



## TURNAROUND STRATEGY FROM THE PERSPECTIVE OF STRATEGIC LEADERSHIP: CONCEPTUAL REVIEW

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### Abstract

Business environment has a significant influence on defining a company's position. Many companies have to initiate the turnaround strategy when they are in a critical situation. As such, many of them have successfully managed to escape such a situation, however, many have failed as well. One important successful factor in implementing this strategy is the top leader of the company. The characteristics of the top leader such as functional and educational background, tenure, age, international experiences, and gender are believed to change the success degree in implementing this turnaround strategy. This article discusses the relationship between the leader's characteristics and the implementation of the turnaround strategy conceptually. The discussion on the possible mediatory effects between these two concepts in the form of strategic orientation is also discussed in certain parts within this article.

**Keywords:** Turnaround Strategy, Top Leaders, Strategic Leadership, Strategic Orientation, Demographic Characteristics.

### 1. Introduction

One of the main questions from the theoretical and practical perspective in the field of strategic management is what are the factors causing some companies have better performance than others. Many researchers have proposed various perspectives to answer that question. Porter discusses it from the industrial perspective, Prahalad and Hamel (1990) and Barney (2001) study it from the company's internal and company's resources perspective and Hambrick and Mason (1984) see the strategy from the strategic leadership perspective.

Although many attempts have been done, the consistency of the research results have not yet indicated in the developing literatures about strategic management. Every perspectives tend to present contradict results. Even more, the research results from researches using meta-analysis have not yet shown enough consistency's degree between the results. This condition shows that the dynamic and development on the concept and theory of strategic management are still improving.

There are at least two reasons on why the inconsistencies phenomenon are hardly reach a consensus. First, the contingency theory explains that there are contextual factors which differentiate one organisation to another. This theory assumes that every organisation is unique, therefore each organisation should be managed by particular approaches. Secondly, the metaphor of organisation as organism proposed by Morgan (2006) says that organisation exists in an environment which slowly and regularly changes, by design or accident, and organisation always carries out adaptation process to such changes. Any changes in the environment can turn the established concept of one organisation to become obsolete.

According to such argumentation, the studies on a company's strategy should be done in a limited context instead of trying to make over generalisation. A more specific attention on a particular context and situation are believed to be giving better results, theoretically and practically. Many researchers have done this approach like studying the strategy in a particular industry by analysing the effect of one strategic concept on the particular market, or a specific country by discussing a situational event in an organisation such as changes, value chain, business reengineering process, and turnaround strategy.

Turnaround strategy is one interesting topic for contextual event yet it does not receive enough concerns from researchers. Only few researches can be found to have studied the implementation of this strategy. Most of them are concerns on the issues at the internal processes such as management of changes and transformation (Boyd, 2011). Those two changes are basically part of turnaround strategy which are commonly motivated by the substantial decline on the performance and demand to reform the company's competitive prominent (Boyd, 2011).

The major role of company leader in the turnaround process is not equal to the researchers' attempt to investigate the role. There are only few researchers who are attempted to study the role of leaders including the success factor strategy from the leadership perspective. One of the important roles of a leader is becoming a disturbance handler which forces them to moves responsively in order to do tactical and strategically corrective acts (Finkelstein, Hambrick & Cannella, 2009).

The main question from the perspective of strategic leadership which needs further identifications which is related to turnaround strategy is the assumption that not every leader can successfully implement this strategy. Therefore, it is important to know what are the leader's characteristics which are required to lead to a turnaround strategy. This research identifies and proposes a success model of company performance which has implemented turnaround strategy from the perspective of strategic leadership.

## **2. Literature Reviews**

Conceptually, turnaround strategy is defined as a company attempt which is concentrated in a particular set of time or period to sustain / change the company's unique superiority and to restore its function as profit making tool (Harker & Sharma, 2000). This strategy is initiated and motivated by the turnaround situation which is shown by a decline on the company performance either absolutely or relatively towards the industry with magnitude degree which requires them to initiate a turnaround strategy explicitly. At a turnaround situation, a company is commonly faced at a particular situation which is called situation severity which threatens the core competency and company's survival (Day & Moorman, 2013).

Day and Moorman (2002) defines turnaround strategy as the changes which are rapidly carried out as the company needs to respond the issues on performance decline such as the decline in market share, prominence, and efficiency. The implementation of this strategy needs great intervention and detailed and thorough transformation plan. The main intervention which is needed in determining the success of turnaround strategy is the involvement of and support from the top managerial. Intervention and support from the top managerial positions are needed because the turnaround process requires great resources and influences the company's long term sustainability.

Brandes and Brege (1993) define turnaround strategy as a process which may improve the company's bad performance into a better and more sustainable growth (Harker & Sharma, 2000). An organisation is considered to be declining when it experiences a long term bad financial situation and weak performance which at the end may threaten the company's

sustainability (Cameron et al., 1987). Turnaround situation is a situation in which a company is overcoming the causes of the decline by adopting a strategy to restore the functional situation, therefore, it is managed to reach sustainable profitable situation (Barker & Duhaime, 1997).

Lohrke et al. (2004) explains that turnaround process consists of three steps. First, the problematic organisation needs to decide the main cause of the ongoing decline which is usually related to environmental changes, internal weakness, or combination of both. Second, company management formulates and implements appropriate strategy to overcome the cause of the decline. Last, in step three, there should be an evaluation of the result if the company turnaround can improve or worsen the performance failures (Pearce and Robbins, 1993; Van Wittelstuijn, 1998; Morrow et al., 2004, 2007).

Upper Echelon Theory becomes the main reference for this research. This theory is introduced by Hambrick and Mason (1984) which was derived from an assumption that considers organisation as reflection of its top leader. The choices which are taken by the organisation such as the chosen strategy and its implementation are decided by the actors who have big roles in the organisation, like managers and leaders. The strategic choices which are coined by company leaders, at the end, define the performance of the organisation. Furthermore, Hambrick and Mason (1984) explains the concept of bounded rationality as a condition in which company leaders, sometimes, receive too much information which exceeds their capability and resources to use those information as the considerations when making their decisions. As the result, leaders tend to filter information based on their relevance and importance according to the limitation of their rational. Experiences, norms, and personality are reflected from the executive characteristics and those factors can influence their point of view, selective perspective and interpretation (Hambrick, 2007). Based on that perspective of upper echelon theory which considers the top executive as the decision makers of the company policies. Therefore, the chosen strategy like turnaround strategy which are made in an organisation is also influenced by the executive.

In implementing turnaround strategy, top leader needs to design the changes including the system, culture, and employees attitude (Evans, Chitnomrath & Christopher, 2013). All of those changes should be properly grasped by every elements in the organisation, thus it builds trust toward the leader and the result of the turnaround (Lawson & Price, 2003; Boyd, 2011). Lawson and Price (2003) further explain that transformation process need to be precisely defined and effectively communicated to every elements of the company.

The success of turnaround does not need only attempts to make internal changes, but also process to communicate it with the external such as consumers (Day & Moorman, 2013). Consumers and public need to know that the company has initiated changes, thus it helps to rebuild the consumers' trust toward the company (Harker, 2001; Evans, Chitnomrath & Christopher, 2013). Although, there is only a small possibility that consumers can be rapidly influenced by the initiated changes. At least, the company has created awareness to the public about their strategic action (Smith & Graves, 2005; Lawton, Rajwani & O'Kane, 2011).

The changes also need to be done in every company's functional especially at the financial structure. Turnaround process is commonly done through a set of efficiency attempts and capital reconstructions (Smith & Graves, 2005; Pretorius, 2008; Schoenberg, Collier & Bowman, 2013). Efficiency is needed as an attempt to restore the business process in the company which undergoing the turnaround since the company is usually has issues with its business process which need bigger cost yet it is not needed (Lawton, Rajwani & O'Kane, 2011). Furthermore, putting more investment into the company is an important step to reinitiate new strategic attempts which require big cost (Smith & Graves, 2005; Lawton, Rajwani & O'Kane, 2011; Panicker & Manimala, 2015).

### 3. Demographic of Top Leader

The upper echelons theory explains about the great impact of top leader's role. The use of this theory is related to the concept of bounded rationality which admits the existence of individuals' limitation in rationalizing information (Hambrick & Mason, 1984). Every individual has limited vision in predicting the upcoming situation and analysing different information, thus, identical information may be interpreted differently by different individuals.

Finkelstein et al. (2009) explains some aspects which influence leader's interpretation toward information and decisions. The factor of demographic characteristic is believed to be one that determines rational limitation. Leader with functional background characteristic tends to have different risk orientation, therefore it differentiates their perspectives towards the degree of information risk and alternative decision (Johan & Herri, 2013). Another demographic dimension which is believed to have influences are educational background, tenure, international experience, age, and gender (Finkelstein, Hambrick & Cannella, 2009).

Particular demographic characteristic guides leader to different kinds of information. Leader with well experienced financial background uses financial information as the main consideration in making a decision, while leader with other background, for example the marketing and operational will prioritise information from their functional background.

Those choices of information lead leaders to different perspectives, alternative of decisions which are also different, and also different strategic orientation. In the context of a company which is undergoing turnaround strategy, characteristic and strategic orientation is a vital factor. We believe that particular characteristic of leader determines the degree of success from a turnaround strategy. By other words, any leader cannot implement this strategy since it requires transformation and significant changes.

Another strategic orientation also reflects how the company's tendencies in applying and implementing the turnaround. The practice of the strategy which tends to be prospector is believed to give different results from the defender strategic orientation. The tendencies to move prospectively during the turnaround may give positive impact because of the anticipative attitude towards any possible movement in the environment. On the other side, the use of strategy with defender orientation also allows better performance because the leaders tend to be careful in making their decisions.

The position of strategic orientation in this research is a mediator between the leader's characteristics and the performance of turnaround strategy which are reflected by the company performance. There is possible relation between top leader characteristic and turnaround strategy performance. However, we assume the mediative relation can explain the turnaround company's performance from the perspective of strategic leadership in better way. Overall, the conceptual model of this research is as follow.

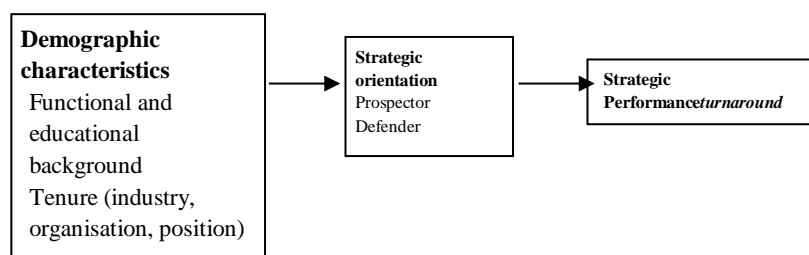


Figure 1.1

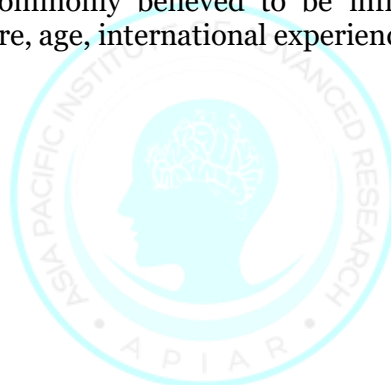
The model above is the conceptual framework of this research which shows the possible connection between each variable. Various forms of assumptions can be presented from that relationship to show how leader's characteristic can influence the company's performance which undergoing turnaround strategy. The relation between those variables needs further identification both theoretically and empirically.

### **Conclusions**

The environmental changes and mistakes in making decision and implementing it often lead a company into critical condition. In order to escape from such condition, a company often makes transformation in the form of turnaround strategy. This is commonly practiced by design or by accident. The success to pass the turnaround pace will guarantee the sustainability of a company.

The success in implementing this strategy is determined by leader's factor. As the significant actor in making and implementing decisions, leader has great influences to determine its success. The perspective of strategic leadership can become the fundamental argumentation. Limited rational of a top leader directs them to a particular decision, therefore it ends at different performance and achievements between leaders and companies.

There are specific leader's characteristics which are needed to successfully implement turnaround strategy. Those various characteristics need further identification especially on the dimensions which are commonly believed to be influential such as functional and educational background, tenure, age, international experience, and others.





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