plan has to be prepared. Within this plan, the company has to be able close this gap within the next three weeks, otherwise it has to file for insolvency. If the gap does not exceed 10% of total due payment obligations, the period to close the gap may be extended to three

⁴¹ BGH, 12.05.2016 - IX ZR 65/14,

⁴² §17 II German Insolvency Act

months. This analysis has to be carried out to prevent for liability risks (delay of filing for insolvency, or abetting the delay). Furthermore, there can be even criminal consequences for the directors of the firm.⁴³ This issue was referred to by L-1 who stated,

“(…) I believe that it is important that you thoroughly assess whether the company has to file for insolvency or how insolvency can be prevented. That is something which, in many cases, has not been done appropriately.”

L-4 stipulated,

“(…) this part is missing in many turnaround plans. Sometimes, it happens that the company is already insolvent by the time the formalized turnaround plan is being prepared. In such a case, I ask myself what the consultants actually have done within the preparation of the plan. You cannot claim that you deeply analyse the firm’s current situation, develop turnaround actions, and prepare an integrated business plan - but have not checked for insolvency.”

Next, it was articulated that the independent assessment may contain a critical review of the firm’s market environment, its business model, and its competitive position in its industry. For example, C-3 stated,

“(…) it is important that we thoroughly understand the company’s business model. Therefore we need assessment of an independent third that has expertise in this regard.”

I-2 added,

“(…) the issue of competitiveness is, of course, important when we consider buying a company. Furthermore, we would like to understand the company’s business model, in particular in the context of the company’s competitive environment.”

L-1 contended,

“(…) I would like to see a sound analysis of the market environment. Do I have a general crisis in the firm’s industry? In this case, I have to take different actions as in a case in which the industry is doing well and the crisis is only germane to the company.”

⁴³ BGH, 24.05.2005 - IX ZR 123/04

These views relate to the research findings of Morrow et al. (2004) who stipulated that the effectiveness of retrenchment actions would be contingent on the industry condition of the declining firm. Firms competing in mature industries face fundamental differences from those competing in growth-oriented industries. Additionally, Boyne and Meier (2009) and Ndofor et al. (2013) found that retrenchment actions would be effective in an environment of low munificence, whereas this strategy might not be feasible when munificence is high. Thus, the effectiveness of turnaround actions is influenced by the general economic environment and the state of the company's industry. Therefore, a turnaround plan must include a sound analysis of such factors to develop effective actions.

In addition, the independent assessment should also include the company's management. In this respect, L-4 outlined,

“(...) an assessment of the company's management is of specific importance to us. Is the existing management capable for implementing the turnaround plan? Or does it need external support? “

I-3 postulated,

“(...) we require a clear and open assessment of the company's management and an answer to the question whether it needs support in the implementation phase.”

Since the ability of the company's management is crucial to turnaround success, the participants expect that the turnaround consultants include an assessment of the company's management into the turnaround plan. This section of the plan assesses not only the general skills of the company's management, but in particular the assessment of the management's ability to deal with the turnaround situation which differs considerably to a situation in which the firm prospers.

Additionally, it was argued that the independent assessment should also cover the proposed turnaround actions. For example, C-4 asked,

“(...) we would like to understand the actions that the company has to take to overcome the crisis. How can the company achieve the turnaround?”

L-4 pointed out,

“(…) a turnaround plan needs to show the way from point A – that is the current state – to point B – the future vision. By this, the turnaround plan has to outline and assess clear and feasible actions.”

The development of turnaround actions has to be lean and focused; and with particular consideration of the time frame in which the actions can be realistically implemented. For example, I-2 contended,

“(…) it is particularly important to us that the turnaround actions are identified and implemented. Therefore, we attach particular significance to that we have, at the end of the day, a succinct and focused turnaround plan that specifically considers the time frame of the turnaround process.”

However, although being described succinctly and focused, the turnaround actions have to be as specific as possible, targeting all functional areas and outlining all single tasks and responsibilities. Specifically, M-2 elaborated,

“(…) I require that a turnaround plan clearly outlines the issues that have to be addressed in the company in each of its functional areas. It has to be clearly outlined what to do – with regard to sales, procurement, production, human resources, etc. It is important that the turnaround plan shows all single tasks and responsibilities in a structured order – and also the time frame in which the tasks have to be performed.”

These opinions indicate that the participants not only seek to know the actions the company’s management is planning, but seek an opinion from an independent third how and why these actions are going to be fruitful. In a crisis situation, the existing management may have lost the confidence of stakeholders and, therefore, having an independent third to review the proposed actions may be conducive to re-establishing trust.

The next component (within the sub-code independent assessment) that the participants referred to concerned the business plan. According to jurisdiction, the business plan has to be prepared on an integrated basis, meaning that it has to include a plan of the profit and loss, balance sheet, and cashflow statement.^{44,45} With the plan of the profit and loss statement, it is possible to delineate whether the company will be able to earn profits in the fu-

⁴⁴ OLG Celle, 08.10.2015 - 16 U 17/15

⁴⁵ OLG Cologne, 24.09.2009 - 18 U 134/05

ture. Furthermore, by integration of the balance sheet and cashflow statements, the financial requirements during the turnaround process are disclosed. The respective courts pointed out that the business plan has to include at least the current financial year plus the two subsequent financial years.⁴⁶ The financial effects of the intended turnaround actions have to be integrated into the business plan.⁴⁷ In this regard, C-3 stated,

“(...) we want an independent third to review the validity of the financial information we obtain from our customers.”

The integration of the turnaround actions into the company’s business plan to show their intended financial effects was specifically referred to by L-5 who postulated,

“(...) my main requirements for formalized turnaround plans are that it has to include plausible and feasible actions that are integrated into a business plan.”

Similarly, C-4 expressed,

“(...) we require a business plan that includes the monetary effects of the intended actions.”

Furthermore, the participants argued that the financial effects of the intended turnaround actions have to be clearly outlined and apparent to every reader of the plan. For example, M-2 elaborated,

“(...) it is essential that the turnaround plan delineates the results which have to be reached by implementing the actions – with regard to earnings as well as cashflow. And at what point in time should the results be achieved.”

The participants attached specific emphasis to delineate the company’s financial needs in the beginning or in the course of the turnaround process. For example, C-4 stated,

“(...) in this context we need, of course, a sound analysis of the company’s financial needs during the turnaround process.”

Similarly, M-2 asserted,

“(...) it has to be clear which financial requirements are necessary to implement the intended actions.”

⁴⁶ OLG Celle, 08.10.2015 - 16 U 17/15

⁴⁷ OLG Cologne, 24.09.2009 - 18 U 134/05

Similar to the assessment of the proposed turnaround actions, in a crisis situation, key stakeholders may have lost confidence in the validity of the financial figures, they are provided with by the company's management. The preliminary intra-year management reports as well as the business plan figures are not audited within the year-end audit. Thus, the stakeholders may doubt the accuracy of the numbers. Turnaround consultants preparing a formalized turnaround plan do not examine the financial statements with the same depths as an auditor within the year-end audit. However, having an independent third performing validity and plausibility analyses may increase the trustworthiness of the financial figures.

4.4.1.5. Structure and Comprehensibility

The participants articulated that the turnaround plan should be well-structured, comprehensible, and clear. For example, L-3 postulated,

“(...) the turnaround plan must be well structured and understandable. It is important that the turnaround plan clearly shows why the company is in crisis, what actions are necessary to overcome the crisis, and the reasons why the intended actions are feasible; and, finally, a clear and understandable business plan that clearly shows the company's financial requirements during the turnaround process.”

I-4 stipulated,

“(...) my main requirement with regard to formalized turnaround plans is to have a red line. Specifically, that means that the reader does not get lost in large amounts of meaningless power-point slides, but that the turnaround plan clearly shows to the reader the problem and its solution.”

These viewpoints underline the importance that all relevant stakeholders, in order to obtain their support, understand the company's current state, why it is in there, and what actions are necessary to achieve the turnaround. If stakeholders, on whose financial contributions the company depends on, are not convinced by the turnaround plan, it is very likely that those stakeholders do not maintain their financial support. As a result, the company may not even be able to attempt a turnaround.

4.4.1.6. Section Summary

The main objectives and requirements for formalized turnaround plans were found to be fulfilling the legal requirements, establishing a basis for stakeholder negotiations, providing transparency and obtaining an independent assessment of the company's situation and its chances for turnaround and, finally, that the plan is well-structured and understandable to all stakeholders.

First, according to the German jurisdiction, the company's banks are required, in such a situation, to demand a formalized turnaround plan. Otherwise there may be subsequent liability claims or even criminal consequences for the responsible bank directors when the attempt to turnaround fails and the bank has waived scheduled repayments or even granted a new loan to the company to finance its turnaround process without a formalized turnaround plan. Second, owners appreciate formalized turnaround plans, although they are not required to initiate their preparation because formalized turnaround plans establish stability and trust between all stakeholder parties and, therefore, provide a basis for negotiations among those. Third, formalized turnaround plans are initiated to obtain transparency, so that the recipients gain deeper insights into the company's business activities and financial situation. This is particularly important for creditors who are external and dependent on the information provided by the management which may be incomplete, of low quality, or even false.

Next, the recipients of formalized turnaround plans appreciate to receive an independent assessment of the company's situation; i.e., in particular, over the company's current state, its market environment, its competitive position in the industry and business model, its management, the intended turnaround actions, and the business plan. With regard to the company's current state, it is required by law, to assess whether the company has to file for insolvency. This is a point which is, according to the participants, omitted in many turnaround plans. The assessment of the market environment and the company's industry are important because such factors influence the selection of effective turnaround actions. Moreover, the analysis has to include the skills of the company's management who was found to be key influential to make or break the company's attempt to survival. In addition, the feasibility of the turnaround actions and the business plan must be assessed. It is important to briefly outline the actions, however as specific as possible including all single tasks, responsibilities, and time schedules, so the actions can effectively be implemented

and monitored. Finally, the turnaround plan needs to be well-structured, comprehensible, and clear, so that it is understandable and meaningful to all stakeholders.

4.4.2. Contribution and Critique

After the discussion of the participant's objectives and requirements or expectations for formalized turnaround plans, this section discusses how formalized turnaround plans contribute to turnaround success of companies in Germany. However, besides discussing the contributions, the participant articulated several points of critique with regard to formalized turnaround plans. The contributions and critiques were categorized into the sub-codes *transparency and trust*, *guidance and monitoring*, *change*, *independent perspective*, *length / size*, *complexity*, and *analytical depth*.

4.4.2.1. Transparency and Trust

First, it was pointed out by the participants that formalized turnaround plans provide transparency to external stakeholders. Gaining transparency was also referred to as an objective for initiating the preparation of a formalized turnaround plan. The following quotes indicate that formalized turnaround plans, in most cases, do provide transparency to externals – hence, this objective is achieved in most cases. For example, C-2 expressed,

“(…) with a turnaround plan, many issues become more transparent, especially for externals, e.g. the banks. Many issues are revealed and the plan provides a basis for the discussion of necessary actions.”

M-1 outlined,

“(…) usually, companies in such situations do not have a useful cashflow plan and lack the transparency that would be necessary. These things are indispensable and turnaround plans usually perform these analyses very well. In this regard, I have made a lot of positive experiences.”

In providing this transparency, formalized turnaround plans may restore confidence and trust of the firm's stakeholders, in particular the firm's banks, to maintain their support. In this respect, I-4 elaborated,

“(…) the main contribution of a turnaround plan is that it can restore confidence and trust that have been lost in a turnaround situation, in particular the

confidence and trust of the company's banks. It can convince the banks to say: ok, I will make a further contribution and postpone a repayment, grant further loans, or release collaterals. That, by the end of the day, everybody understands: Ok, if I make my contribution, it is fair and balanced with the contributions of other stakeholders.

L-3 stated,

“(...) formalized turnaround plans pave the way for the banks because without their support, the turnaround attempt will not be successful. They have to at least maintain their credit engagement. In addition, turnaround companies often need fresh money (which means further credit grants) and the banks need a formalized turnaround plan.”

These statements indicate that if a formalized turnaround is understandable to all stakeholders and the stakeholders perceive their financial contributions as fair and balanced, it may re-establish the stakeholders' confidence and trust. This is necessary, so that the banks maintain their financial support.

4.4.2.2. Guidance and Monitoring

It was argued that formalized turnaround plans provide direction for the company and its management during the turnaround process. Specifically, M-2 stipulated,

“(...) a really good turnaround plan is not only prepared for the banks, but it provides a direction throughout the turnaround process. As such, formalized turnaround plans provide a framework on which the company's management can act.”

M-4 articulated,

“(...) a formalized turnaround plan is the guideline for the turnaround actions. It is what all stakeholders have agreed upon. It is the common ground on which you work. Of course, the actions have to be implemented. But without a turnaround plan and with it a clear problem analysis, to achieve the turnaround, in collaboration with all stakeholders, would not be possible.”

A further contribution of formalized turnaround plans was referred to as establishing a basis on which the company's progress can be monitored. In this regard, C-4 outlined,

“(...) formalized turnaround plans provide the red line to which the company’s development can be monitored. I need a basis on which I can measure the progress.”

I-4 stated,

“(...) the turnaround plan is the basis for monitoring the progress maintaining discipline for the management.”

In providing this guidance, it was argued that formalized turnaround plans, although their preparation may be expensive to the company, may be indispensable for the company attempting turnaround. Specifically, L-5 expressed,

“(...) formalized turnaround plans can make a significant contribution. When you have a real turnaround case, there is no getting around to face the facts and to perform a substantial analysis. You need this road map. Only with a road map, you notice it when you are on the wrong path. Thus, a formalized turnaround plan is of priceless value and therefore indispensable.”

4.4.2.3. Change

The preparation of a formalized turnaround plan may also initiate a cultural change in the company. Specifically, it was argued that the preparation may urge the firm’s management to think about necessary changes. For example, L-2 stipulated,

“(...) a formalized turnaround plan is helpful because it urges the management to think about necessary changes. You probably know of those particular companies which never thought about necessary changes and, eventually, are surprised when a crisis hits them. In this regard, a turnaround plan ultimately provides transparency and can initiate a cultural change in the company.”

L-3 added,

“(...) a well prepared turnaround plan that includes well-thought out and applicable actions is of great help. I could tell of many positive examples. A turnaround plan can be a significant factor for initiating change in the company. In this regard, it makes a valuable contribution.”

4.4.2.4. Independent Perspective

A formalized turnaround plan also can make a significant contribution by providing an independent assessment of the company. As this point was also referred to in section on objectives, the following quotes indicate that formalized turnaround plans, in this respect, meet the objectives of the stakeholders in most cases. For example, I-3 enunciated,

“(…) one of the main contributions of a turnaround plan is the objective and independent view on the company and its state. And this independency is also important with regard to the communication between the stakeholders.”

M-5 added,

“(…) a turnaround plan, prepared by an external and independent expert, with a critical eye, is of great help. (…) It is an acid test of the company and its plans for the future.”

L-2 stated,

“(…) you can only convince the banks to support the turnaround process when they get the confirmation of an independent third party that it makes sense to do this.”

However, the independency of the preparer was also doubted by some participants. Specifically, it was argued that there is a conflict of interest inherent in the preparation of formalized turnaround plans. In this respect, M-1 stated,

“(…) the reason why turnaround plans are prepared are the legal requirements. Not one company has yet improved because of a formalized turnaround plan. This issue is suffering from a conflict of interest. There are the banks that demand the turnaround plan because of the legal requirements. That is why you as turnaround consultants talk a lot more with the banks than with the company’s management. This leads to the fact that the company is being exploited by the banks and their compliant turnaround consultants. Sorry, but you have asked for my opinion. I have come to the conclusion that this conflict of interest is not solvable.”

By making this statement, the participant senses a conspiracy of banks and turnaround consultants exploiting their mandates. This interpretation may be true in some cases. However, as clearly outlined in the introduction of this study, banks are required to seek an opinion

of an independent third, otherwise they will face many kinds of legal risks. Thus, the preparation of a formalized turnaround plan is a legal necessity. Furthermore, the critical perspective of an independent third may add transparency in several regards, such as the feasibility of the proposed actions, the validity of the financial figures, and the capability of the management to succeed in the process.

However, this conflict of interest may in some cases lead to the issue that turnaround consultants fall short in going into adequate conflict and confrontation with the company's management and in taking an own critical stance. For example, C-2 outlined,

“(...) in some cases, the consultants fall short to go into adequate conflict and confrontation with the management or the owners of the company; but that may be due to the fact that the consultants are assigned and paid by the company.”

C-3 elaborated,

“(...) some turnaround consultants are too soft. They do not dare to speak the truth, clearly and to the point – in particular with regard to the assessment of the management. I understand that the company's management is their client. But it does not help anybody if this point is not appropriately addressed.”

L-5 stated,

“(...) important to me is also a certain delight of the consultants to go into conflict with the company's management that thinks that nothing has to be changed. The consultants need to confront the management with the unpleasant truths. And the consultants have to have the readiness to resign from their assignment if the management is not willing to change. If I have something to criticise, it would be that consultants are often too gullible and uncritical.”

These opinions infer that it is of central importance that the preparer of formalized turnaround plans maintain an independent stance, even if they are assigned and paid by the company's management and, of course, may want to please their client. However, in the long run, it may turn out to be detrimental for the company if not all weaknesses and shortcomings are assessed and clearly outlined in the plan. This line of argument was supported by L-1 who stated,

“(...) I think it is important to speak a clear word to the company’s management. And our today’s society is sometimes to kind. That is something that we often see when it comes to failed turnaround attempts.”

The described conflict of interest may also lead to wrong turnaround opinions. This was brought up by L-2 who critiqued,

“(...) my main point of critique concerns the assumptions on which the final turnaround opinion is based. And I believe that we have to place more emphasis on these assumptions. Are the assumptions as such realistic? Or are they actually far away from reality? I have often experienced that unrealistic assumptions served as the basis for a positive turnaround opinion.”

Recalling from the introduction of this study, the BGH pointed out that a formalized turnaround plan has to include a final statement whether the company is seen as being able to achieve the turnaround (turnaround opinion). In some cases, it may be obvious that it is unlikely for the company to achieve the turnaround, with the consequence that a negative turnaround opinion has to be included when a formalized turnaround plan is being prepared. However, some turnaround consultants may include a positive turnaround opinion, but base this positive turnaround opinion on conditions or assumptions which are obviously not realistic.

Another possibility of escaping this conflict of interest may be to not include a turnaround opinion at all. This practice was criticized by C-5 who noted,

“(...) turnaround plans often lack a clear statement with regard to the question whether the company is seen able to achieve the turnaround. If you make analyses, you also have to come to a clear conclusion. Is the turnaround likely? Yes or No?”

A possible solution was offered by I-4 who outlined,

“(...) another issue I have noticed is that incredibly few consultancy firms actually come to a negative turnaround opinion. Ok, the other alternative would be to withdraw from the mandate and not to finalize the turnaround plan. Weak consultants tend to base their positive assessment on unrealistic assumptions. Personally, I think that it is not dreadful to come to a negative conclusion. As such, the turnaround plan as an instrument would gain credibility.”

4.4.2.5. Length / Size

A further point of critique concerned the length of formalized turnaround plans (in terms of number of pages) and level of detail, in particular with regard to smaller companies. For example, this was elaborated by C-1 who stipulated,

“(...) there are accounts that include 400 pages for a small company with, for example, 50 million euros of annual sales. That is unbearable. These lengths are simply not necessary. Of course, all the details are nice to know. But the consultants have to consider who is addressed. If you as a consultant define turnaround actions – for example, 500 single actions – with all due respect, as a bank, I am not interested in this.”

A similar argument was expressed by C-2 who contended,

“(...) too many turnaround plans are fully-laden with unnecessary details. I will give you an example: you have a business group including ten subsidiary companies. Of course, every single subsidiary company needs a short-term liquidity plan. Is every single company able to fulfil its financial obligations in the near future? Of course, that is important to the director of every subsidiary company; but these single liquidity plans do not interest me as the company’s financing partner. I want an aggregated plan for the whole business group.”

C-4 added,

“(...) many formalized turnaround plans do not draw distinctions with regard to the company’s size. We would prefer a solution that adequately considers the company’s size. (...) It would be helpful if turnaround plans would be more focused and to-the-point.”

These views indicate that banks desire formalized turnaround plans to be as short and succinct as possible. The main reason may be that bank employees have only limited capacities for restructuring clients (companies facing turnaround). With regard to those cases, banks do not earn money, these mandates are rather focused on preventing further losses to the bank; and, therefore, may be only of secondary interest to the bank’s top management, allocating personnel resources to these departments. Another interpretation may be that banks are not interested in the details of how the turnaround may be achieved; at least not as much as in the case of, for example, managers. The main questions that needs to be ad-

dressed from the viewpoint of banks may be whether the turnaround is assessed to be achievable for the company and that all legal requirements are met, so that the turnaround plan is not doubted by the court in a possible later insolvency. However, managers are more deeply involved in the process and, therefore, may be more interested in all details of the actions that are necessary.

The bank participants offered a potential solution for this issue. C-1 suggested,

“(…) formalized turnaround plans could be split into two parts – one part that includes everything that is interesting to the stakeholders. And that should be at maximum 40 - 60 pages. And the second part is some kind of appendix that includes all details, for example, the 500 turnaround actions.”

C-5 proposed,

“(…) with regard to small and medium-sized companies, formalized turnaround plans should not comprise more than 50 pages. This has to be sufficient to make a clear statement. Of course, there can be an appendix of various 100 pages from which the conclusion is derived from.”

In supporting the line of arguments, I-3 expressed,

“(…) we have many smaller companies, with 10, 20 or 30 million euro of annual sales in our portfolio. And with regard to these cases, we have received turnaround plans that comprised only 50 pages, but met the BGH requirements in treating the issues with less level of detail.”

In summary, it was suggested to split-up the turnaround plan in one main part of around 50 pages. This part may include a summary with all information that is necessary for the stakeholders / banks to make up their decision to further support the company. The second part may be an appendix or supplementary part of unlimited pages. This part may contain all details from which the statements in the main part are derived of. This may include detailed business plans of every single company of a large business group or detailed descriptions of tasks and responsibilities in connection with the proposed turnaround actions.

4.4.2.6. Complexity

It was critiqued that too long, detailed, and complex turnaround plans may overstrain smaller companies with regard to their ability to implement the plan. For example, I-2 recalled,

“(…) I remember one turnaround plan with over 300 pages. And in this case, the question arises: how far is the turnaround plan actually focused on the relevant problems? I think that in the end of the day, a healthy dose of pragmatism is necessary with regard to the selection of the core foci as well as the level of detail.”

I-4 stated,

“(…) there are huge differences for formalized turnaround plans when it comes to questions of quality. The most classic negative example would be the 260-pages largely descriptive document for a company with annual sales of, for example, 15 million euros. I think that is due to insecurity of the consultants that they include broad descriptions just to make sure to comply with the legal requirements.”

These opinions suggest that this overloaded complexity of many formalized turnaround plans may be due to the insecurity of the consultants who may include detailed and complex descriptions to ensure the coverage of the legal requirements. However, this level of detail and complexity is not necessary to meet the legal requirements and may hamper the company’s management when implementing the plan.

4.4.2.7. Analytical Depth

The next point of critique was that formalized turnaround plans, although they may be long and detailed, would be largely descriptive and lack the necessary analytical depth. In this regard, I-2 stated,

“(…) I remember a turnaround plan that extensively focused on an analysis of the company’s product portfolio. However, although the analysis was carried out extensively, it did not consider the relevant questions. That is my main point of critique. Much is being written, but a substantial and clear-cut analysis is often missing.”

This viewpoint infers that many turnaround plans do not include a substantial and clear-cut analysis of the current situation as well as deep thought and consideration on approaching a solution. This issue was also addressed by L-4 who postulated,

“(…) most turnaround plans are filled with descriptive elaborations which are simply not relevant for turnaround success.”

Furthermore, a specific issue where more analytical depths would be appreciable by the participants was articulated with regard to the cashflow plan (as part of the integrated business plan).

“(…) another issue which we often see and dislike concerns the cashflow plan (as part of the integrated business plan). These cashflow plans often do not outline whether the scheduled pay-outs are necessary to run the operating business or whether these are discretionary, for example, for larger investments. We think that this differentiation is indispensable. That is not only an academic question because we as a bank would like to know how our money is spent.”

This view implies that the cashflow plan often does not sufficiently differentiate with regard to the question for what supplied funds will be used by the company. However, this is of central importance for the banks that provide loans to finance the turnaround process.

4.3.2.8. Section Summary

The main contributions of formalized turnaround plans refer to establishing transparency and trust, providing guidance and setting a basis for monitoring, initiating a cultural change, and providing an independent perspective (however, the independent perspective was partly doubted). The main points of critique concerned the length / size, the complexity, and the lack of analytical depth of formalized turnaround plans. First, providing transparency was referred to as an objective for formalized turnaround plans. The data showed that this objective was achieved in the majority of cases. This transparency provides a basis for discussions between stakeholders and can restore the trust of the banks that may have lost confidence in the company’s management. Second, a formalized turnaround plan provides direction for the company’s management throughout the process and a guideline for implementing the turnaround actions. It offers a basis on which the company’s progress can be monitored to maintain the management’s discipline throughout the process. Third, formalized turnaround plans may initiate a cultural change in the company. This particular-

ly holds for companies that did not see a necessity for change so far and are surprised by the performance downturn. In addition, formalized turnaround plans provide an independent assessment which is important for establishing the trust of the banks. Moreover, the company's management which is bound by their preconceptions is enriched by a fresh perspective from an outsider. However, the independency of the preparer was doubted in some cases. Specifically, there is a conflict of interest for the preparer of turnaround plans because, although they are assigned and paid by the company's management, they are supposed to maintain independency when assessing the company's situation for all stakeholder with divergent interests. This conflict of interest may lead some consultants to want to please their clients and lack an own critical stance. However, in the long run, it may turn out to be detrimental for the company if not all shortcomings are assessed and clearly outlined in the plan or if the turnaround opinion turns out to be wrong.

Moreover, it was critiqued that formalized turnaround plans are often too long and detailed, in particular when prepared for smaller companies. Specifically banks desire formalized turnaround plans to be as short and succinct as possible. The main questions which have to be addressed are whether the company is able to achieve the turnaround and whether the plan includes all necessary legal requirements set by the courts. Beyond those questions, banks, due to their limited personnel resources, seem not to be interested in detailed work plans and time schedules as, for example, managers. A possible solution is to divide the plan into a main part of fifty pages that includes all relevant information for creditors and a second longer part that specifically addresses operating issues that the company's management is concerned about (work plans, time schedules, detailed financial analyses). Second, it was critiqued that formalized turnaround plans are too complex. The complexity may be due to the consultant's insecurity that all legal required components are included in the plan. However, the courts did not lay out the level of detail the components of turnaround plans (e.g. analysis of the current situations, actions, business plan) must exhibit. Rather, the complexity of the plan must be suitable for the company, indicating that it is possible to prepare less complex plans for smaller companies by not violating the requirements. Finally, the participants missed a certain degree of analytical depths in formalized turnaround plans which may depend on the consultants' analytical skills as well as time and effort distributed to the preparation of the plan.

4.4.3. Implementation

The participants were asked which factors may contribute to the successful application or implementation of formalized turnaround plans. These factors were referred to as the *applicability of the turnaround plan*, *willingness for change*, *external support*, for example, by a CRO or turnaround consultants, *monitoring*, as well as *flexibility*.

4.4.3.1. Applicability of the Plan

The participants articulated the concern that often turnaround plans are too theoretical and, therefore, may be not applicable. For example, L-4 stated,

“(...) applicability is a crucial point. It is important that we not only define turnaround actions, but give recommendations for their implementation, in the sense of, for instance: who does this? Because often turnaround plans are put in the drawer, as you know; and, therefore: not only defining the actions, but also showing the path for the implementation is an important success factor. And that can also mean that the company needs an interim-manager.”

This view infers that, for the effective application of formalized turnaround plans, it is not only necessary to develop actions but also to give recommendations for their implementation. Thus, a formalized turnaround plan needs to point out who is responsible for the specific action and has to answer the question whether this responsible person is actually capable of successfully performing the actions. If this cannot be answered affirmatively, the implementation of an interim-manager has to be clearly recommended in the plan.

I-2 added,

“(...) the quality of a turnaround plan is dependent on its applicability. Specific emphasis has to be placed on the weaknesses of the organization and how these can be improved and optimized. This will lead to higher applicability of formalized turnaround plans.”

This opinion suggests that in order to be applicable, formalized turnaround plans need to place specific emphasis on the weaknesses of the organization which, in many turnaround cases, is the existing management. Thus, this statement may be interpreted as a further call for the implementation of a CRO.

Next, it was suggested that it may be detrimental to the applicability of formalized turnaround plans if the turnaround consultants develop turnaround actions without involving the company's management. For example, L-4 critiqued,

“(...) many consultants write their turnaround plans in a quiet chamber and hardly work out the turnaround actions in concert and agreement with the company's management.”

I-1 elaborated,

“(...) a turnaround plan provides a valuable contribution when the turnaround actions that are laid out in the turnaround plan are agreed upon by the company's management and when the management has already started to implement these actions. If the actions are made up by a consultant in a quiet chamber without coming to an agreement with the company's management, the turnaround plan is of no help. The actions have to be defined in close cooperation with the management on-site. The management has to support the actions and have to believe in their effectiveness.”

With these statements, the participants referred to a situation in which turnaround consultants develop actions without involving the company's management (whether existing or new management in form of a CRO) in the development. In such a case, the actions remain theoretical, meaning that they will likely not be effectively implemented. Therefore, the management that has the task to perform the actions, needs to be involved in their conceptual development.

4.4.3.2. Willingness for Change

The participants articulated that the company's willingness for change is an important factor that supports the successful implementation of formalized turnaround plans. Specifically, C-2 reasoned,

“(...) when the management sees the necessity of action and supports the turnaround plan, as well as the employees, it will lead to success. But when there is resistance which cannot be overcome – in case of doubt, not even with a CRO or other external influence – the turnaround attempt is going to fail.”

I-2 expressed,

“(...) I think that one of the core issues is the insight or realisation that the company is in a crisis and that something has to be changed in order to look ahead positively. Conversely, turnaround attempts are likely to fail if the management believes that they have already succeeded with developing the turnaround plan and do not attach particular emphasis to its implementation.”

C-4 outlined,

“(...) I think it is important that the company’s owners, management and employees are willing to change.”

These data indicate that the work does not end with the development of the turnaround plan; the implementation of the plan may actually be the more difficult part. The firm’s management has to recognise and admit that something is wrong and needs to be changed. Only if this happens to be the case, the implementation of the plan may turn out to be successful.

4.4.3.3. External Support

It was argued that it may be necessary for the company to receive external support by a CRO or turnaround consultants that support the implementation of turnaround actions as well as by the company’s banks who maintain their financial support on a stable basis. For example, C-4 postulated,

“(...) we need someone that supports the implementation of the actions, whether a CRO or consultants. And you need to have stable financiers as well.”

I-3 pointed out,

“(...) I think an important issue is that the company needs support with regard to the implementation of the turnaround actions. That is, a turnaround plan is necessary but not sufficient for turnaround success. The implementation has to be supported either by a CRO or turnaround consultants. Secondly, there has to be a willingness of the banks support the turnaround process on a continuous basis. When the banks show a tendency to withdraw, it can impede the whole process.

L-5 recommended,

“(…) when we only financially restructure the company and only produce a turnaround plan and, afterwards, the turnaround consultants withdraw and there is no CRO that guides the process – we will not succeed. Maybe, the actions are implemented in the beginning, but after a little while, the company will fall back into old habits and, after a few years, will face the same situation.”

4.4.3.4. Monitoring

Specific emphasis was also placed on effectively monitoring the company’s progress after the turnaround plan has been prepared. It was argued that the monitoring needs to cover the company’s financial development as well as the implementation status of the proposed turnaround actions. Specifically, L-5 outlined,

“(…) mostly, something is lacking when it comes to the implementation of turnaround plans. The turnaround plan alone is only the basis. The progress has to be sufficiently monitored, so that I realize when I leave the straight and narrow path.”

A similar view was expressed by C-3 who stated,

“(…) what I really liked was that, based on the formalized turnaround plan, reports were prepared that monitored the company’s financial development as well as the implementation status of the turnaround actions. It was clearly pointed out: who is responsible from the management team to implement which action and with whose support? And how is the implementation status? What are the reasons for the delay that actions are not implemented? We found that very helpful.”

C-4 noted,

“(…) when you develop turnaround actions, you also have to implement and monitor them. How will the implementation work and in what time frame? And how is the implementation status? Are we on the right track? That means, next to the turnaround plan, we need respective reports about the company’s financial development and the implementation status of the turnaround actions.”

These arguments infer that monitoring plays an important role in the implementation process of formalized turnaround plans. That may support to the findings of researchers, such as Cook et al. (2012) and Haron et al. (2013) who found that monitoring the company's financial development throughout the turnaround process provided greater inside to the management, enhanced the effectiveness of strategic decision-making, and facilitated the turnaround of the company from a distressed state to a return to profitable growth.

4.4.3.5. Flexibility

Finally in this section, a certain degree of flexibility was argued to be important, in particular when things do not turn out the way they were planned during the process. Specifically, I-2 stated,

“(...) our experience is that you need flexibility, in particular with regard to the intended turnaround actions, during the process. No turnaround process commences as it was planned in the beginning.”

Moreover, with regard to this issue, M-4 elaborated,

“(...) I will tell you of a positive example. The turnaround plan was well written, however, the proposed actions changed, either with regard to their content or with regard to their emphasis, during the process. Therefore, it was important to have some kind of steering committee that decided about changes that had to be made with regard to the actions set in the turnaround plan. As important it is to have agreement between all significant stakeholders in the beginning of the turnaround process, as important is to have flexibility during the implementation phase.”

Finally, this point was also addressed by M-1 who outlined,

“(...) a turnaround plan is prepared within a maximum of three months. And I think we have to lower the bar with regard to the proposed actions. It cannot be the case that we say: here, you have a turnaround plan, please implement it on a one-on-one-basis. You have to consider learning effects that you gain during the implementation phase.“

As it is the nature of all kinds of plans, formalized turnaround plans are only projections based on assumptions the firm's management and consultants have made. Hence, the pro-

cess will most likely turn out somewhat differently than it was assumed in the plan. Furthermore, formalized turnaround plans are prepared within a short-term period of around three months and, therefore, can only be classified as side-line barriers for the road to recovery. It is important that the company's management, the CRO, the supervisory board, a turnaround steering committee (as suggested by M-4), or the turnaround consultants show flexibility during the process and learn from mistakes. This relates to the research of Schmitt and Raisch (2013) who found that firms retain and absorb new knowledge during recovery, for example, in that they learn to do the same work with fewer resources. Similarly, Barker and Barr (2002) noted that managers need to draw associations between firm actions and outcomes and, by this, learn from their experience.

4.4.3.6. Section Summary

This section dealt with factors that may promote or hamper the implementation of formalized turnaround plans. First, it was criticized that the plan itself may not be applicable, for example, when turnaround consultants develop actions without involving the company's management in the development process. Second, it was articulated that there has to be a certain degree of willingness by the management to initiate the change process. Third, external support in the implementation phase, either by a CRO or turnaround consultants, was mentioned to be conducive to implementation success. Moreover, effective monitoring of the company's progress has to be conducted. However, a certain degree of flexibility to deviate from the plan when circumstances change was brought up to be important.

5. Conclusion

5.1. Introduction

The aim of this research project was to analyse and evaluate the content, context, and process of turnarounds that lead to the achievement of sustainable competitiveness and profitability after experiencing decline; and, in particular, to assess the effectiveness of formalised turnaround plans in that process based upon the experience of German companies.

This research aim was achieved by addressing four research objectives that will be discussed in the following narratives.

1. To identify, through a critical review of extant literature, effective turnaround actions for companies faced with declining competitiveness and profitability (section 5.2).
2. To critically evaluate the factors contributing to successful turnarounds (section 5.3).
3. To critically assess the contribution of formalised turnaround plans (section 5.4).
4. To develop recommendations for the effective application of formalised turnaround plans, within a theoretical model of corporate turnarounds that addresses aspects of content, context and process; thus, generating knowledge that is useful for parties involved in and affected by organizational decline and turnaround processes (section 5.5).

A revised and more comprehensive conceptual framework that incorporates the findings from the literature review as from the empirical analysis will be presented at the end of the concluding narratives. Moreover, an indicative template for practitioners preparing and implementing formalized turnaround plans was developed which can be found in the appendix.

5.2. Turnaround Actions

With regard to the first research objective, four categories of turnaround actions, firms take in order to reverse decline, could be identified from recent turnaround literature: retrenchment, recovery, financial, and human resource-oriented actions. With regard to the first category, retrenchment actions can be defined as deliberately eliminating assets and / or reducing costs as a means of increasing firm efficiency (Lim et al., 2013). In the reviewed studies, generally, a two category-scheme of asset and cost retrenchment was applied. First, asset retrenchment referred to the net reduction of assets, such as closing plants, di-

vesting financial assets, and reducing stock of property, equipment and inventory (Furrer et al., 2007; Ndofor et al., 2013). Second, cost retrenchment referred to the net reduction of total costs, such as labour, SGA, and material expenses (Morrow et al., 2004; Morrow et al., 2007). Furthermore, operationalisations of retrenchment included employee layoffs (Lim et al., 2013), eliminating non-core businesses (Furrer et al., 2007), outsourcing manufacturing to lower-cost overseas (Boyne, 2006), or reducing working capital (Sudarsanam & Lai, 2001). Several studies (e.g. Collett et al., 2014; Furrer et al., 2007; Lawton et al., 2011; Lin et al., 2008) found that asset and cost retrenchment led to performance improvements because of the increased efficiencies brought about by the reduction of expenditures and the eliminations of assets. This was based on the argument that arresting the “bleeding” by the required “surgery” is essential for a firm to successfully turn around and should be the first step in every turnaround process. However, this line of argument did not go unchallenged. Other researchers (e.g. Schmitt & Raisch, 2010; Francis & Desai, 2005) warned that retrenchment activities, such as downsizing, may reduce a firm’s ability to recover by sapping employee morale and causing employees with marketable skills to leave the firm; and that these employee exits will cause losses of firm specific knowledge of products and services as well as processes and routines.

Next, the effectiveness of turnaround actions was found to be dependent on several contingency factors. Specifically, the effectiveness of retrenchment actions was found to be dependent on the severity of decline (retrenchment is more effective in more severe decline situations; Francis & Desai, 2005), the timing (retrenchment is more effective the earlier it is initiated in the turnaround process; Tangpong et al., 2015), the firm’s industry condition (retrenchment is more effective in declining industries; Morrow et al., 2004), the general economic environment (retrenchment is more effective in an environment of low munificence; Boyne & Meier; 2009), and the firm’s rent creation mechanism (retrenchment is more effective for firms with a Ricardian rent creation mechanism that is focused on the exploitation of resources; Lim et al., 2013). Recovery actions were found to be more effective in munificent industries (Ndofor et al., 2013).

It was found in this study that optimizing the firm’s procurement to reduce material cost can be an effective turnaround action. However, the effectiveness of procurement optimizing actions is dependent on the kind of material the firm uses in its production process. If commodities that are traded on global commodity markets, for example steel or zinc, are

used, the company may be dependent on the development of market prices, leaving little space for price negotiations. However, when there is strong competition among the suppliers, for example in the packaging industry, entering into price negotiations with suppliers may be an effective turnaround action. This potential for price negotiations is further enhanced when there is a general economic crisis (as it was the case in 2008/2009) in which all economic parties have to make commitments and the level of competition among suppliers is intensified.

This study found mixed evidence with regard to cutting down personnel expenses. Specifically, it seems reasonable that when the company is suffering from idle capacity, the only solution to this problem is laying off staff. However, the company has to be able to afford the severance payments which are involved with this action. Moreover, the lay-off has to be singular, comprehensive, and fast. That is, it has to be communicated and performed at once, not bit by bit over an extended period of time which would significantly reduce staff morale. However, the concerns that some researchers raised with regard to downsizing actions were also present in this study. Specifically, the management has to compensate the decrease of the human resource base by reordering processes, so that the company performs its operations more efficiently, needing less personnel resources.

The necessity of working capital actions was found to be dependent on the severity of the crisis. When the crisis is more severe, reducing working capital (in particular inventories and trade accounts receivable) or extending payments to suppliers may be unavoidable. However, in a crisis situation, supplier relationships may be stressed, so that the company has to be careful not to lose important suppliers. Furthermore, reducing inventory can lead to impairments on the effectiveness of the company's production processes and its ability to serve customer orders. Reducing complexity with regard to administrative processes as well as with regard to the company's product portfolio may be more appropriate in a crisis situation.

With regard to the second category, recovery actions referred to strategic changes that transform and reposition the firm in order to achieve sustained growth in revenues (Trahms et al., 2013). This can either be accomplished internally, by investment in new products, services, customer segments, or geographic markets, including international expansion; or through external modes, such as acquisitions and joint ventures (Rasheed, 2005). Further

recovery actions included capital expenditure to achieve productivity improvements, by investing in new plants and equipment (Sudarsanam & Lai, 2001) or by developing a new value proposition (Lawton et al., 2011). Although the majority of studies supported the view that recovery actions are the true driver for firm turnaround (Lawton et al., 2011; Morrow et al., 2007; Ndofor et al., 2013; Sudarsanam & Lai, 2001; Wan & Yiu, 2009), these actions require financing and are only feasible for firms that maintain excess slack (cash or borrowing capacity) or financial support of stakeholders (e.g. owners, banks; Pajunen, 2006; Tangpong et al., 2015).

The majority of the research participants took a critical stance with regard to recovery actions. To achieve a turnaround by performing recovery actions, for example increasing revenues by expanding the product portfolio or introducing new sales activities, was considered as very difficult. Instead, retrenchment actions, such as downsizing the product portfolio, simplifying the organizational structure, eliminating unprofitable sites or segments, and cost-cutting, for example by introducing flexible working hours, were recommended by the research participants, arguing that these actions may produce faster results. However, other research participants pointed out that there can be no sustainable turnaround without stabilizing and expanding the company's revenues. That means, in a turnaround situation, the company's management has to look at issues such as markets, competitors, customers, products, and sales volumes. Furthermore, increasing revenues by increasing product prices may be very effective and is often ignored by the company's management who focuses only on cost-cutting actions. However, in a more severe crisis situation, increasing prices may not be feasible, as it may lead to decreasing turnover quantities in the short run which may impose cash shortages to the firm.

With regard to process, some scholars (e.g. Lin et al., 2008; Schoenberg et al., 2013; Tangpong et al., 2015) argued that the turnaround process has two, clearly separate, subsequent stages: the retrenchment stage is considered to extend from the onset of the turnaround situation until asset and cost reductions have been carried out. This is followed by the recovery stage in which strategic reorientation takes place. However, other scholars (e.g. Lim et al., 2009; McKinley et al., 2014) argued that engaging in retrenchment without a clear understanding of the recovery strategy, may enhance short-term performance, but that retrenched resources may later be required for sustainable adaptation to the market. Again, other researchers (e.g. Schmitt & Raisch, 2013) postulated that retrenchment and recovery

actions should be simultaneously addressed during turnarounds, identifying complementarities between these two action sets which consisted of learning complementarities (firms learn to do the same work with fewer resources), organizing complementarities (employees are motivated to become more rigorous when utilizing resources during retrenchment), and performing complementarities (retrenchment's short-term performance outcomes can build the trust to employ the firm for more radical innovation). This study found that in the first 12-18 months of the turnaround process, retrenchment actions, such as cost-cutting and working capital-actions, may be more effective in order stabilize liquidity and earnings. However, it may be important not to postpone strategic actions for too long, as the hardships of retrenchment actions may deplete staff morale. Instead, through the development and communication of a long-term strategic plan, the employees may show greater commitment and continuance.

Considering the third category, financial actions referred, first, to the reworking of a firm's capital structure to relief the strain of interest and debt repayments which can be separated into equity-based and debt-based strategies. While equity-based strategies included dividend cuts and equity issues (Lin et al., 2008; Sudarsanam & Lai, 2001), debt-based strategies referred to transactions in which existing debt was replaced by a new contract which one or more of the following characteristics: interest or principal reduced, maturity extended, or a debt-to-equity swap in which debt was exchanged for equity (Collett et al., 2014; Lin et al., 2008). Second, this action category included financial management and management accounting techniques that were identified to facilitate turnaround (Cook et al., 2012; Haron et al., 2013).

This study's findings affirmed the effectiveness of financial actions to restructure the firm's capital structure. In particular, when a company files for insolvency, it can significantly reduce its liabilities through debt waivers by the creditors. Pre-insolvency, contributions of creditors, such as deferrals or waivers of scheduled debt repayments or interests, can be achieved by negotiations. However, these balance sheet restructuring actions are necessary but not sufficient to achieve a sustainable turnaround. Instead, financial actions have to be succeeded by operating actions, such as retrenchment and recovery actions.

Furthermore, this study highlighted the importance of sound financial management. More specifically, turnaround companies are recommended to prepare a short-term liquidity plan

on a regular basis. In order to prevent an insolvency filing, the company's management has to ensure that the company is able fulfil all its financial obligations in the short-term (three months are required by the jurisdiction of the BGH).⁴⁸ Moreover, sound management accounting techniques were found to enhance transparency with regard to the performance of the (sometimes various) company's business activities. This transparency may support the development of effective turnaround actions.

Regarding the fourth category, human resource-oriented actions, it was found by turnaround researchers that organizations were better placed to achieve turnaround if they would recruit more "core employees" which were referred to as non-supervisory, non-managerial workers who are involved in making the product or in providing the service and as the workers who are specifying in the core activity of the firm and performing the organization's base operations (Boyne & Meier, 2009). This finding was not supported by the empirical data analysis which may be due to the long-term focus of this action (finding new employees and getting rid of old employees may require time) as well as high severance payments which are involved with the replacement of employees.

Researchers, such as Lawton et al. (2011), found that providing comprehensive training for employees and improvements in communication between management and staff underpinned turnaround. This study's results indicate that good communication with the employees is particularly important in turnaround situations. Specifically, it was found that turnaround actions cannot be effectively implemented when they are not properly explained to the employees. Omitted communication in this regard may lead to fear and rumour, impeding the motivation of firm staff. Moreover, it was found to be particularly important for the company's management to communicate a vision and a long-term strategy to the staff. This may positively influence the employee's faith in company's future, leading to a greater degree of continuance of valuable employees, in spite of the hardships that are placed on them during turnarounds.

5.3. Contextual Factors

The second research objective related to contextual factors contributing to successful turnarounds. Based on the literature review, managerial cognition, executive compensation, executive replacement, corporate governance, family management, and the firm's stake-

⁴⁸ BGH, 24.05.2005 IX ZR 123/04

holders were found to influence turnarounds. With regard to the first factor, managerial cognition accounts for how the top management perceives and interprets the factors that caused decline (Lohrke et al., 2012). Specifically, three cognitive factors were found to influence subsequent turnaround actions: awareness of decline, attribution of decline, and perception of the decline's severity. First, decline awareness was found to facilitate elevated attention towards the evolving crisis, prompt deliberations, and overall information exchange among decision-makers. On the other hand, the communication patterns of failing firms were found to show denial and lack of emphasis on long-term problems (Clapham et al., 2005). Second, attribution of decline referred to causal factors that the management identifies as responsible for the decline. Specifically, it was found that if decline was believed to originate inside the firm (e.g. inferiority of products or processes), this was more likely to result in more significant and wide-ranging changes in strategy in response to decline. On the other hand, if decline was believed to originate outside the firm (e.g. industry cycles or recessions), this was more likely to result in only small, localized changes in activity (Barker & Barr, 2002; Clapham et al., 2005). Third, an accurate perception of the decline's severity was also found essential to engineer a turnaround. For example, Musteen et al. (2011) found that if managers perceived a situation as more severe, they responded with threat-rigidity and were more likely to pursue retrenchment actions.

The next two factors that could be identified from the literature review, executive compensation and executive replacement, focused on the effects the chief executive officer (CEO) or the top management team (TMT) have in the turnaround process. Broadly speaking, the leadership of the firm can act as an impediment or facilitator of turnaround. First, with regard to executive compensation, it was found that performance-based pay tied CEO remuneration to share performance of troubled firms and incentivized the CEO to adopt retrenchment strategies which were positively related to subsequent firm performance (Chen, 2015; Chen & Hambrick, 2012). Second, with regard to executive replacement, the majority of research supported the need for top management replacement to facilitate turnaround (Abebe, 2010; Boyne & Meier, 2009; Collett et al., 2014; Cook et al., 2012; Ndofor et al., 2013), relying on the argument that poor performance is evidence of executive inadequacy; incumbents are unable or unwilling to make major changes necessary to fix struggling companies. The need for executive replacement was also affirmed by this study's findings. For example, it was found that it is rather seldom that a company's crisis is exclusively due to external factors, but mostly the fault of the existing management because they have ei-

ther taken the wrong strategic decisions or did not anticipate and react to industry or market changes, holding on to old and out-dated behaviour patterns. Moreover, it was found that if management mistakes were the main causes for crisis, it is unlikely that the management who made the mistakes can play a valuable role when it comes to solving the problem. Furthermore, in particular with regard to small- and medium-sized companies, there may be long-standing organizational structures and personal relationships that have grown over the years. Due to this personal embeddedness, it may be more difficult for the existing management to introduce drastic changes, in particular when inconvenient actions, for example employee lay-offs, are unavoidable.

However, the company's management is a significant factor for success of a turnaround attempt. If it is not possible to replace the existing management, for example in family-owned companies in which the management team consists of family members, the management can be supported by a so called "chief restructuring officer (CRO)" that has specific turnaround experience and expertise that either replaces or supports the existing management for a limited amount of time. This study found that the CRO has to have power and self-assertion in order to be able to implement inconvenient changes. He/she has to have competency as well as professional and social skills. Furthermore, the CRO must not be financially reliant on the mandate, so that he/she can resign, if the company's owners are not willing to compromise.

The next contextual factor identified was corporate governance. Two facets of the company's board of directors (BOD) were examined: board independence and board size. First, it was found that an independent BOD is advantageous for companies in a distressed state because independent directors are more likely to challenge managers, and such challenges can be particularly valuable when the firm needs to make changes in order to survive (Dowell et al., 2011; Heracleous & Werres, 2016; Lawton et al., 2011). Mixed evidence was provided with regard to board size; the findings suggested a positive effect of larger boards in terms of possession of expertise and acquisition of resources and a negative effect in terms of the board's ability to act swiftly on its expertise and to monitor management (Carmeli & Markman, 2011; Dowell et al., 2011; Filatotchev & Toms, 2006). Moreover, with regard to the interactions and relationships of the BOD and TMT, specific concern was placed on the degree to which CEO power affects firm performance. Specifically, small firms operating in stable environments may benefit from having strong and powerful

CEOs that centralize decision-making, outline vision for the firm, and “take charge” in times of crisis (Faghfour, 2013). On the other hand, CEO power may not necessarily be beneficial for firms operating in dynamic environments because of the lack of different perspectives, information flows (Abebe et al., 2011), and monitoring (Heracleous & Werres, 2016).

In addition, family management was identified as being particularly relevant to turnaround situations. Specifically, researchers identified six turnaround inhibiting factors (reluctance for necessary top management change, conflict avoidance, informal decision-making, ineffective corporate governance structures, lack of motivation and ability to draw on external expertise, difficulties to integrate non-family employees); and three turnaround facilitating factors (high willingness to sacrifice during crisis, strong commitment and long-term goal orientation, a collegial management style) that are characteristic for family firms (Cater & Schwab, 2008; Courtemanche et al., 2013; Faghfour, 2013; O’Kane & Cunningham, 2014).

The next contextual factor that influences firm turnaround was identified as the firm’s stakeholders. In particular, turnaround research identified owners and banks as most influential, as they usually control the allocation of resources and therefore possess a high degree of resource dependence power (Pajunen, 2006). Furthermore, it was found that active and open communication, the use of personal and informal relationships, and the same long-term goal (to improve the firm’s performance, so that in the near future the firm would be able to settle its debts) ensured the stakeholders’ support in the turnaround process (Collett et al., 2014; Pajunen, 2006).

This study found that owners are of significant importance in turnaround situations, in particular when they have the ability and willingness to contribute funds to finance the turnaround process. Next, banks were also being found to significantly influence attempts to turnaround. The banks of a company in a turnaround situation have to be willing to show their support (which particularly means to hold on to already granted credit lines or to further grant new credit lines, if necessary) throughout the turnaround process. Otherwise, if banks withdraw their support, it may result in the company’s failure. An important factor to facilitate turnaround is the fast, open, transparent, and consequent communication with the company’s banks. In this regard, turnaround consultants, if involved, may play a cen-

tral role because they already know the thinking and behaviour patterns of banks from previous turnaround cases. Furthermore, in some cases, it may be helpful when banks have their own problems in terms of the necessity for write-downs in case of failure. If banks own substantial credit collaterals, they may call in their loans, leading to firm insolvency. Therefore, it would be facilitative to turnaround success when all stakeholder parties “sit in one boat” and work for the same goal. However, in other cases, more confrontation with the banks would be appropriate, in particular from turnaround consultants. Specifically, some banks may make inappropriate claims (for example an unusual high interest rate for granting a loan) that may combat the company’s ability to show profits in the future.

Managing the perceptions of customers is also important for keeping the basic functions of the business running while attempting a turnaround (Bruton et al., 2003). Specifically, Bruton et al. (2003) suggested that based on long-term relationships with key customers, the firm could ask them to take greater shipments of a given product. This study found that companies who are single-source suppliers may have less difficulties to succeed in a turnaround attempt than companies whose offerings are interchangeable. In this regard, turnaround success may be question of to what degree the customers would be hurt if the company ceased to exist. The more customers would be hurt, the more negotiation potential does the company have to ask for prepayments or other financial commitments of its customers.

Equally important may be to maintain the idiosyncratic human capital essential to competitive advantage and the high morale needed in a workforce faced with layoffs and downsizing (Tangpong et al., 2015). In particular with regard to German companies, employees are represented by the firm’s workers’ council. The workers’ council is granted significant co-determination and decision rights with regard to organizational decisions by German corporate law, in particular with regard to employee layoffs. Hence, an intransigent workers’ council can be a destructive factor when it comes to quickly implementing organizational changes. However, the workers’ council may be often scapegoated when turnaround actions fail. Although negotiations by the company’s management with the workers’ council can be tough, tedious, and often difficult, management and workers’ council share the same objectives, to maintain jobs and maintain a hope for the future.

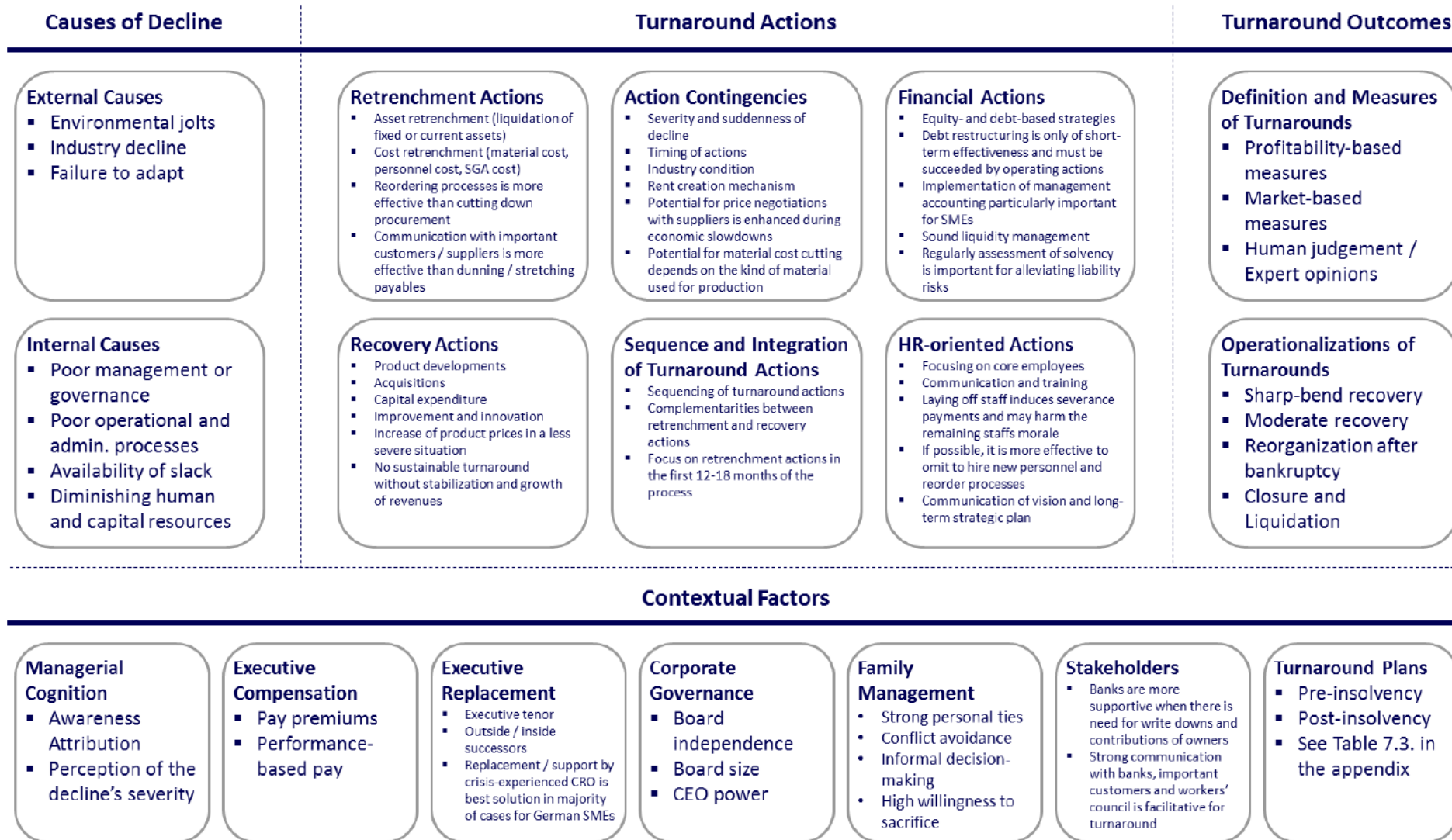


Figure 5.1.: Revised Conceptual Framework

5.4. The Role and Effectiveness of Formalized Turnaround Plans

The third research objective of this study was to critically assess the contribution of formalised turnaround plans. This objective was achieved by analysing the stakeholders' objectives when initiating the preparation of a formalized turnaround plan, as well as their requirements and expectations in this respect. Moreover, contributions of formalized turnaround plans in the process as well as points of critique were addressed. Finally, the analysis focused on factors that contribute to the effective application or implementation of formalized turnaround plans.

The first objective of formalized turnaround plans was identified to comply with the legal requirements laid out by the BGH and other German courts. In particular, bank directors that grant a loan to companies in crisis have to base their credit decision on a conclusive turnaround plan which has to be prepared by an independent expert and shows reasonable prospects of turnaround success for the company. Otherwise, the bank directors may be accused of embezzlement. Thus, the main goal of a formalized turnaround plan may be to convince the company's banks to maintain their financial support to the company – by having a clear conscience that all legal requirements have been met. Second, from the owner's perspective, the preparation of a formalized turnaround plans is initiated when banks are also involved in the case. In this regard, the turnaround plan supports the owners' negotiations with creditors and other stakeholders. Third, when initiating the preparation of a formalized turnaround plan, the stakeholders, in particular external stakeholders, such as banks or investors in the pre-investment phase when performing a due diligence to make an investment decision, seek to gain more transparency of and deeper insights into the company's business activities. Fourth, the stakeholders seek to obtain an independent assessment of the firm's situation, in particular, with regard to its market environment, its business model and competitive position in the industry, the capability of its management, the feasibility of the intended turnaround actions, and the firm's financial figures.

The stakeholders require or expect from a formalized turnaround plan that it is well-structured, comprehensible, and clearly delineates the problem and its solution. It is importance that all relevant stakeholders understand the company's current state, why it is in there, and what actions are necessary to achieve the turnaround. Specific expectations with regard to the analysis of the firm's current condition, the turnaround actions, and the busi-

ness plan were apparent in the data. With regard to the analysis of the firm's current situation, the stakeholders expect a sound analysis of the causes for the crisis on which the discussion of the company's future can be based. Furthermore, the stakeholders require that this analysis includes the firm's market environment, its industry, its business model, as well as its competitive position in the industry. Finally, in this regard, it is expected that the company's solvency has to be confirmed to make sure that the firm is not obliged to file for insolvency. With regard to the turnaround actions, it is expected that the actions are developed with reason and expertise and are clearly outlined in the plan. The turnaround actions are preferred to be described succinctly and focused, with particular consideration of the time frame in which they can be implemented. However, it is also expected that they are outlined as specific as possible, targeting all functional departments (e.g. sales, procurement, production, human resources) and outlining all single tasks and responsibilities. Next, the business plan is expected to be prepared on an integrated basis, including profit and loss, balance sheet, and cashflow statement. It has to be delineated whether the company will be able to earn profits in the future as well as the company's financial requirements during the turnaround process. The intended turnaround actions have to be included in the business plan to clearly show their impacts on the firm's future earnings and cashflow. On this basis, the progress can be monitored within the implementation phase.

The contributions of formalized turnaround plans were found to be providing transparency to externals, providing guidance and setting a basis for monitoring, initiating change, providing an independent perspective, and restoring confidence of the firm's banks. First, providing transparency was also referred to as an objective of the stakeholders. This stakeholder objective is satisfied by most formalized turnaround plans which established the required transparency very well. Second, formalized turnaround plans provide direction to the company and its management during the process and a guideline for implementing the actions. They establish a basis on which the company's progress can be monitored, maintaining discipline for the management. Third, the preparation of formalized turnaround plans can initiate a cultural change in the company. Specifically, the process of preparation may urge the company's management to think about changes that are necessary for the firm to be viable in the future. Fourth, formalized turnaround plans provide an independent assessment of the company which is important to maintain the financial support of the firm's banks. As such, formalized turnaround plans can restore confidence and trust of the firm's stakeholders, in particular its banks and, thus, may serve as a basis for negotiations.

However, formalized turnaround plans were being criticised for their length, complexity, and lack of analytical depth, and for an inherent conflict of interest. First, formalized turnaround plans were criticised of being too long and detailed and therefore not receiver-oriented. A potential solution was offered to split up the plan into two parts, a main part of 50 pages for the banks, covering all legal requirements, on which their credit decision can be based; and a supplementary part, including all details of which the statements in the main part were derived from. Second, the complexity of such long and detailed turnaround plans may overstrain the ability of companies to execute the plan, in particular with regard to smaller companies. Third, formalized turnaround plans were criticised to be largely descriptive and often lack the necessary analytical depth. Such turnaround plans fail to provide a substantial and clear-cut analysis of the firm's situations as well as deep thought and consideration with regard to the potential solution. Finally, formalized turnaround plans were criticised of suffering for an inherent conflict of interest. Although the firm's banks demand the preparation of formalized turnaround plans by an independent third as a prerequisite for maintaining their financial support, the turnaround consultants preparing the plan, are assigned and paid by the company's management which they have to assess. This conflict of interest may actuate that the consultants fall short to go into adequate conflict and confrontation with the company's management and to take an own critical stance. Furthermore, this conflict of interest may lead to positive, but wrong turnaround opinions. If the consultants showed the courage to attest a negative turnaround opinion or resign from the mandate in cases of unlikely successful turnarounds, the instrument of formalized turnaround plans, as such, would gain more credibility.

Even the most perfectly prepared turnaround plan may fail to be successfully implemented. Factors that contribute to the successful implementation or application of formalized turnaround plans were referred to as the company's willingness for change, external support, monitoring, as well as flexibility by the company's management and the firm's stakeholders. First, turnaround attempts are likely to fail when the company's management feels already satisfied with the preparation of the turnaround plan. However, when the management and employees see the necessity for action, chances are high to succeed. Second, the implementation of formalized turnaround plans has to be supported by a professional interim-management and / or turnaround consultants, as the existing management is not trusted to be capable to achieve turnaround without professional support in the majority of cases.

Third, the company's progress has to be effectively monitored with regard to the financial development as well as the implementation status of the proposed turnaround actions. Reports have to be prepared for external stakeholders, in particular, for the firm's banks to maintain their support. Fourth, as hardly any turnaround process commences as it was planned, a certain degree of flexibility by the management is required, in particular with regard to the proposed actions.

5.5. Recommendations for Formalized Turnaround Plans

The fourth objective of this study was to develop recommendations for the effective development and application of formalised turnaround plans within a theoretical model of corporate turnarounds that addresses aspects of content, context and process; thus, generating knowledge that is useful for parties involved in and affected by organizational decline and turnaround processes. Based on the analysis of the broader topics related to the turnaround actions and contextual factors as well as the specific analysis of formalised turnaround plans in Germany, recommendations for the development and application of such plans were developed. These recommendations include the legal requirements that were outlined by the BGH and other German higher courts, compiled by the researcher through an analysis of the respective verdicts. Furthermore, the recommendations aim to support the stakeholders' objectives, meet their expectations, react to their critique, and include factors that contribute to a successful implementation of turnaround plans. An indicative template for practitioners preparing formalized turnaround plans can be found in table 7.3. in the appendix.

In summarizing the legal requirements, a formalized turnaround plan has to be conclusive and plausible. It has to clearly point out and document why it is reasonable to expect the company's turnaround success by the time of the plan's preparation. The turnaround plan has to include a description and analysis of the company in its market and industry environment, an analysis of the company's current state including its solvency, an analysis of the causes for the crisis, a vision of the rehabilitated company, turnaround actions, an integrated business plan, and finally, a turnaround opinion. The plan has to point out how the company will achieve sustainable profitability; a short-term reduction of debt would not be sufficient.

Within the analysis of the company's current state, the causes for crisis, and the insolvency assessment, it is recommended that the preparer of turnaround plans critically reviews the financial information he/she obtains from the company's management. In a crisis situation, the firm stakeholders may have lost confidence in the validity of the financial figures provided by the company's management. Critically assessing the validity of the financial information is also crucial for an accurate insolvency assessment.

Since the competence and experience of the company's management are key factors influencing turnarounds, it is recommended that the turnaround plan includes an assessment of the company's management. In this respect, there is in the majority of cases a conflict of interest because the company's management assigns the consultants to prepare the turnaround plan. Hence, the consultants have to assess their client. To partly resolve this conflict of interest, the consultancy firm could assign a second consultant with special expertise in diagnosing human resource skills who is responsible for preparing the management assessment. This may lead to more objectivity since the human resources-consultant is not directly assigned by the company's management, may have a more distant position, and brings along experience and skills in assessing managers. This part of the plan must not only assess the general skills of the company's management, but in particular its ability to deal with the turnaround situation which differs considerably to a situation in which the firm prospers. If the management is found to be incapable of achieving the turnaround, the need for a crisis-experienced (interim-) manager / CRO must be addressed in the plan.

Since the turnaround actions have to be implemented by the company's management (either by the existing management, a new management, or a CRO), it seems reasonable to develop the turnaround actions in close cooperation and agreement with the responsible members of the management team. Moreover, all actions must be accompanied by responsibilities, time schedules, and detailed work plans. All departments of the company, such as the sales department, procurement, production, human resources, etc., have to be addressed. It has to be critically assessed whether the proposed actions are plausible and likely to be implemented with the company's available personnel and financial resources.

The business plan should be prepared on an integrated basis, meaning that it has to include a profit and loss statement, balance sheet, and cashflow statement for the current financial year plus the subsequent two financial years. While the profit and loss sheet projects the

firm's future earnings, the balance sheet and cashflow statement are important to point out whether the company will be able to fulfil its financial obligations during the turnaround process (hence, not run into an insolvency situation) and how much financial support is required from external sources (in particular banks or owners) to maintain solvency. The financial effects and funding needs of the intended turnaround actions must be included in the integrated business plan. Furthermore, the cashflow plan needs to differentiate which prospected spending is necessary to maintain the operating business and which is discretionary, for example for investment purposes.

Finally, the turnaround opinion is the overall assessment of the company's ability to achieve the turnaround, carried out by the preparer of the turnaround plan (turnaround consultants). It is important to base the turnaround opinion on realistic assumptions. An unrealistic assumption would be, for example, that the turnaround opinion would be positive, however, the achievement of a turnaround would be dependent on a loan by the company's owners for which the owners do not have the ability or willingness. In these cases, the turnaround consultants are recommended either to finalize the preparation of the turnaround plan with a negative opinion or to resign from the mandate without completing the preparation of the formalized turnaround plan.

The overall length of the document must be around 50 pages which should be sufficient to meet the BGH requirements. The suggestion to divide the document into two parts, one main part summarizing the central issues and a supplementary part or appendix that includes all details necessary to back-up the final conclusion, seems to be the best way forward. For example, the turnaround actions must be included in the main part because they are an essential component of the turnaround plan and also required by the BGH. Responsibilities, time schedules, work plans for the turnaround actions as well as detailed financial analyses of subsidiaries may be included in the appendix of the turnaround plan. The level of detail of formalized turnaround plans must be commensurate with the company's size and level of complexity of its business.

The turnaround plan is recommended to be well-structured, succinct, and understandable to all recipients. It must clearly delineate the problem faced by the company and its possible solution. It is of central importance to the stakeholders that the preparer of the turnaround

plan remains to hold up an independent and critical stance throughout the whole preparation and implementation process.

With regard to the applicability of turnaround plans, the most supportive factor is to implement a chief restructuring officer (CRO) with experience from other turnaround cases for a limited amount of time with the specific task to implement the turnaround actions because the existing management who caused the problem is not seen to be capable of initiating change in the majority of cases. Moreover, it may not have the trust of external (e.g. banks) and internal (e.g. owners, employees) stakeholders to ensure their continuing support.

After the turnaround plan has been prepared and the implementation process has started, the firm's progress needs to be effectively monitored. The monitoring has to focus on the status or degree of implementation of the turnaround actions and the financial development of the company in terms of earnings and cashflow, so that in case of a negative deviation, prompt counteractions can be developed and implemented. Furthermore, the results have to be consistently and timely communicated to external and internal stakeholders. The monitoring and reporting can be carried out by internal resources of the firm. However, the independency of a third party preparing the turnaround plan may also have value when it comes to monitoring the turnaround process and developing counteractions in case of negative deviations to the plan. This may further enhance the credibility of the reports, in particular towards external stakeholders. Hence, it is recommendable to assign a consultancy firm to monitor and report the turnaround progress if the funds are discretionary. In some cases, the banks may require an independent party for the monitoring and reporting the implementation progress.

5.6. Contributions and Limitations of the Research

5.6.1. Introduction

In this section, the contributions of the research with regard to the theoretical development of the field as well as with regard to the improvement for practice are outlined. This is followed by a discussion of this study's limitations from which directions for future research are drawn.

5.6.2. Contribution to Knowledge

This research contributed to knowledge by conducting a systematic and critical literature review of the most recent research in the field as well as identifying, through the development of a conceptual framework, research gaps where current knowledge needed to be advanced. Specifically, there has been a controversial debate in contemporary turnaround literature with regard to the question whether retrenchment or recovery actions are more effective in a turnaround situation; and under which circumstances and in which point of the process they should be implemented (first research gap). Second, turnaround researchers controversially discussed whether executive replacement is conducive to turnaround success (second research gap). Third, concerning the most apparent gap in the literature, the contribution of pre-insolvency formalized turnaround plans, as applied in a German business context, in the process was critically analysed (third research gap).

Regarding the first research gap (retrenchment and recovery), the empirical evidence suggested that retrenchment actions are more effective than recovery actions during the first 12-18 months of a turnaround process; supporting the view of scholars, such as Lin et al. (2008), Schoenberg et al. (2013), or Tangpong et al. (2015) who regarded the turnaround process as two, clearly separate, subsequent stages: the retrenchment stage is considered to extend from the onset of the turnaround situation until asset and cost reductions have been carried out. Thus, recovery actions, in order to be effective, may only be carried out after the successful implementation of retrenchment actions.

Considering the second research gap (executive replacement), the evidence in this study supported the view of researchers, such as Boyne and Meyer (2009), O'Kane and Cunningham (2014), and Abebe (2010) who claimed poor performance typically necessitates major strategic and organizational changes which incumbent CEOs are not inclined to undertake. Thus, incumbents are unable or unwilling to make major changes necessary to fix struggling companies. Other researchers stipulated that the effectiveness executive replacement is dependent on contextual factors (e.g. strong personal relationships of the incumbent management in an East Asia context (Bruton et al., 2003; Fisher et al., 2004), or executives' functional fit (Chen & Hambrick, 2012). In this study's research set, all participants had the same cultural business context (small and medium-sized German companies that face difficult situations); the contextual factors of the first two studies were found in an East Asian context. With regard to the argument of the executives' functional fit, the

research participants did not draw as subtle distinctions between crisis severity and functional background such as Chen and Hambrick (2012) who researched in a context of larger companies. Such distinctions may be irrelevant in the context of small and medium-sized companies requiring managers with broader and more personal and communicative skills and less functional expertise than managers of larger companies.

Finally, the third research gap concerned the critical assessment of formalized turnaround plans' contribution in the process. The main reason why formalized turnaround plans are being prepared in Germany is to comply with the legal requirements set by the BGH and other German courts. Bank directors that take actions to support a company's turnaround process may do so only on the basis of a conclusive turnaround plan prepared by an independent expert. Beyond fulfilling the legal requirements, this study found that formalized turnaround plans provide transparency over the company's situation to external stakeholders, such as banks or investors in the pre-investment phase. In providing this transparency, along with an independent assessment of the company's chances for improvement, turnaround plans restore confidence and trust of the firm's banks. For the company's management, turnaround plans provide a guideline for implementing turnaround actions and set a basis for monitoring the company's progress. However, formalized turnaround plans were critiqued for their length, complexity, lack of analytical depth, lack of applicability, and an inherent conflict of interest. This study provided recommendations for addressing these points of critique.

5.6.3. Contribution to Practice

Based on this theoretical analysis, recommendations for the effective development and application of formalized turnaround plans were devised. This last step contributed to organisational practice by generating knowledge that may be useful for parties involved in and affected by organizational decline and turnaround processes in a German business context. First, the generated knowledge may be useful for turnaround consultants to devise plans that meet the legal as well as informational requirements of creditors; so that banks can finance the company without fear of running into liability situations (liability risks for the consultancy firm are also reduced by preparing a plan that meets all legal requirements). This includes that the turnaround plans are receiver-oriented, meaning that they are comprehensive and understandable and provide a sufficient information base for the bank to take a credit decision without being overly long and filled with abundant descriptive

details. Meeting the legal and informational requirements of banks with regard to formalized turnaround plans for an effective credit decision process may also benefit companies in turnaround situations by providing easier access to funds that are needed to carry on the turnaround process. Next, this knowledge benefits internal turnaround stakeholders, such as owners and managers. Investors are supported in the pre-investment phase because the turnaround plan is a source of valuable information providing transparency about the company and an independent view on its operations. In the post-investment phase, the turnaround plan facilitates the negotiations with creditors over providing resources to the company. Interim-managers are benefited because they receive information about their prospective mandate as well as an independent view on the feasibility of the proposed turnaround actions. Finally, employees benefit in that the effective development and application of formalized turnaround plans facilitates the survival of companies, maintaining work places and career opportunities.

5.6.4. Limitations and Directions for Future Research

The findings of this study have to be seen in light of some limitations that could be addressed in future research. The first limitation concerns causality. In operational terms, causality is determined by an actual covariation between variables and data collection procedures that allow for the determination of cause-and-effect relationships for which the use of cross-sectional designs, as deployed in this study, is considered as a common threat (Brutus & Duniewicz, 2012). Specifically, the recommendations for formalized turnaround plans generated by this study could not be judged to be fruitful or not in empirical terms, but relied solely on the potentially selective experience and memories of the participants and the interpretation of the researcher. This limitation was inherent in the paradigm chosen by the researcher; as pragmatism focuses on participants experiences in their social environments and the interpretations of these experiences by the researcher within in the process of inquiry. Instead, a positivistic research approach may be more detached (for example by the utilization of quantitative analysis of questionnaires instead of interpretation of interview data) and able to base the analysis on a greater number of participants, which may provide a more objective account yielding different results. For alleviating the problems described with a cross-sectional approach, future research could address this limitation by applying a longitudinal design, i.e., observing complete turnaround processes (which may last several years) to determine how the preparation of a formalized turnaround in the beginning of the process has influenced that particular turnaround case.

Moreover, the research design was designed to generate theoretical insights and practical recommendations for the effective development and application of formalised turnaround plans in Germany. To test the usefulness of the insights and recommendations for turnaround practitioners was beyond the scope of this study. Future research could test whether the recommendations of this study lead to more successful turnaround attempts by deploying large sample sizes of turnaround cases with quantitative research to establish whether the findings of the study are generalizable to all companies in this context.

Furthermore, in order to gain a broad view, which is common in nascent and emerging research fields to establish knowledge (Brutus et al., 2013), this study sampled participants from four different professional groups involved in turnaround processes (creditors, investors, managers, lawyers). However, by this procedure, only a small sample size of participants of each group could be set up. Future research could sample participants from only one professional group (e.g. creditors) to gain deeper insights of the needs of this particular group with regard to the development and application of formalized turnaround plans.

Last, the study used a qualitative research design to gain deep and rich insights which are relevant to the stakeholders of formalized turnaround plans prepared for companies in Germany. Whether the findings and insights generated by this study are generalizable or transferable to other contexts, e.g. whether formalized turnaround plans may be useful for companies in Asia, lies in the judgement of the person to make the application elsewhere. To make a judgement whether a transfer may be appropriate relies on the degree of similarity between sending and receiving context (Lincoln & Guba, 1985). This study provided sufficient contextual description to make such similarity judgements for a transfer to other contexts possible.

As the scientific process is iterative in nature and advances in any scientific domain are contingent upon the continuous refinement of theories and methodology (Brutus et al., 2013), the limitations of this study and directions for future research are aimed to be important ideas and drivers for the further scientific progress in the field. However, in spite of the limitations, the contributions of this study significantly expanded the knowledge on how turnaround processes work, in particular in the context of German small- and medium-sized companies.

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7. Appendix

Table 7.1.: Overview of the Reviewed Turnaround Studies

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Abebe, M. (2010): Top team composition and corporate turnaround under environmental stability and turbulence.	Quantitative analysis of 98 US manufacturing firms	Min. 3 consecutive years of industry-adjusted ROA below the risk-free rate; Altman's bankruptcy prediction Z-score less than 3.0	Min. 3 years of increasing and positive ROA above the risk-free rate	<ul style="list-style-type: none"> Declining firms with longer-tenured Top Management Teams (TMT) have lower turnaround performance than declining firms with short-tenured TMTs. This relationship is pronounced if these declining firms are located in a more turbulent environment.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Abebe, M. (2012): Executive attention patterns, environmental dynamism and corporate turnaround performance.	Quantitative analysis of 70 US manufacturing firms	Min. 3 consecutive years of industry-adjusted ROA below the risk-free rate; Altman's bankruptcy prediction Z-score less than 3.0	Min. 3 years of increasing and positive ROA above the risk-free rate	<ul style="list-style-type: none"> ▪Declining firms operating in dynamic industry environments improve their turnaround performance when executives focus their attention on market related sectors (i.e. customer, competitor, and technological sectors). ▪Conversely, corporate turnaround performance is adversely affected by a disproportionate focus on input-related sectors (i.e. suppliers and creditors).
Abebe, M., Angriawan, A., & Ruth, D. (2012): Founder-CEOs, external board appointments, and the likelihood of corporate turnaround in declining firms.	Quantitative analysis of 164 US manufacturing firms	Min. 3 consecutive years of industry-adjusted ROA below the risk-free rate; Altman's bankruptcy prediction Z-score less than 3.0	Min. 3 years of increasing and positive ROA above the risk-free rate	<ul style="list-style-type: none"> ▪The Extensiveness of a CEO's external board appointments increases the likelihood of corporate turnaround among declining firms. ▪The presence of founder-CEOs did not improve the likelihood of corporate turnaround among declining firms.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Abebe, M., Angriawan, A., & Yanxin, L. (2011): CEO power and organizational turnaround in declining firms: does the environment play a role?	Quantitative analysis of 98 U.S. manufacturing firms	Min. 3 consecutive years of industry-adjusted ROA below the risk-free rate; Altman's bankruptcy prediction Z-score less than 3.0	Min. 3 years of increasing and positive ROA above the risk-free rate	<ul style="list-style-type: none"> ▪ CEO power / dominance is positively related to turnaround performance in stable environments and negatively related to turnaround performance in dynamic environments.
Arend, R. (2008): Differences in RBV strategic factors and the need to consider opposing factors in turnaround outcomes	Quantitative analysis of questionnaires from 310 turnaround consultants	None	None	<ul style="list-style-type: none"> ▪ Top 3 strategic assets were a strong brand, good customer services, and specialized knowledge. ▪ Top 3 strategic liabilities were incompetent management, bad strategy, and financial problems.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
<p>Barker, V., & Barr, P. (2002): Linking top manager attributions to strategic reorientation in declining firms attempting turnarounds.</p>	<p>Quantitative analysis of 154 US firms</p>	<p>Sustained net losses</p>	<p>None</p>	<ul style="list-style-type: none"> ▪ Organizational response to decline depends on whether the causes of the decline are believed to originate inside or outside the firm. ▪ Attributing decline to external causes will likely result in small, localized changes in activity. External causes of decline, such as industry cycles or recessions, often cannot be controlled and, thus, managers will likely focus on increasing the efficiency of the current strategy's execution by organization members. ▪ In contrast, attributing decline to internal causes suggests that the organization's existing strategy and activity could be the source of declining performance. Thus, top managers will likely focus their efforts toward changing the strategy and activities attributed to be the source of problems.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Boyne, G., & Meier, K. (2009): Environmental change, human resources and organizational turnaround.	Quantitative analysis of 140 Texas school districts.	School districts that are in the bottom quartile of the Academic Skills Exam (TAAS)	Improvement in student's TAAS score	<ul style="list-style-type: none"> ▪ In an environment with low external complexity, turnaround is better achieved by replacement of the management from inside the company opposed to outside the company. ▪ Organizations are better placed to achieve turnaround if they recruit more “core employees” (defined as non-supervisory, non-managerial workers involved in making the product or in providing the service).

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Bruton, G., Ahlstrom, D., & Wan, J. (2003): Turnaround in East Asian firms: evidence from ethnic overseas Chinese communities.	Quantitative analysis of 90 firms from Hong Kong, Singapore, and Taiwan	3 consecutive years of declining ROA below the risk-free rate	3 consecutive year of increasing industry-adjusted ROA	<ul style="list-style-type: none"> ▪ The reduction of assets in response to downturns improved performance, despite sometimes very public resistance around the region to shrinking the firm or making changes in the asset profile. ▪ Reduced sales were associated with improvements in firm profitability. ▪ East Asian boards are almost always supportive of top management and are very reluctant to authorize change.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Cater, J., & Schwab, A. (2008): Turnaround strategies in established small family firms.	Case study analysis of two family firms	Stakeholder opinion	Stakeholder opinions	<ul style="list-style-type: none"> ▪Family firms inherit six turnaround inhibiting factors (reluctance for necessary top management change, conflict avoidance, informal decision-making, ineffective corporate governance structures, lack of motivation and ability to draw on external expertise, difficulties to integrate non-family employees); ▪and two turnaround facilitating factors (high willingness to sacrifice during crisis, strong commitment and long-term goal orientation).

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Chen, G. (2015): Initial compensation of new CEOs hired in turnaround situations.	Quantitative analysis of 223 US firms	Return on equity (ROE) greater than the firm's cost of capital for min. 2 consecutive years, immediately followed by year of operating loss	None	<ul style="list-style-type: none"> ▪ New CEO's hired in turnaround situations receive a higher pay than CEOs in non-turnaround situations. ▪ Executive compensation, particularly performance-based pay, ties CEO remuneration to share performance of troubled firms and incentivizes the CEO to adopt retrenchment strategies which were positively related to subsequent firm performance.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
<p>Chen, G., & Hambrick, D. (2012): CEO replacement in turnaround situations: executive (mis)fit and its performance implications.</p>	<p>Quantitative analysis of 223 US firms</p>	<p>Return on equity (ROE) greater than the firm's cost of capital for min. 2 consecutive years, immediately followed by year of operating loss</p>	<p>None</p>	<ul style="list-style-type: none"> ▪ The benefits of CEO replacement depend integrally on the attributes of the two individuals involved: the incumbent's degree of misfit and the successor's degree of fit to the context at hand. ▪ Some highly suitable CEOs – who may have substantial firm-specific expertise and who may have corrective measures under way – are unwisely forced out of troubled firms. Moreover, some successors are hired simply because they represent a fresh face or possess colourful qualities that may be largely irrelevant for the job that needs to be done.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Clapham, S., Schwenk, C., & Caldwell, C. (2005): CEO perceptions and corporate turnaround.	Quantitative analysis of 86 US firms	Min. 3 consecutive years of Tobin's q below 1.0; min. 1 year of Altman's Z-score below 3.0	Min. 3 consecutive years of Tobin's q above 1.0	<ul style="list-style-type: none"> ▪ Companies experiencing decline that replace their CEOs are more likely to succeed in a turnaround than those that do not. ▪ Executive succession provides an important mechanism to overcome organizational inertia. New executives are better positioned to facilitate a realignment of organizational resources in response to environmental change.
Collett, N., Pandit, N., & Saarikko, J. (2014): Success and failure in turnaround attempts: an analysis of SMEs within the Finnish Restructuring of Enterprises Act.	Quantitative analysis of 228 small- and medium-sized enterprises (SME) that filed for bankruptcy within Finland's Restructuring of Enterprises Act.	Liquidation	Survival	<ul style="list-style-type: none"> ▪ Poor management, high debt, an adverse micro-economic environment, and one-off causes were the most prevalent causes of bankruptcy. ▪ Management change, cash generation through asset sales, and cost-cutting were the most successful turnaround actions.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Cook, G., Pandit, N., & Milman, D. (2012): A resource-based analysis of bankruptcy law, SMEs and corporate recovery.	1522 companies that filed for bankruptcy under the UK Company Voluntary Arrangement (CVA) ⁴⁹	Filing for bankruptcy	Extent of realization of the CVA plan	<ul style="list-style-type: none"> ▪ A firm that has resource strength or lacks resource weaknesses but is pushed into bankruptcy by adverse temporary factors will be more likely to succeed in a CVA. ▪ The changes of successful delivery of the CVA plan are lower when problems are due to poor management. ▪ Sound financial management increased the likelihood of survival.

⁴⁹ The British Company Voluntary Arrangement (CVA) is a debtor rehabilitation process intended to help financially troubled companies, particular SMEs, resolve their difficulties without being forced into liquidation. This regime is similar to the Chapter 11 bankruptcy of the United States Bankruptcy Code (Cook et al., 2012).

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
<p>Courtemanche, L., Côté, L., & Schiehl, E. (2013): Board capital and strategic turnaround: a longitudinal case study.</p>	<p>Case study analysis of the Canadian aircraft manufacturer Bombardier</p>	<p>None</p>	<p>None</p>	<ul style="list-style-type: none"> ▪ A turbulent external environment (crisis) that precipitated a downward slide in performance apparently forced the company to make changes in the BOD, strategy and senior management. Board capital was therefore marked by the business expertise and experience needed to facilitate upper management initiatives towards a strategic turnaround at the corporate and business levels. ▪ The arrival of a new CEO, whose appointment was most likely influenced by the company's family ownership structure, appears to have kicked off the change that profoundly altered the face of the company.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Dowell, G., Shackell, M., & Stuart, N. (2011): Boards, CEOs, and surviving a financial crisis: evidence from the internet shakeout.	Quantitative analysis of 227 young internet firms during the internet crisis 2000-2002	Altman's bankruptcy prediction Z-score below 3	Survival	<ul style="list-style-type: none"> ▪ Small firms with high levels of financial distress benefited from having higher proportion of independent directors (i.e. those firms showed higher survival rates than firms with low board independency). ▪ Small firms with high levels of financial distress were less likely to fail with small boards.
Faghfour, P. (2013): The role of governance structure in the context of crisis management: an empirical analysis on a German sample of non-family and family businesses.	Quantitative analysis of 218 companies from Germany	None	None	<ul style="list-style-type: none"> ▪ Family businesses with supervisory boards have higher degrees of comprehensively implemented early-warning systems. Therefore, family businesses need to assign adequate power to the supervisory board, as the dominance and influence of family members in the TMT may impede the board's work. ▪ Family businesses have lower degrees of crisis readiness than non-family businesses. Supervisory boards have a positive effect on crisis readiness in family businesses.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Fisher, G., Lee, J., & Johns, L. (2004): An exploratory study of company turnaround in Australia and Singapore following the Asia crisis.	Quantitative analysis of 60 companies from Australia and Singapore	2 consecutive years of decline in both net income and ROE	Press releases about the firms were gathered and rated by an expert panel. This rating was supplemented by financial performance measures (not further specified).	<ul style="list-style-type: none"> ▪ There were no differences in either likelihood or speed of action, in relation to retrenchment between companies from an Eastern country (Singapore) and a Western country (Australia). ▪ The speed of ownership and CEO change was slower in Singapore than in Australia.
Francis, J., & Desai, A. (2005): Situational and organizational determinants of turnaround.	Quantitative analysis of 97 US firms	3 consecutive years of ROA below the risk-free rate; min. 1 year of negative net income during the 3 years	2 consecutive years of ROA above the risk-free rate	<ul style="list-style-type: none"> ▪ Environmental factors such as industry conditions, government regulations, and external stakeholders limit the choices of management and, therefore, influence performance. ▪ Larger organizations tend to respond better to declining performance and turbulent environments, respectively.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Furrer, O., Pandian, J., & Thomas, H. (2007): Corporate strategy and shareholder value during decline and turnaround.	Quantitative analysis of 58 US manufacturing firms	3 consecutive years of decline in operating cashflows	Mentioning in the business press in connection with the word “turnaround”	<ul style="list-style-type: none"> ▪ Cost retrenchment had a positive effect on shareholder value. ▪ Increases in capital expenditure were negatively associated with stock performance. ▪ Investors value retrenchment strategies (which presumably have immediate effect) highly in comparison to long-term strategies.
Haron, H., Kamal Abdul Rahman, I., & Smith, M. (2013): Management accounting practices and the turnaround process.	Case study analysis of an Asian airline	3 consecutive years of losses	2 consecutive years of improved and positive results	<ul style="list-style-type: none"> ▪ An understanding of the turnaround process and the role of management accounting provides greater insight to the turning around of business performance and enhancement of the effectiveness of strategic decision-making. ▪ The knowledge of the turnaround phases, when integrated with relevant management accounting practices, provides opportunities for the company to add value and to develop a competitive advantage.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Heracleous, L., & Werres, K. (2016): On the road to disaster: strategic misalignments and corporate failure.	Case study analysis of the two telecommunication firms WorldCom and Nortel Networks	Filing for bankruptcy	None	<ul style="list-style-type: none"> ▪ There is a significant influence of environmental change and industry conditions on organizational performance. The industry downturn was a precipitating factor for failure in both cases. ▪ Internal organizational factors, such as the quality of leadership and corporate governance were also prime contributors to organizational failure.
Hurt, K., & Abebe, M. (2015): The effect of conflict type and organizational crisis on perceived strategic decision effectiveness.	Quantitative analysis of 64 US medium-sized companies	Individual perceptions of management	None	<ul style="list-style-type: none"> ▪ The communication patterns of failing firms mainly include denial and lack of emphasis on long-term problems. ▪ If awareness of decline is present and TMT members perceive that the survival of the organization is threatened, decision-makers tend to temporarily downplay interpersonal differences and disagreements in order to deal with the unfolding organizational crisis.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Lawton, T., Rajwani, T., & O'Kane, C. (2011): Strategic reorientation and business turnaround: the case of global legacy airlines.	Case study analysis of 5 legacy airlines	Experience of unremarkable, poor or declining financial performance (not further specified)	3 years of consistent growth in net income	<ul style="list-style-type: none"> ▪Improvement of quality of service, staff development and communication, alliance networks, and regional expansion facilitated the turnaround. ▪Membership in an alliance assisted the recovery by increasing revenues through codesharing or other commercial partnerships and cutting costs through economies of scale generated by the alliance's purchasing power and the sharing of good practices and IT.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
<p>Lim, D., Celly, N., Morse, E., & Rowe, G. (2013): Rethinking the effectiveness of asset and cost retrenchment: the contingency effects of a firm's rent creation mechanism.</p>	<p>Quantitative analysis of 750 Japanese firms</p>	<p>None</p>	<p>None</p>	<ul style="list-style-type: none"> ▪ Cost retrenchment has a negative impact on post-retrenchment performance when a firm has a relatively high Schumpeterian rent creation focus that is built on the exploration of dynamic capabilities. These deleterious effects are worsened for firms in more innovation oriented industries. ▪ The relationship between asset retrenchment and post-retrenchment performance is not significantly moderated by the extent to which a firm has a Ricardian rent creation focus (that is built on the exploitation of the firm's resource base) relative to its industry peers.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Lin, B., Lee, Z. & Gibbs, L. (2008): Operational restructuring: reviving an ailing business.	Quantitative analysis of 254 US firms	Negative earnings and renouncement of restructuring	Having survived (not being delisted) 3 years after the restructuring announcement	<ul style="list-style-type: none"> ▪ Cost retrenchment is an effective strategy to achieve turnaround and a necessary strategy to survive recession. ▪ There is a positive relationship between workforce reduction and delisting risk which indicates that firms with large layoffs face increased risk of failure. Even though employee reduction might be necessary to deal with poor performance and / or a weakening economy, large-scale layoffs convey a negative signal about a firm's future prospects.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
<p>Lohrke, F., Ahlstrom, D., & Bruton, G. (2012): Extending turnaround process research: important lessons from the U.S. civil war.</p>	<p>Historical case study of US-president Lincoln and his administration during the US civil war.</p>	<p>None</p>	<p>None</p>	<ul style="list-style-type: none"> ▪ The administration's initial assumptions regarding Southern motivations capabilities, and scope of the rebellion proved incorrect. By learning from a number of military and policy failures, Lincoln was able to better assess the situation and develop a new mission and strategy better suited to defeat the Confederacy. ▪ Lincoln had to manage divergent belief of key internal stakeholders (generals and the Northern population), at the same time, he had to convince key external stakeholders (Great Britain and France) not to interfere. ▪ Competent generals needed to be selected who bought into the new mission and strategy and were willing to implement both. ▪ The sudden division of the country required rapid decision-making. The decline's severity necessitated eventually changing the war's mission to one of emancipating the slaves to isolate the Confederacy and provide a new rallying point for the Northern populace. ▪ Despite innovative changes in the war's mission and strategy in 1863, continued and multiple attempts were needed during the process to ensure turnaround.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
<p>Morrow, J., Johnson, R., & Busenitz, L. (2004): The effects of cost and asset retrenchment on firm performance: the overlooked role of a firm's competitive environment.</p>	<p>Quantitative analysis of 417 US companies</p>	<p>Min. 3 years of declining industry-adjusted return on investment (ROI)</p>	<p>Min. 2 consecutive years of increasing industry-adjusted ROI</p>	<ul style="list-style-type: none"> ▪ Cost retrenchment has a negative impact on performance among firms in growth industries while it has a positive effect on performance among firms in mature industries. ▪ For firms in growth industries, dedicating resources to the development of new capabilities, innovation, market research and marketing approaches are usually critical. ▪ Mature industries are often characterized by a high degree of market saturation, fewer significant product innovations, and experienced buyers who can understand and compare the product offerings of rival vendors. As competition intensifies, firms are generally pressure to cut costs, emphasize more efficient utilization of resources and limit investment in R&D.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Morrow, J., Sirmon, D., Hitt, M., & Holcomb, T. (2007): Creating value in the face of declining performance: firm strategies and organizational recovery.	Quantitative analysis of 178 US firms	2 years of declining market-based performance (measured by Jensen's alpha).	2 years of incline in Jensen's alpha following the decline period.	<ul style="list-style-type: none"> ▪Developing new combinations of existing resources to introduce new products or acquiring new resources through acquisitions can enable turnaround for firms with declining performance. ▪Between these two strategic actions, recombining resources to produce new products may produce the greatest gain in performance. Organic growth (introducing new products developed internally) creates more value for firms than do acquisitions.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
<p>Musteen, M., Liang, X., & Barker, V. (2011): Personality, perceptions and retrenchment decisions of managers in response to decline: evidence from a decision-making study.</p>	<p>Quantitative analysis of questionnaires from 110 MBA students</p>	<p>None</p>	<p>None</p>	<ul style="list-style-type: none"> ▪ Locus of strategic control, functional backgrounds, executive age and experience influence the perception of decline severity, which subsequently influences the extent of retrenchment. ▪ When a decline situation is perceived by organizational leaders as very severe, they try to restore control and order through retrenchment activity.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
<p>Ndofor, H., Vanevenhoven, J., & Barker, V. (2013): Software firm turnarounds in the 1990s: an analysis of reversing decline in a growing, dynamic industry.</p>	<p>Quantitative analysis of 78 US computer software firms</p>	<p>Min 2 consecutive years declining ROA and a total loss in the second year.</p>	<p>Min. 2 year of increasing ROA and a maintained positive ROA by at least the sixth year after the base year before decline started</p>	<ul style="list-style-type: none"> ▪ Turnaround attempts in the software industry in the 1990s benefited from strategic actions (i.e. acquisitions, number of new alliances, and the number of new product introductions). ▪ Retrenchment actions (i.e. product withdrawals, asset reductions, and layoffs) reduced the chances of turnaround. Managers of declining firms in munificent industries cannot retrench or downsize their firms back to performance growth.
<p>O'Kane, C., & Cunningham, J. (2012): Leadership changes and approaches during company turnaround.</p>	<p>Case study analysis of 4 Irish companies</p>	<p>2 consecutive years declining or negative ROE, with at least one of these years below the risk-free rate of return; min. 1 year of negative net income</p>	<p>3 consecutive years of ROE above the risk-free rate of return and 3 years of positive and increasing operating and pre-tax profits.</p>	<ul style="list-style-type: none"> ▪ Leadership changes and stability can be equally effective in initiating turnaround; CEOs are less likely to be replaced when the decline is primarily externally induced, when CEOs are of significant strategic importance to the near-term recovery effort, and when CEOs exercise humility for their part in the decline.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Pajunen, K. (2006): Stakeholder influences in organizational survival.	Case study analysis of the Finish pulp and paper firm Kymi Corporation	None	None	<ul style="list-style-type: none"> ▪ Owners and creditors were in the most decisive position throughout the whole decline and turnaround process. ▪ The CEO, besides possessing the best knowledge of the whole firm, holding its shares, and partly financing its operations, was able to control the allocation of resources inside the organization and, therefore possessed a high degree of resource dependence power. ▪ The power of banks, as a result of their growing financing of the firm's investments increased year by year. Thus, the organization became increasingly dependent on its banks

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Rasheed, H. (2005): Turnaround strategies for declining small business: the effects of performance and resources.	Quantitative analysis of 88 small US firms	Most recent performance period (net income) was stagnant or declining	Increasing sales and profits for at least 3 years	<ul style="list-style-type: none"> ▪For small firms, the choice between recovery and retrenchment strategy is dependent on the interaction between perceived performance and resource availability. Small business managers / owners are likely to choose recovery strategies if they perceive a very low combination of financial performances and resource availability.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Schmitt, A., & Raisch, S. (2013): Corporate turnarounds: the duality of retrenchment and recovery.	Quantitative analysis of 107 companies from Germany, Switzerland and Austria	2 consecutive years of pre-tax ROI below 10%; 2 consecutive years of negative ROA	2 consecutive years of positive ROI after the decline	<ul style="list-style-type: none"> ▪ Turnaround success is function of the firm's ability to integrate both contradictory, yet inter-related, retrenchment and recovery activities in corporate turnarounds. ▪ Retrenchment acts as a resource provider in the initial turnaround stage, but is also essential to regain stability in the face of strategic change in the advanced turnaround stage. While recovery drives strategic change in the advanced turnaround stage, it is also an important means to direct retrenchment in the initial turnaround stage.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Smith, M., & Graves, C. (2005): Corporate turnaround and financial distress.	Quantitative analysis of 102 UK companies	Min. 2 consecutive years of Taffler's z-Score ⁵⁰ below zero	Min. 2 consecutive years of Taffler's z-Score above zero	<ul style="list-style-type: none"> ▪ Companies that expand their asset base (as opposed to selling-off productive assets) are more likely to recover. ▪ Distressed firms that enjoy a high level of stakeholder support are more likely to survive, as these firms will have continual support from creditors, employees, and customers.
Sudarsanam, S., & Lai, J. (2001): Corporate financial distress and turnaround strategies: an empirical analysis.	Quantitative analysis of 166 UK companies	Min. 1 year of Taffler's z-Score below zero after 2 years of positive Z-scores	Return to the positive Z-score territory over a 2-year period following the negative Z-score.	<ul style="list-style-type: none"> ▪ Recovery firms adopt more forward-looking, expansionary and external market focused strategies than non-recovery firms which seem still preoccupied with internal changes. ▪ Internal capital expenditure contributes positively to turnaround performance.

⁵⁰ In comparison to Altman's Z-score, Taffler's Z-score is more popularly used by banks in the UK. As Altman's Z-score, Taffler's Z-score is also applied to predict the likelihood of bankruptcy by using a multitude of accounting ratios (Smith & Graves, 2005; Sudarsanam & Lai, 2001).

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Tangpong, C., Abebe, M., & Li, Z. (2015): A temporal approach to retrenchment and successful turnaround in declining firms.	Quantitative analysis of 96 US firms	3 consecutive years of ROI below the risk-free rate and industry-average ROI; 3 years of Altman's Z-score below 3	3 consecutive years of ROI above the risk-free rate and industry-average ROI	<ul style="list-style-type: none"> ▪ The effectiveness of retrenchment actions is contingent on the timing of their implementation. ▪ Early retrenchment actions to quickly stem the decline, stabilize financial conditions, and free up organizational slack are important to prevent the declining firm from entering the downward spiral of decline, within which the firms are less likely to make successful turnarounds.
Wan, W., & Yiu, D. (2009): From crisis to opportunity: environmental jolt, corporate acquisitions, and firm performance.	Quantitative analysis of 78 firms from Hong Kong and Singapore	None	None	<ul style="list-style-type: none"> ▪ Corporate acquisitions were positively related to firm performance during an environmental jolt (the Asian financial crisis 1997-1999). ▪ Firms in Asia are less likely to undertake acquisitions as frequently as their counterparts in some Western countries such as the United States, and therefore acquisitions may be taken with more care in these countries and, therefore, result in better performance.

Author / Study	Methodology / Sample	Measures of Decline	Measures of Turnaround	Main findings
Yandava, B. (2012): A capability-driven turnaround strategy for the current economic environment.	Case study analysis of 7 US companies	Decreasing profitability for min. 2 years in comparison to industry average	Min. 2 year of increasing profitability following the decline period	<ul style="list-style-type: none"> ▪ Turnaround strategies ranged from investing in a management team that understands the core business, to defining core markets, suppliers and business models. ▪ A fearless visionary leadership must provide a strong cultural framework for employees and motivate employees to achieve greater accountability and performance goals.

Table 7.2.: Linkage between Turnaround Model and Literature

Model Components	Studies
Causes of Decline	
External Causes	
Environmental jolts	Ndofor et al., 2013; Wan & Yiu, 2009
Industry decline	Clapham et al., 2005; Francis & Desai, 2005
Failure to adapt	Latham & Braun, 2009; Rasheed, 2005
Internal Causes	
Poor management or governance	Arend, 2008; Collett et al., 2014; Cook et al., 2012; Heracleous & Werres, 2016
Poor operational or administrative processes	Cook et al., 2012; Francis & Desai, 2005
Availability of slack	Bradley, 2011; Latham & Braun, 2009
Diminishing human or capital resources	Filatotchev & Toms, 2006
Contextual Factors	
Managerial Cognition	
Awareness of decline	Abebe, 2012; Clapham et al., 2005; Hurt & Abebe, 2015
Attribution of decline	Barker & Barr, 2002; Clapham et al., 2005; O’Kane & Cunningham, 2012
Perception of the decline’s severity	Abebe, 2012; Musteen et al., 2011; Rasheed, 2005
Executive Compensation	
Pay premiums	Chen, 2015; Chen & Hambrick, 2012; Yandava, 2012
Performance-based pay	Chen, 2015; Ndofor et al., 2013; Lim et al., 2013

Model Components	Studies
Executive Replacement	
Executive tenor	Abebe, 2010; Abebe et al., 2012; Boyne & Meier, 2009; Musteen et al., 2011; Haron et al., 2013
Outside / inside successors	Boyne & Meier, 2009; Courtemanche et al., 2013
Contextual requirements	Bruton et al., 2003; Fisher et al., 2004
Executive fit	O’Kane & Cunningham, 2012; Chen & Hambrick, 2012
Corporate Governance	
Board independence	Abebe et al.; 2012; Courtemanche at al., 2013; Dowell et al., 2011; Lawton et al., 2011; Heracleous & Werres, 2016; Schmuck, 2013; Lin et al., 2008
Board size	Carmeli & Markman, 2011; Dowell et al.; Filatotchev & Toms, 2006;
CEO power	Abebe et al., 2011; Carmeli & Markman, 2011; Faghfour, 2013; Heracleous & Werres, 2016
Family Management	
Family Management	Cater & Schwab, 2008; Courtemanche et al., 2013; Faghfour, 2013; Pajunen, 2006
Firm Stakeholders	Bruton et al., 2003; Collett et al., 2014; Cook et al., 2012; Ndofor at al., 2013; Pajunen, 2006; Schmuck, 2013; Tangpong et al., 2015

Model Components	Studies
Turnaround Actions	
Retrenchment Actions	
Asset retrenchment	Collett et al., 2014; Chen 2015; Francis & Desai, 2005; Lim et al., 2013; Ndofor et al., 2013; Schmitt & Raisch, 2013; Sudarsanam & Lai, 2001; Tangpong et al., 2015
Cost retrenchment	Collett et al., 2014; Francis & Desai, 2005; Furrer et al., 2007, Lawton et al., 2011; Lim et al., 2013; Lin et al., 2008; Ndofor et al., 2013; Schmitt & Raisch, 2013; Sudarsanam & Lai, 2001
Recovery Actions	
Product developments	Morrow et al., 2007
Acquisitions	Heracleous & Werres, 2016; Morrow et al., 2007; Wan & Yiu, 2009
Capital expenditure	Smith & Graves, 2005; Sudarsanam & Lai, 2001
Improvement and innovation	Lawton et al., 2011
Action Contingencies	
Severity of decline	Chen, 2015; Francis & Desai, 2005; Lim et al., 2009
Suddenness of decline	Francis & Desai, 2005
Timing of actions	Tangpong et al., 2015
Industry condition	Chen, 2015; Lim et al., 2013; Morrow et al., 2004; Ndofor et al., 2013
General environmental condition	Boyne & Meier, 2009; Ndofor et al., 2013
The firm's rent creation mechanism	Lim et al., 2013

Model Components	Studies
Sequence and Integration of Turnaround Actions	
Sequencing	Lin et al., 2008; Schoenberg et al., 2013; Tangpong et al., 2015; Lim et al., 2009; McKinley et al., 2014
Complementarities	Pajunen, 2006; Schmitt & Raisch, 2013
Financial Actions	
Equity- and debt-based strategies	Angwin & Meadows, 2012; Collett et al., 2014; Lin et al., 2008; Sudarsanam & Lai, 2001
Financial management, management accounting	Cook et al., 2012; Haron et al., 2013
Human Resource-oriented Actions	
Focusing on core employees	Boyne & Meier, 2009
Communication and training	Lawton et al., 2011

Turnaround Outcomes	
Definitions and Measures	
Profitability-based measures	Abebe, 2012; Chen, 2015; Furrer et al., 2007
Market-based measures	Clapham et al., 2005; Lim et al., 2013; Morrow et al., 2007
Human judgement / expert opinions	Schmitt & Raisch, 2013; Yandava, 2012

Turnaround Outcomes	
Operationalizations	
Sharp-bend recovery	Courtemanche et al., 2013; Haron et al., 2013; Ndofor et al., 2013
Moderate recovery	Lawton et al., 2011; Sudarsanam & Lai, 2011
Reorganization after bankruptcy	Collett et al., 2014; Cook et al., 2012
Closure and liquidation	Arend 2008; Collett et al., 2014

Table 7.3.: Indicative Template for Turnaround Practitioners

Exemplary Index of Formalized Turnaround Plans

1. Management Summary
2. Analysis of the Firm“ Current Situation
 - 2.1. Analysis of Legal and Organizational Firm Attributes
 - 2.2. Analysis of the Firm“s Business Model
 - 2.3. Analysis of the Competitive Industry and General Environment
 - 2.4. Causes of Decline
 - 2.5. (In)solvency Assessment
3. Vision of the Rehabilitated Firm
4. Assessment of Turnaround Actions and Likelihood for Implementation
 - 4.1. Analysis of Turnaround Actions
 - 4.2. Management Assessment of Capability for Implementation
5. Turnaround Opinion
6. Appendix

General Recommendations

- The turnaround plan must be well-structured, succinct, and understandable to all recipients. Remain to hold up an independent and critical stance throughout the preparation process.
- Critically review the validity of the financial information provided by the management.
- Assign a specialized consultant for the management assessment to alleviate conflict of interest.
- Recommend a crisis-experienced (interim-)manager / CRO when the management is not assessed to be capable of implementing the turnaround actions.
- Develop the turnaround actions in close cooperation and agreement with the responsible members of the management team.
- Include supplementary information to the turnaround actions, i.e. responsibilities, time schedules, and detailed work plans. Address all relevant firm departments (sales, procurement, production, human resources, etc.).
- Critically assess whether the turnaround actions can be implemented with the company’s available personnel and financial resources.
- Prepare the business plan on an integrated basis, including profit and loss, balance

sheet, and cashflow statement, for the current financial year plus two subsequent years.

- Include the financial effects as well as funding needs of the proposed turnaround actions in the business plan. Differentiate the cashflow plan in spending necessary to maintain the operating business and discretionary spending (e.g. investments).
- Base the turnaround opinion whether the company is seen as able to achieve sustainable competitiveness and profitability on realistic assumptions. If it is not possible to include a realistic positive turnaround opinion, resign from the mandate or include a negative opinion.
- Split up the document in two parts: a main part of around 50 pages that meets all BGH requirements and is sufficient for the firm's creditors to take a decision; and a supplementary part of unlimited pages that includes all necessary details to back up the final conclusion (e.g. responsibilities, time schedules, and work plans for turnaround actions, detailed financial analyses of subsidiaries).
- The level of detail of the turnaround plan must be commensurate with the company's size and level of complexity of its business.
- After preparing the plan, ensure that the company has sufficient support for implementation of the plan (either by a CRO or turnaround consultants).
- The implementation process must be effectively monitored with regard to the implementation status of the turnaround actions as well as the company's financial development in terms of earnings and cashflow. In case of negative deviations to the plan, prompt counteractions must be initiated.