Turnaround leadership core tensions during the company turnaround process

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ABSTRACT

How leaders turn around declining performance is a significant issue for companies, their employees, their customers, their shareholders and, more generally, society. Leadership influence during times of change is well recognised in the literature; however, leadership during a turnaround is more complex and less understood. In-depth examinations of the role and activities of turnaround leaders have received insufficient attention in the literature to date. Specifically, studies have not investigated, in-depth, the tensions that leaders face during a turnaround process. To begin addressing this gap in the literature, we utilise case studies of four companies to examine the core tensions leaders experience, when they occur during the turnaround process and how they are managed. We frame our focus on leadership tensions in three prominent domains in the literature, leadership change, leadership assertiveness and strategic orientation. Our findings identify and detail the management of six core tensions that leaders experience across a five-stage turnaround process model. We conclude that effective turnaround leadership is less about particular skill sets or 'types' of leaders for different stages of the recovery process, and more about their ability to purposefully navigate and balance apparently conflicting activities within these tensions. We discuss the implications of these findings for theory and practice.

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Introduction

The importance of leadership in times of strategic change and turnaround is well acknowledged in the literature (Abebe, Angriawan, & Liu, 2011; Dunphy & Stace, 1993; Hermann & Nadkarni, 2013; Jas & Skelcher, 2005; Slatter, 1984). Unlike temporary periods of decline, turnaround situations are characterised by significant time pressures, scarcity of resources and imminent threats to survival (Arogyaswamy, Barker, & Yasai-Ardekani, 1995), and are recognised as complex and heterogeneous phenomena (Chowdhury, 2002; Walshe, Harvey, Hyde, & Pandit, 2004). These conditions complicate the task of leaders charged with directing a company turnaround, and of scholars interested in investigating how they do it. In particular, the leadership tensions and dynamics that occur during the turnaround process have received little if any empirical attention. Using multiple case studies that capture, in a holistic and in-depth way, what (and when) leadership tensions arise during the turnaround process, we begin to address this gap in the literature and, in so doing, reconceptualise the role of the turnaround leader.

A rich line of empirical and theoretical inquiry over the past four decades has significantly enhanced our understanding of turnaround, predominantly in relation to the different types of strategies available to leaders and how these are linked to the causation of decline (Beixin, Lee, & Gibbs, 2008; Hofer, 1980; Ndofor, Vanevenhoven, & Barker, 2013; Schendel & Patton, 1976). However, less research attention has been directed at the process of company turnaround (Boyne & Meier, 2009; Chowdhury, 2002; Pajunen, 2006). In particular, aside from a number of notable contributions (Bibeault, 1982; Petran, 2008; Slatter, 1984), in-depth examinations of the role of leaders during the turnaround process have not been reported in the literature. Indeed, the failure to develop a suitable framework to guide leaders with regard to the 'how to do it' aspects of company turnaround has been an ever-present concern for turnaround scholars (Harker & Sharma, 2000; Hoffman, 1989; O'Neill, 1986; Winn, 1993). A review of the field by Lohrke, Bedeian, and Palmer (2004) uncovered that little, if any, empirical attention has been afforded to the importance of top management in turnaround situations, or the means by which they formulate and implement their strategies. More recently, Board (2010) argued that despite the significant lesson-learning emerging following the global financial crisis, there has been insufficient discussion, outside of remuneration and incentive structures, about how executive leadership is carried out. This is surprising, both from a theoretical and a

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practical perspective, given the critical role these leaders have when dealing with the challenges of company decline and possible failure.

To begin addressing this gap in the literature, we examine the types of tensions turnaround leaders experience, when they occur during the turnaround process and how they are managed. Within the scope of this research, leadership tensions can be understood as decisional dilemmas in which there is a trade-off in prioritising one course of action over another. Potential tensions can be extrapolated from three recurrent themes in the literature that acknowledge the role of leaders during company turnaround. First, *leadership change* discusses the benefits and drawbacks of replacing or prolonging the existing CEO (e.g., Balgobin & Pandit, 2001; Clapham, Schwenk, & Caldwell, 2005; Wiersema & Bantel, 1993). Second, *leadership assertiveness* compares 'hard' and/or 'soft' forms of leadership in terms of behaviours, styles and decision-making (e.g., Ames & Flynn, 2007; Kanter, 2003; Petran, 2008). Third, *strategic orientation* considers the prioritisation of operating and/or strategic changes in response to performance decline (e.g., Barker & Duhaime, 1997; Hambrick & Schecter, 1983; Robbins & Pearce, 1992; Sudarsanam & Lai, 2001).

Our findings lend conceptual clarity to the core tensions turnaround leaders experience during the turnaround process and how they manage these tensions. Specifically, we find that there are six leadership tensions in the turnaround process: one relating to leadership change (i.e., stability/change), three focusing on leadership assertiveness (i.e., ownership, disposition and control) and two relating to strategic orientation (focus and horizon). We position these tensions in a five-stage turnaround-process leadership model developed during the course of our analysis. We argue that turnaround leadership should never be one-dimensional. More specifically, we illustrate that effective turnaround leadership is less about particular skill sets or 'types' of leaders for different stages of the recovery process, and more about their ability to purposefully navigate and balance apparently conflicting activities within these tensions.

The paper proceeds as follows. We begin by outlining our theoretical framing which is based on the three aforementioned leadership tensions – leadership change, leadership assertiveness and strategic orientation. We then describe our research design, a case study approach that draws on four Irish companies undergoing turnaround. Next, we present details of our findings and discuss the implications of these for theory and practice. The paper closes with some concluding comments and suggestions for future research.

The turnaround process

Strategy process research looks at how individuals and groups formulate and implement strategies (Pettigrew, 1992). It encapsulates the sequence of events and actions that describes how things change over time (Hutzschenreuter & Kleindienst, 2006; Van de Ven, 1992). Turnaround represents a specific type of strategy process. The need for a company turnaround is initiated by external forces, internal deficiencies or a combination of both (Dess & Beard, 1984; Sheppard & Chowdhury, 2005). A turnaround process, as utilised in the current study, occurs when 'a firm undergoes a survival threatening performance decline over a period of years but is able to reverse the performance decline, end the threat to firm survival and achieve sustained profitability' (Barker & Duhaime, 1997, p. 18). The turnaround process, thus, broadly contains three key phases: decline, decline stemming and recovery/failure. Operating and strategic changes (explained below) are implemented within and across these three turnaround stages, and as such, are heavily intertwined. In stemming decline, for instance, leaders need to carefully align both efficiency and growth-oriented objectives. Extant process-based studies in the turnaround literature have produced a number of overlapping stage models that provide insights into the sequencing and

level of integration of these turnaround responses for declining companies (different models are presented by Arogyaswamy et al., 1995; Balgobin & Pandit, 2001; Bibeault, 1982; Chowdhury, 2002; Fredenberger & Bonnici, 1994; Grinyer, Mayes, & McKiernan, 1990; Harker & Sharma, 2000; Igor & Steve, 2006; McKiernan, 2003; Pearce & Robbins, 1993; Robbins & Pearce, 1992; Slatter, 1984; Zammuto & Cameron, 1985). In terms of our understanding of turnaround leadership, however, they do little to elucidate what leaders do and when they do it. In examining the tensions leaders must manage when implementing a turnaround, we begin to address this gap in the literature.

Leadership tensions in the turnaround process

Leadership has been conceptualised as the activities and decisions (of multiple actors across an organisation) that target the successful delivery of results (Grint, 2010; Leslie & Canwell, 2010). In the context of our study, we specifically focus on the role of CEOs and their direct executives in their efforts to stabilise performance decline and to direct the company towards recovery. Much empirical attention has been afforded to the importance of leadership in turnaround. This literature has focused on attribution patterns (Barker & Barr, 2002; Barker & Patterson, 1996); board composition (Mueller & Barker, 1997); the impact of governance and stakeholders (Igor & Steve, 2006); CEO power (Abebe et al., 2011); and public sector turnaround leadership (Jas & Skelcher, 2005; Murphy, 2008). It is also widely reported how poor leadership contributes to the initial performance declines, either through a leader's direct actions or from their failure to identify and respond to significant problems (Arogyaswamy et al., 1995; Balgobin & Pandit, 2001; Bibeault, 1982). Notwithstanding this breadth of inquiry, Lohrke, Ahlstrom, and Bruton (2011) emphasised that further research attention on turnaround leadership is required.

Although increasing levels of ambiguity and complexity have made the management of tensions an essential aspect of the leadership role more generally (Chambers, Drysdale, & Hughes, 2010), little, if any, research has focused explicitly on the tensions that leaders experience during the turnaround process. Extant literature does acknowledge, however, that turnaround leaders are consistently challenged to remain dynamic and must ensure their activities are sufficiently balanced and fit for purpose during implementation of the recovery strategy. Pajunen (2006), for instance, emphasises how leaders need to carefully manage the changing influence of key stakeholders during the turnaround process. Unless leaders can establish and maintain legitimacy and support for their actions they risk losing control of the turnaround (Gopinath, 1991; Maheshwari & Ahlstrom, 2004). Petran (2008) provided some empirical evidence on the importance of dialectical thinking and balanced decision-making by turnaround leaders when integrating a range of contradictory information and competing interests across the organisation. Furthermore, Schmitt and Raisch (2013) presented evidence supporting an integrative approach to turnaround management. Specifically, in portraying retrenchment and strategic change as a critical duality in the recovery process, the authors argued that these two turnaround responses are interrelated as well as contradictory, and that they can be mutually enabling or complementary if managed effectively. Nevertheless, our understanding of what exact tensions or dualities turnaround leaders encounter, when they are most pronounced and how they are managed remains underdeveloped. We extrapolate potential leadership tensions from three of the most recurrent themes in the turnaround literature: leadership change, leadership assertiveness and strategic orientation. These tensions arise from the conflicting guidance documented in this literature. We next turn our attention to discussing these potential tensions in more depth.