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The role of top management teams in formulating and implementing turnaround strategies: a review and research agenda

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Both business commentators and scholarly researchers have acknowledged the key role that top management teams (TMTs) play in reversing the fortunes of failing firms. Nonetheless, relatively few empirical studies have investigated the importance of TMTs in turnaround situations. To encourage such studies, we draw upon the multiple theories employed in TMT research as a guide to review studies that have examined how TMTs formulate and implement turnaround strategies. Based on this review, we highlight TMT topics that have received limited attention in the turnaround literature and, thus, represent opportunities for future research. We conclude by discussing methodological issues that should be considered when examining a TMT's role in a turnaround situation.

Introduction

It is generally recognized that a firm's top management team (TMT) takes on particular importance during periods of declining per-

formance. To be successful in such situations, a TMT must quickly and accurately determine the cause of a firm's performance lapse and implement decisions necessary for its prompt recovery (i.e. turnaround). Other things equal,

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a TMT's failure to manage a firm's turnaround process properly will result in its continued decline and eventual economic failure or bankruptcy (Weitzel and Jonsson 1989). Complicating matters further, TMT decision-making, unstructured even in the best circumstances (Mintzberg *et al.* 1976), may be even more chaotic in times of thinning resources, diminishing employee morale and declining stakeholder support (Arogyaswamy *et al.* 1995).

Oddly, despite popular press attention that in some cases has bestowed 'hero' status on turnaround managers (Dumaine 1990; Lublin 2000), and 25 years of conceptual analyses that have examined myriad issues associated with turnaround processes (e.g. Arogyaswamy *et al.* 1995; Castrogiovanni *et al.* 1992; Chowdhury 2002; Hoffman 1989; Nystrom and Starbuck 1984; Pandit 2000; Pearce and Robbins 1993; Schendel and Patton 1976; Starbuck *et al.* 1978), relatively few empirical studies have investigated the importance of TMTs in turnaround situations (Mueller and Barker 1997; Slatter 1984). To date, empirical turnaround research has primarily focused on the efficacy of specific recovery strategies (i.e. 'strategy content') rather than the processes TMTs use to formulate and implement those strategies (i.e. 'strategy process'; cf. Huff and Reger 1987).

In addition, although research on strategy formulation and implementation has provided insights into turnaround efforts, these insights remain somewhat fragmented and even ambiguous. For example, some studies report that firms that have successfully implemented turnarounds are generally those who have hired outside TMTs (e.g. O'Neill 1986), whereas others have found that incumbent TMTs are typically more effective in leading recovery efforts (e.g. Zimmerman 1989). Such contrasting findings should not be surprising. Previous research has noted that TMTs facing similar crises often react differently and, in turn, their actions differentially affect a firm's performance (e.g. D'Aveni and MacMillan 1990). Indeed, various TMTs may interpret the same turnaround situation differently or implement

an identical turnaround strategy employing contrasting approaches (Schendel and Patton 1976; Slatter and Lovett 1999).

Such contrasting findings may be due to the fact that, with limited exception (e.g. Barker *et al.* 2001; Mueller and Barker 1997), turnaround studies have generally lacked a theoretical base to either *a priori* frame substantive research questions or *a posteriori* place their findings within a nomological framework (Pandit 2000). This void has resulted in a long-standing problem, i.e. research on firms in crisis being 'a long way up the empirical creek without a theoretical paddle' (Meyer 1988, 413). Examining turnaround from a TMT perspective may help remedy this problem because TMT research, in general, offers multiple theories with which to examine critical issues affecting how TMTs scan, interpret and react to a firm's task environment and, thus, enact strategic decisions (e.g. Eisenhardt 1989a; Hambrick 1989; Thomas and McDaniel 1990).

Accordingly, by merging turnaround and TMT research, we hope to stimulate further examination of the role that TMTs play in situations where they must halt a firm's downward slide and, subsequently, reverse its declining performance. To this end, we briefly describe a 'typical' turnaround process. Next, drawing upon the multiple theories employed in TMT research as a guide, we review studies that have examined how TMTs formulate and implement turnaround strategies. Based on this review, we highlight TMT topics that have received limited attention in the turnaround literature and, thus, represent opportunities for future research. We conclude by discussing methodological issues (e.g. how to operationalize decline and turnaround) that should be considered when examining a TMT's role in a turnaround situation.

The Turnaround Process

A firm may be said to be in 'decline' when it experiences a resource loss sufficient to compromise its viability (Cameron *et al.* 1987). In counterpoint, 'turnaround' may be considered

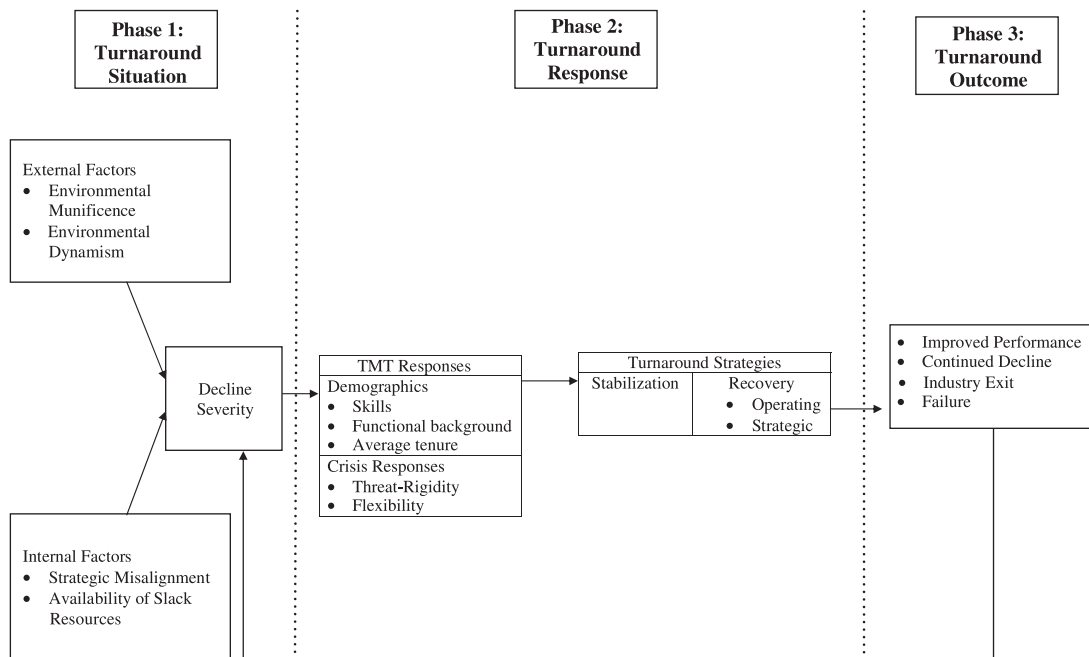


Figure 1. A model of the turnaround process.

to have occurred when a firm recovers adequately to resume normal operations, often defined as having survived a threat to survival and regained sustained profitability (Barker and Duhaime 1997; Pearce and Robbins 1993). Thus, in a turnaround situation, TMT actions occur against the backdrop of a performance crisis. Depending on a firm's remaining viability, this may require similar or different TMT decisions than would be required in a healthy firm. Moreover, different TMT decisions may be necessary in different phases of a firm's turnaround process (Arogyaswamy *et al.* 1995; Robbins and Pearce 1992).

Research has generally examined the turnaround process in three related phases (see Figure 1). In Phase I, a firm encounters a 'turnaround situation' due to environmental changes, internal deficiencies, or a combination of both (Grinyer *et al.* 1990; Pearce and Robbins 1993; Schendel *et al.* 1976; Zammuto and Cameron 1985). The severity of the resulting decline is generally depicted as depend-

ing on several external and internal factors, including environmental munificence and dynamism, degree of strategic misalignment, and availability of slack resources (e.g. financial liquidity). In Phase II, a firm's TMT is depicted as responding in an attempt to formulate and implement a turnaround strategy to prevent operational disaster. Finally, in Phase III, the extent to which TMT responses have addressed the external and internal factors causing a firm's decline is depicted as determining whether its performance improves, it continues to decline, exits its industry, or eventually fails (D'Aveni 1989a; Van Wittelstuijn 1998).

As Figure 1 suggests, firms may experience a decline in performance due to both external and internal factors. For the former, numerous studies confirm that environmental or 'industry-based' causes often affect all firms in an industry (Melin 1985; Ramanujam 1984; Robbins and Pearce 1992), although the level of severity experienced may vary based on an individual

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TMT's responsiveness (Harrigan 1980; Haveman 1992; Hedburg *et al.* 1976; Slatter and Lovett 1999). Industry-based decline is commonly caused by a downswing in environmental munificence, which occurs when a firm's environment loses its capacity to support growth (Castrogiovanni 1991; Dess and Beard 1984), or increased environmental dynamism, which occurs when a firm faces heightened variability in key external factors such as competitive intensity or customer demands (Dess and Beard 1984). For example, some analysts have attributed the ongoing financial problems of commercial airlines to either recurring declines in environmental munificence (i.e. fewer people flying) or increased dynamism brought on by industry deregulation (e.g. Lindsey 2003).

Internal factors may likewise lead to a firm's decline. Faulty TMT decisions may result in a firm's strategy being misaligned with its task environment, whether or not the environment has changed (Arogyaswamy *et al.* 1995). Strategic misalignment may result from TMT's failure to update product lines, overcome functional weaknesses, and curtail operating expenses or ill-advised expansion (Nystrom and Starbuck 1984). A lack of available slack resources may also prompt a firm's decline.

Following decline, a firm's TMT must respond in an effort to ensure its recovery (Hoffman 1989). A faltering firm will most likely continue to decline, and may eventually fail, if its TMT lacks the ability to respond successfully to external and internal factors creating a turnaround situation (Hambrick and D'Aveni 1992; Weitzel and Jonsson 1989). When a firm's TMT responds inappropriately, it may continue in its efforts to reverse a firm's decline, although such efforts will most likely become more difficult as slack resources become exhausted, organizational stakeholders withdraw support and key TMT members exit (Arogyaswamy *et al.* 1995; Bedeian and Armenakis 1998). Thus, during decline, TMTs must make expeditious, well-informed decisions to hasten a firm's recovery (Pearce and Robbins 1993). Studies have shown that when

TMTs formulate and implement informed strategies, their firms can turn around even when facing declining environmental munificence (Harrigan 1980), increasing environmental dynamism (Meyer 1982), escalating internal problems (Barker and Duhaime 1997; Robbins and Pearce 1992), or limited slack resources (Ramanujam 1984). To anticipate a later discussion, research has shown that how a TMT formulates or 'crafts' a turnaround response (including how it scans a firm's task environment and interprets the information gathered) and then decides on appropriate actions for its implementation is influenced by TMT demographics (Schendel *et al.* 1976; Stanwick 1992; Zimmerman 1989) and the nature of a TMT's response to crisis situations (Barker and Mone 1998; Melin 1985).

As noted, to achieve a successful turnaround, a TMT must first stem a firm's decline and then select an appropriate strategy for recovery (Arogyaswamy *et al.* 1995; Hoffman 1989; James 2002; Pearce and Robbins 1993; Slatter and Lovett 1999). This often requires increasing a firm's efficiency, stabilizing its internal operations and renewing key stakeholder support. In doing so, the range of viable decisions available to a TMT will depend to a large extent on the severity of a firm's decline (Arogyaswamy *et al.* 1995). For example, TMTs of firms facing low-severity decline, but having sufficient slack resources to at least temporarily stave off bankruptcy, may be able to consider multiple options in making strategic decisions. In contrast, those in firms facing high-severity decline with few slack resources may need to make expeditious and unilateral decisions in an effort to avert a firm's immediate economic failure.

Once a TMT has stabilized a firm's performance, it must necessarily address the cause of the firm's decline so as to effect recovery (Pearce and Robbins 1993). In doing so, TMT decisions may promote recovery through either increasing a firm's long-term efficiency (i.e. an 'operating' turnaround strategy) or changing its strategic position in the marketplace (i.e. a 'strategic' turnaround strategy).

For example, a firm facing decline because of a cyclical downswing in munificence may be able to recover by employing an operating turnaround, whereas one facing decline because its strategy has become misaligned with its changing task environment may require a strategic turnaround (Zammuto and Cameron 1985).

In summary, research has suggested that turnaround is a multi-phase process requiring an appropriate TMT response to prevent economic failure. In the next section, we review various theoretical perspectives for studying TMTs in a turnaround context.

Theoretical Perspectives for Studying TMT Responses in a Turnaround Context

In addition to exploring different phases associated with turnaround, various theoretical perspectives have been employed to examine the role of TMTs in a turnaround context (see Table 1). Studies incorporating these perspectives have examined the interrelated processes of how a TMT formulates or ‘crafts’ a strategy (including how it scans a firm’s task environment and interprets the information gathered), and then decides on appropriate actions for its implementation (Daft and Weick 1984; Huff



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Table 1. Theoretical perspectives for studying TMT responses in a turnaround context

TMT characteristics	Description	Representative research in organizational studies	Empirical research in a decline or turnaround context
Demographics	Average TMT demographic characteristics (e.g. functional background, and firm tenure) as well as heterogeneity in these characteristics affect TMT perceptions, interpretations, interactions, and, ultimately, strategic decision-making.	Eisenhardt and Schoonhoven 1990; Hambrick <i>et al.</i> 1996	<i>Decline:</i> D’Aveni 1989a; Ferrier <i>et al.</i> 2002; Hambrick and D’Aveni 1992 <i>Turnaround:</i> Barker and Duhaime 1997; Barker and Patterson 1996; Barker <i>et al.</i> 2001; Bibeault 1982; Graham and Richards 1978; Hofer 1980; Lohrke 1996; O’Neill 1981, 1986; Schendel <i>et al.</i> 1976; Stanwick 1992; Zimmerman 1989
Crisis Responses	<i>Rigidity:</i> Declining performance prompts a TMT to adopt more conservative decision-making routines and strategies	Chattopadhyay <i>et al.</i> 2001; Ketchen and Palmer 1999; Milliken and Lant 1991; Staw <i>et al.</i> 1981	<i>Decline:</i> Cameron <i>et al.</i> 1987; D’Aunno and Sutton 1992; D’Aveni and MacMillan 1990; Ferrier <i>et al.</i> 2002; Rosenblatt and Mannheim 1996; Yasai-Ardekani 1989 <i>Turnaround:</i> Barker and Mone 1998; Melin 1985
	<i>Innovation:</i> Declining performance prompts a TMT to adopt more innovative decision-making routines and strategies. In some cases, a TMT may implement high-risk strategies to try to turn around declining performance	Chattopadhyay <i>et al.</i> 2001; Cyert and March 1963; Fiegenbaum and Thomas 1988; Kahneman and Tversky 1979; Ketchen and Palmer 1999; Milliken and Lant 1991	<i>Decline:</i> D’Aveni 1989b; Hambrick and D’Aveni 1992; Wiseman and Bromiley 1996 <i>Turnaround:</i> Hambrick and Schecter 1983; O’Neill 1986

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and Reger 1987; Thomas *et al.* 1993). As depicted in Table 1, the few studies empirically examining these processes have primarily focused on TMT demographics and TMT crisis responses.

TMT Demographics

Research on TMTs in general has examined the role that their members' demographics have on their operational and strategic decisions and, in turn, various performance outcomes. Building on the 'Carnegie School' tradition (e.g. Cyert and March 1963; March and Simon 1958), researchers have employed demographic characteristics as a proxy for a TMT's cognitive capabilities. According to this perspective, a TMT is limited in its strategy formulation by the realities of bounded rationality and inevitable multiple, conflicting goals; thus, a TMT will (by necessity) respond based on its members' world-views. These views, in turn, are affected by members' career experiences (Bantel and Finkelstein 1995). In addition, the distribution (i.e. heterogeneity) of a TMT's demographic characteristics may affect its communication and creativity (Eisenhardt and Schoonhoven 1990; Hambrick *et al.* 1996).

Of the empirical studies conducted in a decline or turnaround context noted in Table 1, a majority has focused on TMT demographics. These studies have shown that a decline in performance may prompt an exodus of a firm's most capable managers, leaving a TMT deficient in key skills necessary to formulate and implement a successful turnaround strategy. For example, Hambrick and D'Aveni (1992) found that firms that failed successfully to turnaround (i.e. filed for bankruptcy) had fewer TMT members with financial backgrounds compared with a matched sample of non-declining firms. In addition, they found that these functional deficiencies accelerated as firms moved closer to bankruptcy, because they had greater difficulty attracting the talent necessary to replace departing managers. Research has also shown that demographics may be related to a TMT's decline response.

For example, Ferrier *et al.* (2002) found that higher TMT heterogeneity reduced the range of strategic actions undertaken by declining firms.

Beyond attention to a TMT's skill set, research examining the relation between TMT demographics and successful turnaround efforts has primarily focused on two additional issues: (1) functional background, particularly of a firm's chief executive officer (CEO); and (2) average TMT firm tenure. Regarding functional background, Zimmerman (1989) found that CEOs leading successful turnaround efforts had internal (e.g. production or engineering) rather than external (e.g. sales and marketing) functional backgrounds. Stanwick (1992), in contrast, found that CEOs leading successful turnarounds were more likely to have external (e.g. legal, finance, or general administration) functional backgrounds.

Such contrary findings involving functional background suggest that future demographic research on declining firms should focus on critical situational contingencies that may affect a TMT's ability successfully to formulate and implement different turnaround strategies. For example, Zimmerman (1989) studied firms that, in response to relatively low severity decline, primarily implemented operating turnarounds geared towards increasing efficiency. By contrast, Stanwick (1992) examined firms facing high-severity decline that required strategic responses. Thus, their findings that internal and external functional backgrounds, respectively, were related to a firm's successful turnaround are consistent with the hypothesis that a TMT's primary functional background may affect the efficacy with which it executes a particular turnaround strategy (Lohrke and Bedeian 1998).

The second primary area of research examining TMT demographics and turnaround pertains to tenure. TMT research suggests that even though long-serving TMTs may accumulate substantial company and industry knowledge which may provide key insights into prevailing market conditions, they can also become 'stale in the saddle' (Miller 1991).

When this occurs, TMTs fail to formulate a strategic reorientation, even when confronted by major changes in environmental munificence (Wiersema and Bantel 1993). Consistent with this suggestion, studies have found that long-tenured TMTs can manage turnaround effectively when faced with modest or cyclical downturns in environmental conditions (e.g. economic recession; Zimmerman 1989). In contrast, when faced with long-term declines in industry munificence (e.g. product obsolescence), most studies have found that TMTs with short longevity (i.e. often replacement managers) were more likely to formulate strategies that moved a declining firm into new product segments or industries (e.g. Barker and Duhaime 1997; Barker and Patterson 1996; Barker *et al.* 2001), which may be critical to stemming declining performance (Zammuto and Cameron 1985).

Future research. In summary, a majority of studies examining TMT issues in a turnaround context have centered on various demographic characteristics of team members. Related findings, however, suggest the need for future research focusing on critical situational contingencies, when considered together with TMT demographics, may affect a TMT's ability successfully to formulate and implement different turnaround strategies.

Crisis Responses

A second perspective that has been a key focus of research in turnaround/decline situations has been the nature of TMT crisis responses (see Table 1). Drawing from work in psychology and sociology, crisis response research has examined how individual and group reactions to threats (such as a decline in performance) affect TMT decision-making. Two opposite reactions have been posited: 'Crisis as the Mother of Rigidity' and 'Crisis as the Mother of Innovation' (McKinley 1993).

Rigidity. Rigidity studies have hypothesized that crises prompt TMTs to employ 'threat-

rigidity' responses such as centralizing authority, relying heavily on past decision routines, restricting outside information flow, and escalating commitment to failing strategies (Milliken and Lant 1991; Staw *et al.* 1981). In part, because of information restriction, TMTs that react with a threat-rigid response typically conclude that uncontrollable external forces caused their firm's decline (Barker and Patterson 1996; see also Thomas and McDaniel 1990).

Studies have examined how the threat-rigidity response relates to a firm's decline and turnaround. For example, D'Aunno and Sutton (1992) found that declining funding sources prompted TMTs heading drug treatment centers to decrease participative decision-making, increase adherence to existing procedures, and reduce workforce size. In addition, Ferrier *et al.* (2002) found that financially distressed firms were less likely than high-performing firms to exhibit aggressive competitive behavior. In contrast, Cameron *et al.* (1987) found that TMTs only exhibited a rigidity response (e.g. centralization) when facing increasing environmental instability, not decline. These results highlight the importance of distinguishing the effects of threat-rigidity associated responses from those of other related constructs such as environmental instability and industry downswings.

Despite the popularity of the threat-rigidity hypothesis for explaining TMT reactions to decline, few studies have directly examined how such reactions affect a firm's turnaround. Several studies have investigated whether firms 'retrench', providing an indirect test of the rigidity hypothesis. These studies, however, have focused more on cost cutting than structural and decision-making issues (see Castrogiovanni and Bruton 2000, for a review). In one of the few studies directly examining rigidity, Barker and Mone (1998) found that a firm's decline, in and of itself, did not prompt a threat-rigidity response. They found a threat-rigidity response was more likely in smaller firms, those with lower financial liquidity, or those with new CEOs following a forced



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succession. In addition, they found that this response was related to fewer strategic changes during a firm's turnaround process.

Innovation. In contrast to the threat-rigidity reaction to crisis hypothesized in many turnaround studies, other researchers have posited that a crisis may prompt TMTs to formulate innovative strategies to overcome declining performance. In doing so, these researchers have typically either employed the 'behavioral theory of the firm' or 'prospect theory' to explain innovation as a response to decline.

The behavioral theory of the firm (BTOF) posits that decline will prompt a TMT to search for ways to improve firm performance (Cyert and March 1963). Specifically, when a TMT's performance aspirations exceed a firm's anticipated performance levels, a TMT is expected to change its normal operational routines in an effort to enhance performance (March and Shapira 1987). Prospect theory, on the other hand, posits a more extreme TMT reaction in such situations. According to prospect theory, decision-makers interpret and react to expected performance outcomes depending on whether a loss or gain is anticipated (Kahneman and Tversky 1979). When faced with a loss, TMTs will pursue relatively riskier strategies as a means of loss avoidance (Fiegenbaum and Thomas 1988).

To date, only limited empirical research has examined the use of innovative responses to decline and turnaround suggested by BTOF and prospect theory (see Table 1). In the area of decline, Wiseman and Bromiley (1996) relied on BTOF to find that reductions in slack resources and organization size were related to increased risk taking. Consistent with prospect theory, Hambrick and D'Aveni (1988) noted that TMTs in some declining firms formulated 'hyperactive' strategic changes that exacerbated a downward spiral toward bankruptcy.

As with rigidity, turnaround research has only indirectly examined innovative responses to decline. Studies have noted that some firms have employed innovation strategies involving

increased marketing efforts (e.g. Hambrick and Schecter 1983) or new product introductions (O'Neill 1986) to achieve turnaround. No study to date, however, has employed either BTOF or prospect theory to investigate turnaround process dynamics.

Future research. Empirical evidence supports the hypothesis that TMTs respond to decline either with rigidity or innovation. Mixed findings suggest that future turnaround research should directly test these competing predictions (Rosenblatt and Mannheim 1996). In particular, future turnaround research should focus on factors that both (a) motivate a particular crisis response and (b) affect the efficacy of specific responses (Ferrier *et al.* 2002; Ocasio 1995; Staw *et al.* 1981).

Recent research has provided some insight into the first issue. Ketchen and Palmer (1999) contrasted BTOF with threat-rigidity predictions to examine whether hospitals underperforming their competitors were more or less likely to change strategies. They found that poor performance prompted a greater level of strategic action, thus supporting BTOF-based hypotheses. In addition, Chattopadhyay *et al.* (2001) examined whether firms facing increased threats were more likely to implement internally or externally focused actions. In support of prospect theory, they found that, when TMTs perceived that a threat would lead to a financial loss (e.g. escalating competition) they generated externally focused actions. In contrast, in support of threat-rigidity theory, they found when TMTs perceived that a threat would reduce their situational control (e.g. possible increased industry regulation) they generated internally focused actions. Finally, Ferrier *et al.* (2002) found that the responses of TMTs to decline depend on organizational (e.g. TMT heterogeneity) and environmental (e.g. competitive intensity) factors.

Less empirical attention has been devoted to the second issue of whether rigidity or innovation is more effective at stemming decline. Previous research has suggested, however, that both responses can be effective, depending

on a firm's specific situation (Ferrier *et al.* 2002). For example, when a firm faces modest or cyclical downturns in environmental munificence, the efficiency gained by centralizing decision-making and fine-tuning past strategies may prove sufficient to reverse a downturn (Staw *et al.* 1981). In contrast, when a firm experiences a sustained decline in industry munificence, its TMT must often adopt an innovative strategy to promote recovery (Arogyswamy *et al.* 1995; Zammuto and Cameron 1985).

Future TMT Research Opportunities in a Turnaround Context

In addition to gaps in our present knowledge relating turnaround outcomes to TMT demographics and the nature of TMT crisis responses, future research opportunities also exist in other areas. In providing a framework for discussing these opportunities, we extend Figure 1, as well as draw from strategy-related studies that have examined competitive responses to both internal (e.g. declining performance) and external (e.g. increasing competition) factors present in a turnaround context (e.g. Chen 1996; Ferrier 2001; Miller and Chen 1994; Milliken and Lant 1991; Mone *et al.* 1998). Further, following Chen (1996) and Ferrier *et al.* (2002), we incorporate findings from the decision-making, organizational change, and learning literatures (see Table 2) to highlight three essential considerations underlying the formulation and implementation of TMT strategic responses: (a) TMT awareness of situational characteristics and action implications, (b) TMT motivation to act, and (c) TMT capabilities to act. Viewing these considerations in a turnaround context, we suggest that a TMT's responses to firm performance crisis will depend on (a) factors affecting a TMT's awareness of declining performance (i.e. scanning behaviors and cognitive complexity), (b) factors motivating a TMT to respond or not respond to declining performance (i.e. causal attributions and self-interest), and (c) factors affecting a TMT's capability to respond to

declining performance (i.e. power, consensus, and resources). Based on this analysis, we present an expanded turnaround model (see Figure 2) to guide future research.

TMT Awareness

To respond to declining performance, a TMT first must acknowledge that a crisis exists and action is needed. A TMT may initially ignore early warning signs of decline and not take action until a crisis becomes severe (Weitzel and Jonnson 1989). Thus, awareness may depend on how a TMT scans for and interprets information about its internal and external environments (Daft and Weick 1984; Milliken 1990; Thomas *et al.* 1993).

We have previously discussed the impact of TMT demographics on firm turnaround and noted how they might affect a TMT's crisis awareness. Researchers, however, must move beyond demographic proxies if their goal is to provide explanations about managerial judgments (Priem *et al.* 1999). That is, whereas demographic proxies might be reliable predictors, they offer little insight into the reasons behind TMT decisions. Towards this end, we believe that important developments in turnaround research can be fostered by integrating research about behavioral and cognitive factors affecting TMT awareness. In particular, we believe that advancements in turnaround research can be achieved by a more thorough understanding of how TMTs scan their task environments to gather information and, once obtained, how this information is cognitively processed (see Table 2).

TMT scanning behaviors. Scanning involves how TMTs gather information about a firm's external and internal environments (Daft and Weick 1984). Because TMTs require information to make decisions, scanning is usually considered an antecedent to interpretation and, in turn, action (Hambrick 1982; Thomas *et al.* 1993). TMTs vary in terms of their emphasis on scanning, in general, and their focus on internal versus external information



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Table 2. Future turnaround research opportunities in a turnaround context

TMT characteristics	Description	Representative research in organizational studies	Empirical research in a decline or turnaround context
Awareness	<i>Scanning behaviors:</i> TMTs will have more or less accurate interpretations of environmental trends depending on amount of scanning.	Daft and Weick 1984; Sutcliffe 1994; Thomas <i>et al.</i> 1993; Thomas and McDaniel 1990	<i>Decline:</i> Weitzel and Jonnson 1989; Staw <i>et al.</i> 1981
	<i>Cognitive complexity:</i> TMTs process information differently based on their level of cognitive complexity.	Dollinger 1984; Harvey 1966; Hendrick 1990; Tuckman 1964	<i>Turnaround:</i> Fredenberger <i>et al.</i> 1997
Motivation	<i>Causal attributions:</i> TMTs that attribute decline to internal and external causes will be more and less likely, respectively, to take actions necessary to promote a firm's turnaround.	Ford 1985; Ford and Baucus 1987	<i>Decline:</i> D'Aveni and MacMillan 1990 <i>Turnaround:</i> Barker and Barr 2002; Barr <i>et al.</i> 1992
	<i>Self-interests:</i> Absent sufficient controls, managerial self-interest rather than stockholder wealth maximization may guide TMT decision-making.	Eisenhardt 1989a; Jensen and Meckling 1976; Walsh and Seward 1990	<i>Decline:</i> Daily 1996; Daily and Dalton 1994a,b, 1995 <i>Turnaround:</i> Barker, <i>et al.</i> 2001
Capabilities	<i>Power:</i> TMT members have varying degrees of power with which to influence strategic decision-making.	Finkelstein 1992; Pfeffer 1981; Priem <i>et al.</i> 1999	<i>Decline:</i> D'Aveni 1989b; Daily and Dalton 1994a,b; Hambrick and D'Aveni 1992
	<i>Consensus:</i> Functional and dysfunctional disagreements exist in TMT decision-making. <i>Resources:</i> TMT skills and abilities based on human capital, social capital, and managerial cognition represent potential strategic assets that may provide a firm with a competitive advantage.	Amason 1996; Dess 1987; Dess and Origer 1987; Janis 1972; Priem 1990 Adner and Helfat 2003; Barney 1991; Castanias and Helfat 1991, 2002; Geletkanycz and Hambrick 1997; Holbrook <i>et al.</i> 2000; March 1991; Pandit 2000; Tripsas and Gavetti 2000; Volberda and Baden-Fuller 1998	<i>Decline:</i> D'Aveni 1989; Pennings <i>et al.</i> 1998; Thornhill and Amit 2003

sources, in particular (Aldrich 1979; Sutcliffe 1994; Thomas and McDaniel 1990).

An appreciation of environmental contingencies is essential for reversing a declining firm's performance. Consequently, a firm's TMT must remedy faulty scanning practices so as

to act strategically with respect to prevailing marketplace (i.e. environmental) realities (Milliken and Lant 1991). To date, however, only limited empirical research has examined TMT scanning behaviors in turnaround situations. In one survey, Fredenberger *et al.* (1997)

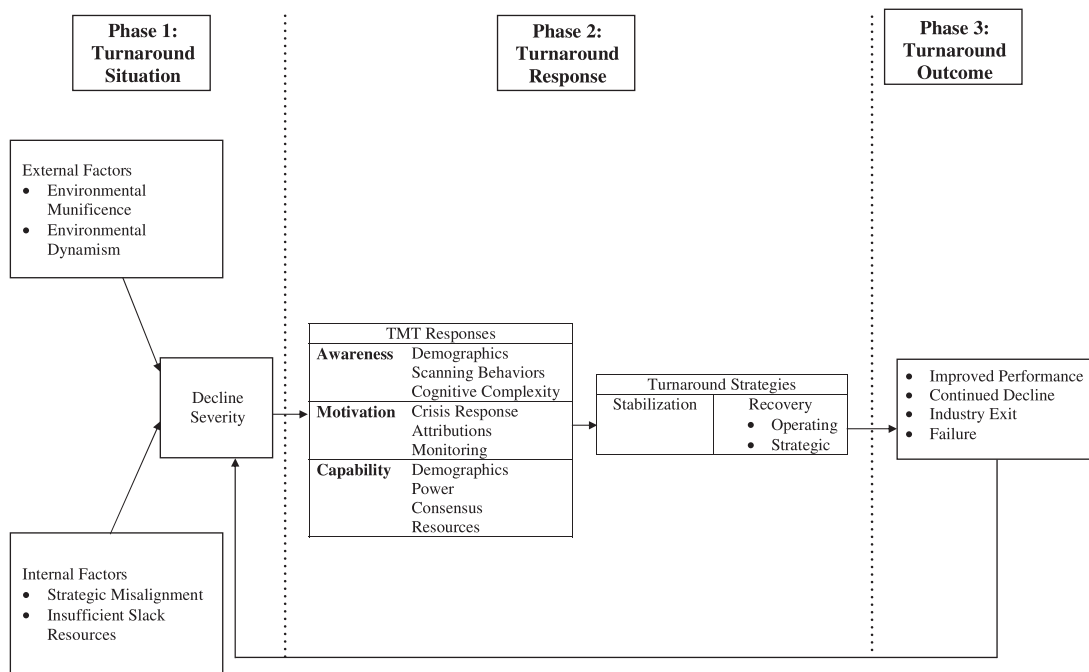


Figure 2. An expanded model of the turnaround process.

found that turnaround consultants focused on obtaining current internal information to decide on an appropriate strategy early in the turnaround process. No empirical studies have focused on TMT scanning behaviors in latter turnaround stages (i.e. following stabilization). Given the need for strategic realignment following stabilization, however, it is likely that a TMT would need to scan both a firm's internal and external environments to decide whether to implement an operating or strategic recovery strategy.

In summary, theory suggests that TMT scanning influences strategic choices affecting a firm's turnaround and, ultimately, its performance. Future research is needed, however, to examine scanning issues throughout the entire turnaround process. In particular, this research should focus on whether the nature of scanning behaviors should vary according to the various stages in the turnaround process.

TMT cognitive complexity. Cognitive complexity addresses elements associated with how

TMTs interpret turnaround issues. It is generally recognized that cognitively complex individuals process information differently from their cognitively less complex counterparts. Cognitively complex decision-makers use more categories (or dimensions) to discriminate among stimuli and see more commonalities among these categories. That is, individuals who tap into rich categorization schemes when making judgments have a more complex cognitive structure, whereas the categorizations of less cognitively complex individuals evidence less differentiation and integration (Hendrick 1990).

Cognitive complexity has noteworthy effects on information processing. It has been shown that cognitively complex decision-makers are good at analyzing and integrating concepts and data as well as developing creative solutions (Harvey 1966). In part, this is because cognitively complex individuals search for more information (Tuckman 1964), spend more time interpreting available information (Dollinger 1984), and perceive a wider variety

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of alternatives, leading to more complete and effective processing (Hambrick and Finkelstein 1987). Research has also associated cognitive complexity with creativity (Harvey 1966). Creativity is more prevalent among cognitively complex individuals because innovations are not seen as threatening.

In summary, we expect that TMTs with higher cognitive complexity are more likely both to be aware of impending decline and to perceive potential innovations as non-threatening and positive for their firms. Thus, the prospects for turnaround may be greater in firms managed by cognitively complex TMTs. Future research, however, is needed to test this proposition.

TMT Motivation

Once a TMT becomes aware of a crisis, its members must be motivated to respond to ensure turnaround. This motivation, in turn, will depend on (a) whether a TMT believes it can respond to factors causing decline (i.e. whether they have situational control; Chattapadhyay *et al.* 2001; Thomas and McDaniel 1990) and (b) whether a TMT emphasizes its own members' versus stockholders' goals (Eisenhardt 1989a).

We have previously discussed factors that may motivate a TMT to respond to decline with either rigidity or innovation and highlighted critical future research questions related to these responses (e.g. the efficacy of each response in promoting turnaround). Other factors may also affect a TMT's motivation to respond during decline. Toward this end, we believe that integrating research about causal attributions and monitoring as underlying motivations can foster future developments in turnaround research (see Table 2).

TMT causal attributions. Recent turnaround research has begun to explore how managerial causal attributions affect the content of *what* TMTs decide to do in response to decline. According to attribution theory, individuals try to understand the outcomes they experience by assigning causes to those outcomes.

The need to explain events is natural for humans; indeed, it would be very difficult to function without being able to make sense of why things happen. In a turnaround context, TMT attributions for a firm's decline might include any number of causes, including a severe economic downturn, intense competitive pressures, or a poorly executed strategy.

Whether a TMT attributes negative events to internal versus external factors will have a profound effect on the corresponding courses of action it chooses (D'Aveni and MacMillan 1990). For example, attributing failure to an external source, such as 'Sales have dropped because of an economic downturn', is unlikely to lead to an emphasis on successful product development, because the perceived cause for failure is outside a TMT's direct control. In contrast, an internal attribution, such as 'Sales have dropped because of product inferiority', is more likely to motivate direct actions to improve quality, because the perceived cause for failure rests within a TMT's direct purview. Thus, 'locus of causality' is instrumental in affecting how TMTs understand cause and effect relationships and, by extension, respond (Ford 1985; Ford and Baucus 1987).

A small body of empirical research has tested the role of causal attributions in turnaround situations. In a study of manufacturers from multiple industries, Barker and Barr (2002) found that TMTs attributing decline to internal as opposed to external factors were more likely to evidence strategic reorientation. Because Barker and Barr's focus was on strategic reorientation, however, they stopped short of identifying factors specifically contributing to successful turnaround.

In the limited context of one industry, Barr *et al.* (1992) sought to understand the different fates of two declining US railroads, the Chicago and Northwestern (C&NW; it survived) and the Rock Island (it failed), during the post-World War II era. Content analysis of annual reports revealed that top managers of both railroads initially attributed their problems to uncontrollable external forces, such as competition from trucks and excessive Interstate Commerce

Commission regulation. A new CEO at the C&NW, however, began to focus on controllable internal factors (e.g. poor productivity, inadequate sales efforts) and the need for new operating and maintenance procedures. Barr and colleagues concluded that a crucial factor contributing to the C&NW's ultimate turnaround was a shift in its TMT's attributions.

In summary, empirical evidence across multiple industries suggests attributing decline to internal factors results in strategic reorientation. Further, findings from one industry suggest that TMTs that attribute decline to controllable, internal factors may recognize the need to implement strategic realignments necessary for turnaround. With so little known about how managerial attributions relate to successful firm turnaround, it is evident that future research is needed to understand more fully how TMTs conceptualize the causes of decline.

TMT self-interests. Various researchers have examined how TMTs formulate and implement specific strategies (Huff and Reger 1987). In particular, researchers have often employed agency theory to examine how self-serving behavior on the part of TMTs affects strategic decision-making (Eisenhardt 1989a). This has especially been the case with regard to the formulation of self-interested strategies that run counter to shareholders' profit maximization goals.

Agency theory posits several control mechanisms for curbing TMT self interest, including board of director oversight, executive compensation schemes, institutional stockholder and 'blockholder' vigilance, and potential corporate takeover (i.e. the 'market for corporate control;' Walsh and Seward 1990). Boards of directors play a key role in monitoring TMTs through their power to approve strategic decisions, as well as appoint and remove TMT members. If, however, a firm's board includes TMT members (i.e. 'inside directors') or a firm's CEO also serves as its chairman of the board (i.e. 'CEO duality'), a board's ability or motivation to monitor a TMT effectively may be reduced (Daily and Dalton 1994a,b).

Executive compensation in the form of stock ownership or options may also reduce TMT self-serving behaviors by aligning TMT and stockholder motivations. Specifically, as TMT members receive a greater percentage of their pay in the form of returns from stock ownership, they are assumed to make decisions consistent with stockholders' interests (Jensen and Meckling 1976). In contrast, higher TMT stock ownership may contribute to managerial entrenchment (Schleifer and Vishny 1986) or increasingly cautious decision-making to prevent income loss (Wright *et al.* 1996), which may actually reduce a TMT's responsiveness to stockholders' interests. This suggests that the hypothesized monitoring benefits from TMT stock ownership may be nonlinear.

Increased shareholder activism may also curtail TMT self-interested behavior. Studies have shown that institutional investors (e.g. pension funds) and other large 'blockholders' can affect TMT decision-making. Unlike smaller investors, who have a limited ability or incentive to monitor TMT actions, these larger investors often face the possibility of sizable losses from poor TMT decisions. In addition, they may have difficulty in selling their relatively larger blocks of shares without greatly reducing a firm's stock price (Kochhar and David 1996). Thus, they may have a strong motivation to monitor a firm's TMT. Research has shown that increased institutional and blockholder vigilance can prompt changes in TMT self-serving behavior, such as encouraging organization restructuring following a firm's overexpansion (Bethel and Liebeskind 1993).

The 'market for corporate control' may curtail TMT self-serving behavior in public firms by increasing the chance that TMT members will lose their jobs (Manne 1965). Poor TMT decisions resulting from incompetence or self-interested behavior may reduce profitability, thereby depressing a firm's stock price. As its stock price declines, a firm becomes an easier takeover target for other firms or corporate raiders, both of whom often remove incumbent TMTs (Walsh and Elwood 1991). To



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limit this threat, a TMT may adopt anti-takeover defense mechanisms (e.g. poison pills) even though these may lessen stockholder wealth (Sundaramurthy *et al.* 1997).

These findings suggest that TMT motivation may affect a declining firm's strategy process and, thus, its turnaround performance. As decline worsens, TMT members may have an incentive to make self-interested, short-term decisions, such as erecting anti-takeover defenses to prevent their job loss rather than long-term decisions that increase a firm's recovery chances. Future research is thus needed to determine whether monitoring mechanisms (e.g. executive compensation in the form of stock options linked to turnaround success, the use of external board members, and the influence of large block institutional shareholders) actually curtail such managerial opportunism and whether they foster or hinder recovery through turnaround.

TMT Capabilities

To respond to declining performance, a TMT must also possess the necessary capabilities to take action. Factors affecting needed capabilities include not only the power of individual TMT members to influence strategic decisions, but also the level of consensus among TMT members on strategic decisions and the combined skills and abilities of TMT members (Arogyswamy *et al.* 1995; Ferrier *et al.* 2002). In this connection, group-interaction research (Cohen and Bailey 1997) has examined how both power and consensus affect TMT decision-making. The resource-based view of the firm (RBV) (Barney 1991; Castanias and Helfat 1991) and organizational learning/evolutionary theory have examined how different TMT resources, based on different skills, affect a firm's overall competitive position. In addition, researchers in the 'Carnegie School' tradition (e.g. Cyert and March 1963; March and Simon 1958) have examined how political processes (e.g. coalition formation, bargaining, and conflict) may influence group decision-making under various conditions. We

draw upon all four literatures in the following discussion.

TMT power. Power encompasses the ability of individual TMT members to exert their will on a firm's decisions (Pfeffer 1981). Because such decisions are outcomes of TMT member interactions, the power of individual TMT members may affect decision-making processes (Priem *et al.* 1999). TMT power results from several sources, including formal managerial position, stock ownership, critical function expertise, outside board positions and elite education (Finkelstein 1992). Research has shown that the way individual TMT members exercise their power can affect performance outcomes. For example, CEO dominance in TMT decision-making can reduce other TMT members' input, which can have an adverse effect on decision quality (Haleblian and Finkelstein 1993). High TMT power, however, can also be beneficial if it aids TMTs in marshalling key resources necessary to implement an effective turnaround strategy quickly (Eisenhardt 1989b).

These findings suggest that TMT power may have two contrasting effects on a declining firm's strategy process and, by extension, its performance. First, TMTs dominated by a powerful member may make faster decisions. Enhanced decision-making speed may, in some cases (e.g. rapid, severe decline), improve turnaround performance when immediate decisions are needed to avoid economic failure. Secondly, the centralization of power in one or two dominant TMT members may reduce the input of other TMT members. This dominance, in turn, may result in ill-advised decisions that impede a declining firm's ability to make thoughtful and comprehensive choices and negate the advantages of team decision-making. The expected effect would be decreased overall decision quality, resulting in a lower likelihood of a successful turnaround (Hambrick and D'Aveni 1992).

In summary, research evidence indicates that power relations among TMT members influence strategic choices affecting a firm's

turnaround and, ultimately, its performance. A topic that remains for future research, however, is whether decline severity is a boundary condition for the relationship between TMT power and turnaround performance.

Recent research also suggests that the control mechanisms discussed above under 'Self-interest' may also affect the TMT power-performance relationship. For example, Mueller and Barker (1997) found that firms with top managers possessing enhanced power, based on simultaneously serving in the dual roles of CEO and chairman of the board, were more likely to effect successful turnarounds. These same firms, however, also had a high percentage of outside board members. This suggests that future research should also investigate whether the monitoring mechanisms noted above moderate the TMT power-performance relationship by reducing the potentially negative effects of centralized TMT power.

TMT consensus. Consensus represents the degree to which TMT members agree or disagree on strategic decisions (Dess and Origer 1987). Because consensus may affect whether or not TMT members both understand and are committed to implementing a strategic decision (Wooldridge and Floyd 1989), it represents a key strategic process outcome (Child 1972).

Research has found that TMT consensus can have both a positive and a negative effect on a firm's performance. To resolve this inherent contradiction, research has examined several contingencies that may affect the consensus-performance relation (Dess 1987). For example, Priem (1990) posited that environmental dynamism moderates the relationship between TMT consensus and a firm's performance. In stable environments, a lack of TMT consensus may inhibit a firm's operational effectiveness. Under such conditions, consensus is seen as important because it affects the degree to which TMT members commit to a particular strategy (Noble 1999). This commitment can be critical to successful strategy implementation, as it allows TMT members to take time to over-

come employee resistance and iron-out a strategic plan's specific details (Amason 1996).

In dynamic environments, however, low consensus caused by diverse perspectives may actually improve decision-making and, by extension, a firm's performance. Factors that inhibit consensus (e.g. TMT functional heterogeneity) can contribute to decision quality by increasing the number of relevant issues considered (Hambrick *et al.* 1996; Hoffman and Maier 1961) and, thereby, improve a firm's performance (Bourgeois 1985; Simons *et al.* 1999). In addition, Amason (1996) found that diversity in thought (i.e. low consensus) regarding how best to achieve common organizational objectives enhanced decision quality.

In summary, the literature about TMT consensus paints a complex picture about its effect on decision outcomes and resulting turnaround performance. In particular, it appears that whether the effect of consensus is positive or negative depends on the level of prevailing environmental dynamism (Homburg *et al.* 1999). That is, under conditions of low dynamism, high levels of TMT consensus increase team members' commitment to a turnaround strategy. Committed team members are better able to garner the organization-wide support necessary for successful strategy implementation, increasing a firm's likelihood of turnaround. Alternatively, during periods of high environmental dynamism, lack of consensus increases the number of strategic options a TMT considers, leading to improved decision quality. These multiple perspectives can reduce the possibility that a TMT seeks fast consensus at the expense of examining diverse opinions (i.e. 'groupthink'; Janis 1972). This suggests that future research should examine the extent to which environmental dynamism interacts with TMT consensus to affect the likelihood of turnaround success.

TMT resources. As typically defined in the strategy literature, TMT resources refer to the skills and abilities that managers employ to 'build, integrate, and reconfigure organizational resources and competencies' (Adner and Helfat



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2003, 1012). Research on TMT resources has drawn from both the resource based view of the firm (RBV), which posits that a firm must develop an asset or capability that is valuable, rare, inimitable and non-substitutable to attain a sustainable competitive advantage (Barney 1991), and work associated with organizational learning/evolutionary theory, which examines how firms choose between exploiting current and exploring new capabilities (March 1991; Volberda and Baden-Fuller 1998). Because decline and turnaround often involve a firm's losing and attempting to regain a competitive advantage, both the RBV and learning theory provide useful frameworks for examining resource issues at both the firm and TMT level (see Michael and Robbins 1999; Pandit 2000; Thornhill and Amit 2003, for firm-level analyses).

At the TMT level, strategy researchers have examined three types of skills and abilities (Adner and Helfat 2003): human capital, social capital, and managerial cognition. In a turnaround context, the value of these resources depends on the extent to which they enhance a TMT's capability to prevent organizational failure and, in turn, help rebuild a firm's competitive advantage. *Human capital* consists of skills within a TMT that may provide a basis of competitive advantage (Castanias and Helfat 1991, 2001). As noted, demographic-related research into TMT job experience has indirectly examined the role of human capital in stemming a firm's decline. Employing the RBV, research has reframed this research in terms of whether a TMT possesses general, related-industry, industry-specific or firm-specific skills; only the last of which can serve as the basis for a firm's competitive advantage (Castanias and Helfat 2001). For example, Pennings *et al.* (1998) found that firm-specific skills based on a TMT's average firm tenure had a stronger, positive relationship with firm survival than industry-specific skills derived from its average industry tenure. Research has also noted, however, that even though specialized TMT skills can enhance a firm's competitive advantage, they can also reduce its

flexibility. Specifically, when faced with major environmental changes, heretofore advantages may promote inertia and inflexibility in TMT decision-making (Leonard-Barton 1992; Volberda and Baden-Fuller 1998).

Social capital refers to the extent of TMT relationships with actors inside (e.g. communicating frequently with front-line managers) and outside (e.g. serving on other firms' boards of directors) a firm. Such actors are seen as a source for critical resource inputs necessary for adapting to changing environmental demands (Geletkanycz and Hambrick 1997; Volberda and Baden-Fuller 1998). The ability to adapt to environmental demands is, of course, critical to a declining firm's survival and eventual turnaround (Slatter and Lovett 1999). In examining internal relationships, Volberda and Baden-Fuller (1998) noted how front-line managers provide vital inputs for organizational renewal based on their proximity to routines and information critical to operational innovations. In examining external relationships, D'Aveni (1989b) found that firms with higher percentages of TMT members holding outside board of director memberships and who have elite education allowed firms to postpone bankruptcy relative to their less socially connected counterparts. Similarly, Pennings *et al.* (1998) found that social capital based on factors such as TMT members' previous employment in government agencies enhanced a firm's long-term survival chances.

Managerial cognition encompasses beliefs and mental models that TMTs employ in making decisions (Adner and Helfat 2003; Walsh 1995). Within a decline or turnaround context, TMTs are depicted as employing their collective industry view (i.e. 'dominant logic', Prahalad and Bettis 1986) and established decision-making routines (Nelson and Winter, 1982), both of which are often based on historical rather than prevailing environmental information (Kiesler and Sproull, 1982), to interpret and then respond to environmental threats. This may particularly be the case when a firm is faced with a rapidly changing environment. In such instances, a TMT may

have to quickly 'unlearn yesterday' and update its dominant logic to reflect new environmental realities (Grinyer and McKiernan 1990; Pandit 2000; Nystrom and Starbuck 1984; Volberda and Baden-Fuller 1998). This ability to adapt once crisis has begun is critical for survival (Barr *et al.* 1992), whereas an inability to adapt may change a TMT's previous core competency into a core rigidity (Volberda and Baden-Fuller 1998). For example, Tripsas and Gavetti (2000) noted how once successful mindsets can blind TMTs to the need for adapting current organizational capabilities to emerging environmental opportunities. Holbrook *et al.* (2000) found that even when TMTs did recognize the need for change, their pre-existing mindsets could constrain their ability to do so.

In summary, empirical evidence based on both RBV and organizational evolutionary/learning theory suggests that TMTs may have different skills and abilities that differentially affect their likelihood of reversing firm decline. This research has built on prior demographic studies to examine critical TMT skills in decline situations, examined the advantages of social networks in providing critical resources, and emphasized the critical ability to adapt a TMT's dominant logic to new environmental realities. Moreover, research suggests that the degree of environmental change may be critical in determining whether a TMT's skill-set is sufficient to reverse a firm's decline. Specifically, whereas less radical change may preserve the value of current TMT resources, major environmental changes may make the same resources obsolete. Although instructive, these findings are primarily based on investigations of firms threatened with decline. Thus, future research would benefit from examining the importance of specific TMT resources for firms accomplishing successful turnarounds.

Methodological Issues

Before offering a statement of general conclusions, we wish to note two methodological issues critical to future turnaround research:

(a) how to define both decline and turnaround; and (b) how to define a firm's TMT. Both issues have important implications for the generalizability of research findings and, thus, the integration of conclusions across studies.

Measuring Decline and Turnaround

Turnaround studies have variously defined decline and turnaround (see Table 3), with most relying on financial indicators such as decreasing and increasing profitability (Hoffman 1989). As noted in previous reviews (e.g. Barker and Mone 1994; Winn 1993), many studies, however, have not employed operationalizations that correspond to standard definitions of decline (*viz.* resource reductions sufficient to comprise a firm's viability; Cameron *et al.* 1987). A consistency of definitions is needed, however, to delimit declining, stagnating and healthy firms, as many of the TMT issues examined in turnaround situations (e.g. reaction to crisis) assume firms are facing impending economic failure. Moreover, 'turnaround' has been defined on a continuum ranging from merely surviving (with firm performance at a level barely acceptable to a firm's stakeholders) to regaining a sustainable competitive advantage (Pandit 2000). Thus, from a measurement perspective, as presently conceptualized, substantial variance exists within the 'turnaround' construct domain.

In particular, focusing solely on profit deterioration and improvement to measure decline and turnaround, respectively, presents three potential problems. First, profitability is measured as a ratio and, thus, can be affected by changes in the numerator, denominator, or both (Arogyaswamy *et al.* 1995). For example, a firm that invests in new assets and does not experience an immediate corresponding rise in net income would report a decline in its return on asset (ROA) ratio, even though such investments may enhance its future competitiveness and, in turn, aid its turnaround efforts. Secondly, profit deterioration may be delayed by managers making incremental adjustments, in response to weak decline signals, until all



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Table 3. Representative decline and turnaround operationalizations

Performance measure	Description	Representative research in organizational studies examining the performance measure	Representative empirical research in a decline or turnaround context employing the performance measure
Profitability	Decline and turnaround are defined based on a firm's profitability. Firms decreasing and increasing profitability relative to historical company levels for a set time period (e.g. three years) are in decline and turnaround situations, respectively.	Chakravarthy 1986; Venkatraman and Ramanujam 1986	<i>Decline:</i> Hambrick and D'Aveni 1992 <i>Turnaround:</i> Melin 1985; O'Neill 1986; Robbins and Pearce 1992; Zimmerman 1986
Profitability relative to an objective financial benchmark	Decline and turnaround are defined based on whether a firm's profitability exceeds or falls short of an objective financial benchmark (e.g. 5% return on investment or the risk-free rate). Firms that have returns less and more than the benchmark are in decline and turnaround situations, respectively.	Hansen and Wernerfelt 1989; Shepherd 1970	<i>Turnaround:</i> Barker and Duhaime 1997; Graham and Richards 1978; Hambrick and Schecter 1983; Pant 1986; Ramanujam 1984; Robbins and Pearce 1992
Proximity to bankruptcy	Decline and turnaround are defined based on a firm's proximity to bankruptcy. Firms facing increased and decreased bankruptcy risk are in decline and turnaround situations, respectively.	Altman 1983	<i>Decline:</i> Ferrier <i>et al.</i> 2002; Hambrick and D'Aveni 1988 <i>Turnaround:</i> Barker and Duhaime 1997; Robbins and Pearce 1992; Stanwick 1992
Slack resources	Decline and turnaround are defined based on a firm's level of financial cushion (i.e. slack). Firms having decreasing and increasing slack levels are in decline and turnaround situations, respectively.	Bourgeois 1981; Cyert and March 1963; Singh 1986	<i>Decline:</i> Hambrick and D'Aveni 1988 <i>Turnaround:</i> Lohrke 1996
Expert panel/business press	Decline and turnaround are defined by experts outside a firm (e.g. stock analysts, consultants, academicians). Firms receiving decreasing and increasing performance ratings are in decline and turnaround situations, respectively.	Chen <i>et al.</i> 1993; Sousa deVasconcellos e Sa and Hambrick 1989	<i>Decline:</i> Bruton <i>et al.</i> 1994
Stakeholder opinion	Decline and turnaround are defined from a stakeholder (e.g. employees, stockholders or local community) perspective. Firms facing withdrawn and renewed stakeholder support are in decline and turnaround situations, respectively.	Arogyswamy <i>et al.</i> 1995, Freeman 1984; James 2002; Kaplan and Norton 1996	<i>Decline:</i> D'Aveni 1989b <i>Turnaround:</i> Furman and McGahan 2002; Zimmerman 1989

such possibilities are exhausted and rapid profit decline ensues (Baden-Fuller and Stopford 1992). For example, after prolonged decline, a firm may face a 'collapse of faith' by key stakeholders, sending the firm into a rapid downward spiral (Weitzel and Jonnson 1989). Thirdly (as demonstrated by the recent Enron

and WorldCom bankruptcies), declining firms can manipulate profitability through 'creative accounting' practices (Argenti 1976). For example, a firm that sells key assets and does not experience an immediate corresponding decline in net income would report an increase in its ROA even though it may have crippled

its future competitiveness and, in turn, handicapped its ensuing turnaround efforts (Barker and Mone 1994).

This suggests that future studies need to complement or, in the case of potential creative accounting, even replace, profit deterioration as a decline and turnaround measure (Pandit 2000). We suggest three possibilities for overcoming this measurement issue in further turnaround research. First, future researchers could measure a firm's profitability relative to an objective financial benchmark, such as the risk-free rate of return (e.g. proxied as yields from US Treasury Bills or the cost of capital based on the short-term London Interbank Borrowing Rate), rather than in comparison to a firm's past profit levels. Doing so arguably provides a more theoretically justifiable measure of decline and turnaround than do profit deterioration and improvement (Barker and Duhaime 1997) because rational buyers will always prefer risk-free investments over non-zero risk investments that yield the same or less return (Shepherd 1970). Within an investment framework, yields below and above risk-free market rates would indicate that a firm is in a decline and turnaround situation, respectively.

Secondly, future researchers could improve the reliability of their measures by supplementing data on profit decline with qualitative information available from the business press or outside experts (e.g. consultants and industry analysts). Because these sources strive to maintain their reputations and, in turn, their ability to sell market data (based on the quality of their analyses), they are widely assumed to provide the most accurate publicly available information (Bruton *et al.* 1994). Indeed, research has found that outside informants can often provide information about a firm's strategic issues that accurately reflects TMT opinions (Chen *et al.* 1993). Thus, such informants may be useful for gauging a declining firm's viability or a TMT's rationale for a particular strategic choice.

Thirdly, future researchers could measure decline from an expanded stakeholder per-

spective rather than focusing solely on stockholder related measures such as profitability and stock price (Grinyer *et al.* 1990). Specifically, because decline and turnaround involve the loss and regaining of stakeholder confidence (Arogyaswamy *et al.* 1995), it may be useful to survey stakeholder opinions in determining a firm's current financial condition. For example, from a banker's perspective, asset levels on a firm's balance sheet may be critical in determining whether a bank supports a firm continuing as a going concern rather than forces it into bankruptcy (D'Aveni 1989b; James 2002). From the employees' perspective, measures such as earnings per employee may be used to indicate the onset of decline (Grinyer *et al.* 1990).

Stepping beyond traditional measurement issues associated with decline, the definition of decline itself could be expanded in future research. Concern over narrowly defining and measuring performance has manifested itself in a trend toward a more robust view of the meaning of performance. This has resulted in an increased interest in a balanced approach to monitoring performance through corporate scorecards (Kaplan and Norton 1996). Under this framework, TMTs develop and use an array of financial and *non-financial* measures to judge performance. Dimensions to be evaluated include leadership, use of resources and customer satisfaction, in addition to traditional measures of business results (Goolian and Mersereau 2000). Thus, unlike other systems of reporting firm performance, the 'balanced scorecard' does not focus on balance sheets and income statements alone, which may appear healthy even when business is experiencing severe problems. For example, a firm could be categorized as 'in decline' when customer satisfaction plummets, even if the firm still has financial resources. This should be noteworthy to a TMT because it could be a precursor to 'financial decline.' Thus, paying attention to broader indices of performance would trigger the turnaround process sooner than would happen by focusing on financial resources alone.



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In addition, future studies would benefit by measuring both decline speed and severity, as these factors may affect whether a TMT responds with rigidity or innovation (Mone *et al.* 1998; Zammuto and Cameron 1985). Thus, researchers need to consider not only a firm's profit and loss position, but also performance measures indicating proximity to bankruptcy (e.g. Altman's Z-score), as well as levels of available slack resources (e.g. financial liquidity). Similarly, researchers need to define turnaround by applying measures that indicate whether a firm has regained sufficient resources to operate normally. Thus, future studies would gain by considering not only a return to profitability, but also other measures indicating normal operations have resumed (i.e. downsizing has ceased or market share has stabilized). These measures would not only help determine whether a firm had achieved turnaround, they would provide a more specific definition of turnaround and, thus, improve measurement by helping differentiate those firms that are barely surviving from those that have rebuilt a competitive advantage through a TMT's turnaround efforts (cf. Pandit 2000).

Measuring TMT Characteristics

Previous research has employed various definitions in delineating TMTs. Researchers using secondary data have defined TMTs in terms ranging from narrow (e.g. inside board members; Bantel and Finkelstein 1995) to broad (e.g. managers with the title vice president or higher; Michel and Hambrick 1992). Those employing primary data have asked a firm's CEO or other TMT members to define which managers played a role in key decisions (e.g. Barker and Duhaime 1997; Thomas and McDaniel 1990). In turnaround situations, both data types have inherent advantages and disadvantages.

Employing secondary data overcomes a key problem related to accessing TMTs (Priem and Harrison 1994). This problem is compounded in turnaround situations because it seems likely that few TMTs want researchers

investigating their firm during a crisis situation. Using secondary data, however, presents the possibility of misspecifying a firm's TMT. Narrow definitions may exclude key TMT members whereas broad ones may include managers who did not provide input to key decisions.

One method for overcoming this potential problem is for future research to move beyond applying general classification schemes to all firms (e.g. all vice presidents and above) and rely on individual firm documents (e.g. annual reports and proxy statements) to define actual TMTs. For example, firms designate 'key managers' in proxy statements filed with the US Securities and Exchange Commission when disclosing required information such as executive compensation (e.g. Carpenter *et al.* 2003).

Conversely, employing primary data can overcome misspecification problems by having a firm's CEO or other TMT members indicate which managers played a role in specific decisions. This input may be particularly important because of potential changes in decision-making modes during decline. For example, if a TMT reacts to decline with a threat-rigidity response and centralizes decision-making, TMT members who provided input prior to decline may be subsequently excluded. Employing primary data, however, also presents the potential problem of retrospective biases affecting responses (Golden 1992; Schwenk 1985). TMT members' perceptions may depend on characteristics of an event (e.g. recency, severity, and abstractness), their firm (e.g. corporate culture, information systems, and industry) and themselves (e.g. experience, perceptual accuracy, and personality), as well as whether they can perceive abstract, academic concepts such as environmental munificence and dynamism (Mezias and Starbuck 2003). For example, in one study examining TMT recall, only 58% of sampled CEOs were able accurately to identify their firm's strategy from two years prior (Golden, 1992). Although some of the recall problems could have been based on

measurement rather than CEO cognitive issues (Miller *et al.* 1997), this finding reflects the challenges involved in using retrospective accounts.

To overcome these potential problems, future researchers need to consider several issues when collecting primary data. First, if possible, data should be collected during or immediately following decline and turnaround to reduce recall difficulty (Armenakis *et al.* 1986). Secondly, questions should be framed to reduce potential biases related to TMT members' need to preserve self-esteem and social acceptance (Huber and Power 1985). For example, research has found that accounts of past facts or behaviors are more likely to be accurate than past beliefs or intentions, which may be more subject to biases such as impression management (Golden 1992; Miller *et al.* 1997). Thirdly, future studies should control for TMT turnover because replacement team members may have different perceptions of turnaround situations than the members they have replaced. For example, employing retrospective accounts, Barker and Patterson (1996) found that replacement TMT members were more likely than incumbent TMT members to attribute decline-causing problems to internal, stable, and controllable factors.

General Summary

The preceding discussion suggests, that, by drawing on diverse theoretical perspectives, future studies can further insights into the role of TMTs in formulating and implementing successful turnaround strategies. To date, TMT demographics and crisis responses have received the majority of research attention in the turnaround literature. Numerous other aspects of both factors remain to be examined. For example, contrary findings involving functional background suggest that future demographic research on declining firms should focus on critical situational contingencies that may affect a TMT's ability successfully to formulate and implement different turnaround strategies. Similarly, whereas evidence supports

the hypothesis that TMTs respond to decline either with rigidity or innovation, mixed findings suggest that future turnaround research should directly test these competing predictions. In particular, research should focus on factors that both (a) motivate a particular crisis response and (b) affect the efficacy of specific responses.

With respect to future research, we believe that important developments in turnaround research can be achieved by integrating research about behavioral and cognitive factors affecting TMT awareness. In particular, we have argued that advancements in turnaround research can be achieved by a more thorough understanding of both how TMTs scan their task environments to gather information and, once obtained, how this information is processed. We have noted, however, that research is needed to examine scanning issues throughout the entire turnaround process. In this regard, we have suggested that future researchers focus on whether the nature of scanning behaviors should vary according to the various stages in the turnaround process.

We have additionally suggested that TMTs having higher cognitive complexity are more likely both to be aware of impending decline and to perceive potential innovations as non-threatening and positive for their firms. Thus, the prospects for turnaround may be greater in firms managed by cognitively complex TMTs. We have further suggested with so little known about how managerial attributions relate to successful firm turnaround, additional research is needed to understand more fully how TMTs conceptualize the causes of decline. In this connection, we have noted that research has yet to investigate whether monitoring mechanisms (e.g. executive compensation in the form of stock options linked to turnaround success, the use of external board members, and the influence of large block institutional shareholders) actually curtail such managerial opportunism and foster or hinder recovery through turnaround. We also noted that future research should also investigate whether monitoring mechanisms moderate the TMT



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power–performance relationship by reducing the potentially negative effects of centralized TMT power.

Noting that the literature about TMT consensus paints a complex picture about its effect on decision outcomes and resulting turnaround performance, we have also suggested that future research should examine the extent to which environmental dynamism interacts with TMT consensus to affect the likelihood of turnaround success. In this regard, we have discussed the advantages of social networks in providing critical resources, and emphasized the ability to adapt a TMT's dominant logic to new environmental realities. Moreover, we have suggested that the degree of environmental change may be key in determining whether a TMT's skill-set is sufficient to reverse a firm's decline. Although instructive, we have noted, however, that these findings are primarily based on investigations of firms facing decline. Thus, we have suggested that additional research would benefit from examining the importance of specific TMT resources for firms implementing successful turnarounds.

Finally, we identified two methodological issues critical to future turnaround research: (a) how to define both decline and turnaround and (b) how to define a firm's TMT. Both issues have important implications for the generalizability of research findings and, thus, the integration of conclusions across studies.

Conclusion

Both business commentators and scholarly researchers have acknowledged the key role that TMTs play in reversing the fortunes of a failing firm. Despite this attention, researchers to date have primarily examined TMT issues in either declining or bankrupt firms. Although instructive, results from these studies only provide insights into TMT actions in firms that either need to or have failed to turn around. As noted in Table 1, with limited exception, hypotheses regarding TMT actions actually related to turnaround remain largely untested.

To provide insight into turnaround processes, we have reviewed several theoretical perspectives on the role of TMTs in reversing a firm's declining performance. In doing so, we considered various topics that have been the subject of past investigations (i.e. demographics and crisis response) and have identified methodological issues that should be addressed in future research. We have also suggested various avenues for future research which it is hoped will lead to a better understanding of the role TMTs play in formulating and implementing successful turnaround strategies.

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