

Retrenchment in Declining Organizations: Towards an Integrative Understanding

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We address the debate among researchers and revisit the issue of whether retrenchment is a consequence of performance downturns or an integral strategic response. We build a model of factors and test their relationship to retrenchment (either the reduction of assets and expenses) for a sample of manufacturing firms dealing with ROI downturns. The results indicate that retrenchment is not ubiquitous to all firms undergoing decline. Instead this strategy is mainly employed depending on how severe or rapidly the decline occurred. Also, different forms of retrenchment are utilized depending on how productively the firm uses its human and capital resources.

INTRODUCTION

With the recent increase of business failures, the study of organizational decline and turnaround responses have taken on renewed importance. Most firms experience some type of downturn, whether due to external business factors or poor internal performance. However, the growing intensity of global competition and the complexity of organizational environments have caused this pattern to become increasingly familiar. With the broad range of issues and implications that are associated with decline and turnaround, the ability to formulate appropriate strategic responses is of prime consideration for management researchers and practitioners. This is, of course, made more difficult by the dysfunctional consequences of declining firms. These can include shrinking resources, poor morale, skeptical stakeholders, conflict, turnover, scapegoating, and time constraints (Cameron, Whetten, & Kim 1987; Hambrick 1985; Lohrke and Bedeian, 1998). Bibeault (1982) noted that most firms do not turn around, but cease to exist as independent entities.

It therefore follows that successful turnarounds are difficult and that many firms fail when experiencing deteriorating profitability and declining return on investment. This, of course, has several implications for researchers. Not only must the decline process be understood, as far as causality, but also the various responses to decline must be studied in order to determine the most appropriate strategy. The knowledge of what works when faced with deteriorating situations is of great relevance to firms, which find themselves in this position.

One typical organizational response to decline is retrenchment. This tactic incorporates the basic reduction of assets and expenses within the firm and necessitates many turbulent actions such as layoffs or divestments. While research has been undertaken on the impact of retrenchment within a turnaround attempt, little empirical analysis has been centered on developing an understanding of the retrenchment process itself. Debate on this topic continues

in the academic literature. During the latest economic downturn several firms have utilized layoffs and other forms of retrenchment clearly believing, that these measures will help them perform better in the long run. Many top managers argue that layoffs, combined with a careful revamping, can set the stage for growth. Some researchers suggest that retrenchment is an integral component of a firm's strategy, which enables it to improve its performance (Pearce & Robbins, 1994). Others, however, contend that companies that avoid cutting jobs reap huge benefits in loyalty and productivity. Recently, the *New York Times* reported that there is little real evidence that typical retrenchment activities such as layoffs actually help firms in the long run. Barker and Mone (1994) argue that retrenchment is merely a consequence of firm decline and not essential to achieve a turnaround.

Overall we agree with the latter position that while some firms utilize retrenchment during performance declines they are not essential for a turnaround and that the evidence is unclear as to the true benefits to this type of strategy (Barker, Mone, Mueller & Freeman, 1998). Therefore, the question remains—what influences a firm to utilize a retrenchment strategy besides merely a knee-jerk reaction to declining profitability? This research proposes to build on the existing literature by examining this issue in order to produce a clearer understanding of retrenchment activities and to provide illumination for the primary basis for this turnaround response.

LITERATURE REVIEW

Retrenchment is one of the basic concepts in the organizational decline and turnaround literature, which is in itself very broad and diverse. Much of the research in this area posits that management must take an active role in overcoming organization decline (Barker, Patterson & Mueller, 2001; Barker & Mone, 1994; Bonnici & Fredenberger, 1994). A key conceptual work in the early formation of this research stream is Hofer's (1980) contingency theory for turnaround strategies. This study conceptualized the distinction between operational and strategic approaches to decline, defined as either improving efficiency or changing the firm's basic strategy in order to achieve a fit with environmental conditions. This dichotomy can also be understood using Tushman and Romanelli's (1985) convergence/reorientation framework. They describe convergence as consisting of actions being aimed at achieving greater consistency between an organization's strategy and internal activity. On the other hand, reorientation is a fundamentally different approach which involves complete changes in a firm's strategy, structure, power and control systems.

Early evidence of the importance of retrenchment to a firm's turnaround success is provided in a study by Hambrick and Schecter (1983). They compare the turnaround efforts of poor performing strategic business units, in terms of their pre-tax ROI as it relates to the cost of capital, and conclude that successful turnarounds of these units consist primarily of reductions in assets, costs and withdrawal from selective products and markets, not from wholesale strategic change. Other researchers similarly suggested that decreasing expenses or assets was a critical element in the turnaround process (Schendel, Patton & Riggs, 1976; Ramanujam, 1984; Thietart, 1988; Arogyaswamy, 1992).

As previously discussed, the perspective that decline strategies can be categorized as either convergence or reorientation responses generally prevails in the literature. Most researchers

include retrenchment as a primary ingredient of a convergence approach, yet not necessary to a strategic reorientation. However, Robbins and Pearce (1992) argue that understanding decline responses in this manner is inaccurate. Instead, retrenchment is a separate component within the turnaround effort and is appropriate regardless of whether a firm attempts an efficiency or strategic turnaround. They suggest that the purpose of retrenchment is to stabilize the declining organization so that a firm will have the means to attempt its recovery strategy. The findings of their research indicate that retrenching firms attain a better than average improvement than non-retrenchers and firms which successfully improve after experiencing severe declines are more likely to reduce assets. They also found that the severity of an organization's decline moderates the effect of retrenchment on its turnaround performance. In another study, Pearce and Robbins (1994) point out that instead of retrenching, many firms continue to increase asset and expenditures during their declines. Therefore, retrenchment should be evaluated as a specific tactic of deteriorating firms instead of simply a result of decline. They suggest that a better understanding of this issue is to view the reduction of assets and expenditures as a response to "steep" rather than "gradual" declines.

The arguments that retrenchment should be an element of any successful turnaround attempt set the stage for much debate. For example, Barker and Mone (1994) maintain that there is little evidence supporting the assertion that retrenchment is integral to turnaround success. They argue that instead, it is merely a consequence of performance declines resulting from the critical nature of the situation and that the actual performance of retrenching firms is not significantly better than that of non-retrenching firms.

More recently, Castrogiovanni and Bruton (2000) reexamined the issue of whether retrenchment and the addition of capital resources were essential to turnaround firms that were recently acquired. Their findings indicate that neither of these variables influences the turnaround of the firms in their sample providing evidence that retrenchment is not essential to turnaround. Similarly, in his recent book on restructuring, Cascio (2002) notes that employee downsizing does not necessarily lead to improved financial performance. These authors acknowledge that their studies have problems comparing their findings across different research contexts, however this evidence indicates that the debate concerning the importance of retrenchment and the factors that consistently lead to turnaround still open and in need for further research.

Overall, it is evident based on the number of firms that make asset and expense reductions that retrenchment is one of the primary strategies available to firms as they respond to performance difficulties. However, we feel that more recent studies (Barker & Mone, 1994; Cascio, 2002; Castrogiovanni & Bruton, 2000) indicate that retrenchment is not integral to turnaround. Therefore, it is important to understand what the factors are that drive a firm to retrench, beyond just the overall condition of performance decline.

THEORETICAL FRAMEWORK AND HYPOTHESES

The question of what drives a firm's retrenchment activities is subject to various interpretations. Declining firms are faced with extreme pressures to reduce expenses and increase revenues and cash flows. Thus, in determining whether to initiate the turbulent actions surrounding retrenchment such as layoffs or plant closings, firms must consider

numerous financial, competitive, and operating dimensions. As can be discerned from the previous discussions, a retrenchment response is driven partly by the strategic orientation of the firm and by the requirements of the situation. This is inherent in the literature, which suggests that the nature of a turnaround attempt depends upon the sources of a firm's poor performance and the urgency of the decline crisis (Robbins & Pearce, 1992).

The sources of a firm's decline can be classified as either external to the firm, such as industry contraction, or internal to the firm, where performance is sub par to that of competitors and can be attributed to the actions of those within the organization (Whetten, 1987; Cameron, Sutton and Whetten, 1988). As for the urgency of the situation, Robbins & Pearce (1992) and D'Aveni (1989) provide methods for considering this dimension, suggesting that decline severity and the rapidity of the decline as important situational elements. Overall, we expect that aspects of the causes of decline and the urgency of the situation have important influences on why retrenchment is pursued by certain firms and not undertaken by others. Figure 1 conceptualizes the proposed relationship of these factors to firm retrenchment and attempts to integrate the various elements contained in the contrasting arguments.

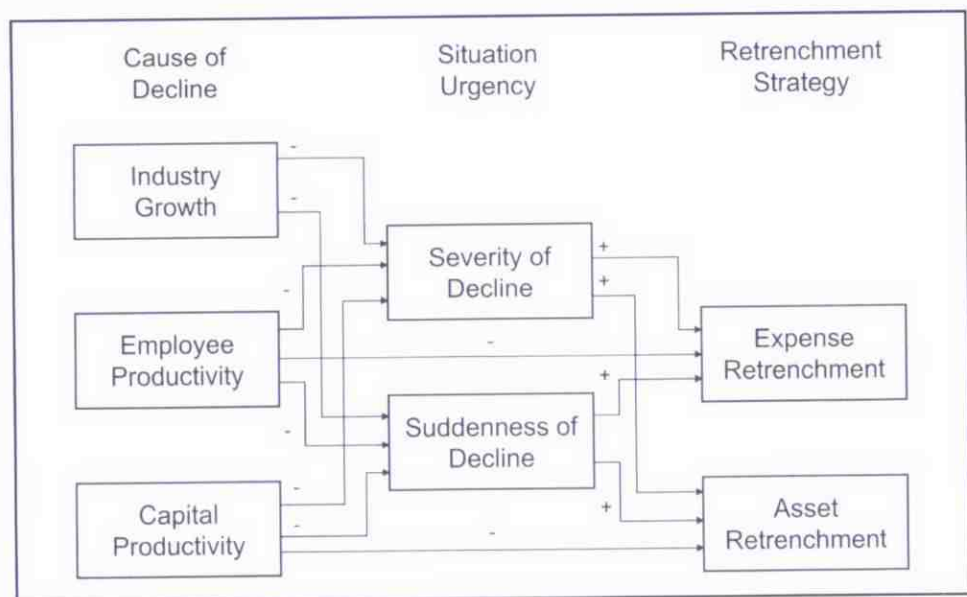


Figure 1. Research model.

The model displays five factors as sub dimensions of decline source and situation urgency. It also indicates that two types of retrenchment must be considered. The first type is that of expense retrenchment, which simply refers to the reduction of firm expenditures. Typically, expense retrenchment refers to any reductions on the expense side of the ledger including salaries, inventories, leases, utilities, etc. The second type of retrenchment concerns asset reductions, which is entailed by the sell-off of firm property, plant and equipment. The literature suggests that expense retrenchment indicates a short-term response, whereas the reduction of assets denotes more long-term effects (Hofer, 1989; Robbins & Pearce, 1992). Therefore, in order to fully consider the construct of retrenchment the model includes both.

Figure 1 proposes that the causes of decline can impact the type retrenchment outcomes and are mediated by the urgency of the situation. The logic behind this type of influence is that whatever the source of decline, action will more likely occur if the firm is facing critical circumstances and less likely to occur if not. As such, the financial health of declining organizations may force them to respond in ways that are uncomfortable, yet necessary. Evidence of this is suggested in a study by D'Aveni (1989), who found that firms in declines with internal resource constraints were more extensively engaged in asset reduction activities. In a related study, Schendel, Patton, & Riggs (1976) maintain that severe performance downturns are more likely to cause management action than milder downturns. Also, Miller & Friesman (1977) indicate that firms which experience gradual declines are increasingly numb to activities in their external environment.

Figure 1 proposes that there are two aspects to situational urgency, which can mediate the cause of decline on the retrenchment response. The first measure concerns the extent or severity of the decline as conceptualized by Pearce & Robbins (1992). In their study, decline severity, which is associated with the overall financial health of the organization in the midst of decline, was found to moderate the effect of retrenchment on turnaround performance. Another factor discussed by D'Aveni (1989) in his study of declining firms suggests a different aspect of situation urgency. He proposed that there are patterns to decline in terms of how rapidly or gradually resources deteriorate, which can be classified as sudden, gradual, or lingering, and they suggest that a sudden decline produces an element of shock to the management of an organization through abrupt resource scarcity. In a study of firms with few than 500 employees, Chowdhury and Lang (1993) found that small firms do respond better to crisis declines rather than gradual declines. As Tichy and Devanna maintain (1986), this is similar to the "boiled frog" syndrome, where a frog will react instantaneously to hot water, but not if the water is gradually heated over time. These patterns along with the steepness of a firm's decline, as mentioned by both Barker & Mone (1994) and Pearce & Robbins (1994), illustrate important elements driving its retrenchment response. Therefore, this paper argues that the suddenness of a firm's decline along with its severity would have a positive relationship to retrenchment by dictating urgent action by the firm in responding to more urgent situations. The model includes both of these dimensions in order to capture separate, but associated elements of situation urgency.

Figure 1 also illustrates three sources of decline categorized as either an external or internal cause discussed earlier. The external-based measure is that of industry growth or contraction. This factor can be a source of firm decline regardless of whether it is a short-term cyclical phenomenon or a decline stage of an industry life cycle. Either of these industry actions may cause firms to struggle in maintaining market share and financial performance. O'Neill (1986) suggests that even firms with strong positions in their industry have to make adjustments to increase their performance in the midst of industry contraction. On the other hand, if an industry is expanding and firm rivals are expanding their businesses, the management of a declining firm could perceive that reducing business development expenses, such as marketing or research and development might lead to a future loss of business. Therefore, the external state of industry growth or contraction would influence a firm's decision to utilize retrenchment.

The same logic applies to declining industries. Harrigan (1980) maintains that reductions in expenses could have negative impacts for declining firms who want to remain viable competitors in a contracting industry. As such, this element of a firm's domain would affect the retrenchment response and could actuate a poor turnaround attempt. Therefore, retrenchment is not an automatic option if a declining firm's industry is contracting and should also be considered very carefully if the industry is growing and healthy. This reasoning suggests that there is no clear relationship between either industry contraction or growth and retrenchment. It can be argued, however, that there is an association between the industry's health and the urgency of a situation for a declining firm and that in this way its retrenchment activities would be influenced. In keeping with Industrial Organization theory, a declining firm in a shrinking industry would face increased pressure to respond appropriately, whereas many firms in healthy industries can perform at acceptable levels primarily due to industry membership (Porter, 1981). Therefore, Figure 1 posits that industry growth will not directly lead to retrenchment, yet will indirectly influence the retrenchment response through the urgency of the situation as measured by severity and suddenness. Thus, the model and previous arguments suggest the following hypothesis:

H1: Industry growth is negatively related to severity and suddenness, which are positively related to both expense and asset retrenchment.

Descriptions of internal sources of decline are numerous in the literature; however, our model concentrates on a dimension that is relevant to the ongoing competitiveness of the organization. Firm productivity is an encompassing construct that may include many dimensions of firm-based problems involving strategy, management, manufacturing, and human resources and is perceived as one of the most important areas in which management can maintain or improve corporate performance (Shetty & Butler, 1990; Klein, 1988). Figure 1 employs productivity, or the lack thereof, as an internal source of organizational decline. Also, as firms can be either capital or labor intensive, two productivity measures are used to comprehensively capture this construct.

The model indicates that each of these measures of productivity have both direct and indirect relationships with retrenchment activities. It can be argued that a firm which is experiencing a lack of employee productivity would more likely respond to decline by attempting to reduce expenses in an attempt to become more efficient and thus more competitive. In similar fashion, a declining organization, which lacks capital productivity, would attempt to reduce unproductive or wasteful assets. Thus, this problem would influence the type of decline response by the firm. Therefore, the following hypotheses are offered:

H2: Employee productivity is negatively related to expense retrenchment.

H3: Capital productivity is negatively related to asset retrenchment.

Last, Figure 1 proposes that productivity would also involve indirect relationships with retrenchment that are mediated by the two measures of decline urgency. If an organization is productive, it has positioned itself in a way that crisis situations can be minimized. Therefore, a negative relationship to severity and suddenness can be argued. A lack of urgency can translate into a capacity to engage in numerous response strategies and be associated with

a reduced need to retrench. These arguments suggest the following hypotheses:

H4: Employee productivity is negatively related to severity and suddenness.

H5: Capital productivity is negatively related to severity and suddenness.

RESEARCH METHODOLOGY

The research design formulated in this study is intended to carefully test the above hypotheses and provide generalizable results concerning the findings. This enables researchers and practitioners to have a richer understanding of the retrenchment actions of organizations facing decline. One key component of any turnaround research is to develop an accurate sample of firms that have undergone decline. The literature suggests that several criteria should be used for this. The study sample was drawn from industrial and commercial machinery and computer equipment manufacturing firms distinguished in SIC major group 35. This allows the testing of different industries as required by the research questions, while at the same time limiting the broadness of the categorizations. The timeframe of the sample covers the fiscal years 1980 through 1993 allowing sample firms the appropriate amount of time for performance declines and strategic responses. Also, this time interval is considered appropriate as it includes cyclical recessions, growth, and stagnation, which provide a wide range of environmental conditions. The firms examined in this study met the following performance criteria:

- Two consecutive years of Return on Investment above the risk-free rate of return. As modeled by Barker and Duhaime (1997) the return rate for six month U.S. treasury notes at auction, reported in the *Economic Report of the President*, were used as a proxy for risk-free rate. Important to this criterion is that it excludes from the sample firms which are continually failing and limits the study to those that are truly in turnaround situations.
- At least three consecutive years of ROI below the risk-free rate. Porter (1980) proposes that a firm is failing in economic terms if it does not earn a return greater than the risk-free rate.
- At least one year within the three years of decline with a negative net income. This was proposed by Barker (1992) as an additional conservative criterion and represents a firm's inability to cover its costs.

The initial phase of the study applied the sample criteria to the COMPUSTAT database and determined 110 potential participants for the study. Data was then collected for each of the constructs previously hypothesized as having an influence on the decline response of the sample firm. Organizations for which the required data was not available were removed yielding a final sample of 97 firms. By following the examples of previous turnaround research, the study collected data at three points in time on a firm-by-firm basis. Time 1 included the year of peak performance in the two years prior to the downturn. Time 2 included the year in which the sample firm's decline reached its lowest point. Time 3 measured the year when asset and expense reductions were discontinued or if no reduction was undertaken then this point equaled a year where the elapsed time was equal to a firm's average turnaround time of three to four years (Robbins & Pearce, 1992).

The dependent variables concerning expense and asset reductions were gathered from firm financial data at Time 2 and Time 3. Expense data and asset data was used to create a continuous variable as follows:

$$\text{EXPENSE RETRENCHMENT} = (\text{Expenses Time 3} / \text{Expenses Time 2}) - 1$$

$$\text{ASSET RETRENCHMENT} = (\text{Assets Time 3} / \text{Assets Time 2}) - 1.$$

Thus, a negative value for these dependent variables indicates reductions in expenses or assets, whereas a positive value denotes an increase in assets or expenses over this time period. The value itself equals the percentage change in either assets or expenses from time 2 to Time 3.

The two measures of situation urgency are also taken from the turnaround literature. **DECLINE SEVERITY** has been well established in the strategy literature and is typically determined by using Altman's (1968) Z value method. This measure predicts financial health in terms of how close to bankruptcy an organization is. It provides a score between one and five, with one being the most severe state. Scores of three or above mean that one can confidently predict that a firm will not go bankrupt in the short term. The data for this variable were gathered at Time 2, the lowest point of decline. **SUDDENNESS OF DECLINE** was measured in terms of the number of years it took of firm to go from a healthy financial position measured at Time 1, to the lowest point in its decline cycle measured at Time 2. Therefore, the lower the number of years, the more the sudden the decline of the firm.

The third element under study is that of market growth or contraction. As proposed in Figure 1, this is an external cause of firm decline. This variable is primarily concerned with the industry or industries that a firm is active in. The data were collected from *Predicast's Industry Reports* which details industry shipments for each 4-digit SIC code per year. The initial step for collecting this data was to determine each firm's main industry at Time 2. This was accomplished by analyzing a firm's sales per 4-digit code as provided by the COMPUSTAT database. Of the 97 firms in the sample, all but eight indicated at least two-thirds of its sales in one 4-digit SIC industry. For these eight firms, each of its major industries was identified along with the percentage of firm sales attributed to each. After this process was completed, data on each firm's industry shipments was collected at Time 1 and Time 2. For the eight firms, which participate in more than one major SIC industry, a figure was determined by including the percentage of sales for each SIC code and the weighted industry average for each time period. To ensure that this method properly captured the growth or contraction of a firm's industry shipments, the results were checked with the change between Time 1 and Time 2 for each individual SIC industry code. For each subject, the direction of growth or contraction of the weighted average figure agreed with the direction for each of the individual industries. Lastly, each industry determined at Time 2 was checked with a firm's 4-digit SIC codes at Time 1 and Time 3 to ensure that the reported industries remained consistent for each subject over the designed time period of the study. Once the industry data were collected for each firm at Time 1 and Time 2, they were transformed into a continuous variable as follows:

$$\text{INDUSTRY GROWTH} = (\text{Industry Shipments Time 2} / \text{Industry Shipments Time 1}) - 1.$$

Thus, positive values indicate a growing industry; whereas negative values denote a contracting industry.

To assess the firm's employee productivity, two procedures were undertaken. First, the firm's total sales were divided by the number of employees to determine a productivity ratio at Time 2. Second, this measure was examined in relation to competing firms in its industry for the same time period. The industry average was collected from the COMPUSTAT database for each firm's primary SIC code. For those eight firms that significantly participated in more than one SIC industry, weighted averages were again calculated to determine a productivity figure. Once the data were collected, employee productivity for each firm was computed by employing the following formula:

$$\text{EMPLOYEE PRODUCTIVITY} = \text{Firm Productivity} / \text{Industry Average Productivity}.$$

Values greater than one indicate that the firm's employees are more competitive than its rivals, whereas values less than one provide evidence that its productivity is worse. In the same manner, the firm's capital productivity was determined by calculating both firm and industry's sales divided by property, plant, and equipment at Time 2. Thus, the following indicates the computation of the variable for the capital productivity of each declining firm:

$$\text{CAPITAL PRODUCTIVITY} = \text{Firm Capital Productivity} / \text{Industry Average Productivity}.$$

RESULTS

Descriptive statistics and correlations for each variable are presented in Table 1. The means of the dependent variables are both close to zero; however the standard deviation for both Expense Retrenchment and Asset Retrenchment is in the 50% range. This indicates that the sample includes firms which retrenched during the decline and also those that increased assets and expenses. Therefore, the sample contains firms which pursued a full range of retrenchment activities and is appropriate for examining the previously discussed research questions. Also, note that the two retrenchment variables are significantly correlated with each other, demonstrating a positive relationship; however it is not so strong that each variable measures the same construct. Table 1 also indicates that this relationship exists between the two productivity measures as well.

TABLE I
Means, Standard Deviations, and Correlations

	Mean	Std Dev	1	2	3	4	5	6	7
1. Asset Retrenchment	0.041	0.535	1.000						
2. Expense Retrenchment	0.025	0.500	.581**	1.000					
3. Industry Growth	0.158	0.407	-.035	-.129	1.000				
4. Employee Productivity	1.210	1.199	-.339**	-.333**	-.011	1.000			
5. Capital Productivity	1.119	1.360	-.263**	-.320**	.130	.748**	1.000		
6. Decline Severity	1.083	1.980	.148	.056	-.105	-.150	-.199	1.000	
7. Decline Suddenness	3.010	1.046	.275**	.202*	-.130	-.132	-.303	-.163	1.00

* $p < 0.05$

** $p < .01$

The previously discussed hypotheses were tested by using a fully saturated mediated path model. This method was chosen in order to fully test the theoretical propositions simultaneously and is appropriate for examining both direct and indirect relationships (James, Mulaik, and Brett, 1982). The path coefficients were derived by running a path analysis within the Lisrel program. The model also indicates whether the coefficients were significant at the .05 or .01 level.

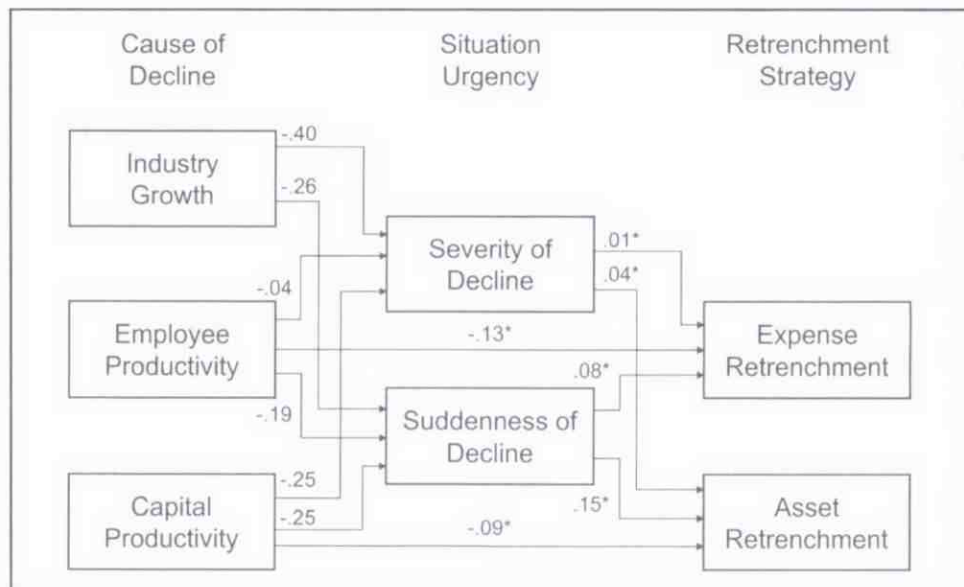


Figure 2. Final path mediation model.

As Figure 2 displays, the model supports many of the proposed hypotheses. Hypothesis 1 relating industry growth to asset and expense retrenchment as mediated by decline severity and suddenness is partially supported. It appears that the relationship between industry growth and the two variables of situation urgency are negative as the hypothesis proposed, but are not significant. However, the results suggest that decline severity and suddenness do impact retrenchment activities as the hypothesis indicated. Each relationship is significant at the .05 level and is found for both asset and expense retrenchment. Figure 2 indicates that this relationship is stronger between the suddenness of the decline and the retrenchment variables.

Overall, it appears that industry performance has little impact on the urgency of a declining firm; however if the situation does become urgent, especially for firms experiencing sudden declines, then retrenchment can be predicted. Also, it appears that the relationship of both urgency and suddenness to asset retrenchment is slightly stronger than the relationship to expense retrenchment, indicating that firms in crisis situations are more likely to feel the need to reduce assets. Likewise, firms experiencing less urgent declines do not reduce assets as heavily. The difference here could lie in the short-term nature of cutting expenses as opposed to assets. Urgent situations bring about more drastic solutions, which involve the long-term ramifications of asset reductions.

As for Hypotheses 2 and 3 regarding the influence of productivity on retrenchment, both are supported. Employee productivity has a significant, negative direct effect on expense retrenchment and, in the same fashion, capital productivity has a significant, negative direct effect on asset retrenchment. This provides support for the argument that retrenchment is not an automatic solution for firms in decline. If declining firms are productive in relation to competitors, then the retrenchment response is considered less appropriate. However, if this is a source of decline, then firms are likely to retrench.

Last, Hypotheses 4 and 5 discussing the relationships between productivity and situation urgency are not supported. Even though the direction of the relationships between employee/capital productivity and the measures of situation urgency are in the hypothesized direction, the results are not significant.

The explained variance for each of the retrenchment outcomes is determined by the squared multiple correlations for this model. These figures are 14% and 17% respectively for expense and asset retrenchment. This finding indicates that the aspects of the decline and the measures of situation urgency employed in this model can be used to explain this level of a declining firm's retrenchment activities.

DISCUSSION AND CONCLUSION

Overall, the results of the path analysis provide partial support for the previously discussed arguments and contribute to our understanding of retrenchment. As has been stated, the research question in this study dealt with influences on a firm's retrenchment response to decline. The results indicate that both the sources of decline and the urgency of the decline situation must be considered when investigating retrenchment actions. One of the significant contributions this study makes concerns the different retrenchment strategies that firms pursue. As the results regarding productivity indicate, organizations institute turnaround strategies that focus on areas of internal weakness and avoid reducing areas of strength. This is displayed in the findings concerning the influence of firm productivity on retrenchment outcomes. For example, if a firm's assets are highly productive in comparison to competitors, then this is an area of strength to the firm. In this situation the reduction of expenses would be more appropriate for generating cash than reducing assets. The firm could determine that a strategic reorientation is most appropriate since its internal operations are competitive in comparison to industry rivals. In this way the retrenchment cannot be considered merely a consequence of decline as Barker & Mone (1994) suggest because many declining firms do not respond this way when effectively productive.

Another contribution of this study is the examination of the urgency of decline as measured by severity and suddenness. The results suggest that this is an important factor of whether firms pursue retrenchment responses to decline. The findings strengthen the argument that retrenchment is not the answer for all firms in the midst of decline, but is likely for firms in extremely urgent situations. Also, the findings support an integrative approach for explaining a firm's retrenchment actions in that both the urgency of the situation and specific decline characteristics were found to be significant influences. This indicates that determining or predicting the actions of a declining firm cannot be approached in a simplistic manner, but

must consider the strengths and weaknesses of the individual firm and the pressures that it faces.

As with all large sample research investigating corporate turnaround, this study is limited by the difficulty of capturing the totality of this phenomenon precisely. The process can involve such elements as top management characteristics, corporate culture, or strategic momentum (inertia), which are underlying influences to any specific responses that organizations attempt when combating decline. An advancement in this research area would be to combine both archival and direct sources of data in order to capture a richer understanding of these influences on turnaround attempts. It would also be beneficial to expand the sample of firms in various industries to test for differences across industries and among service firms. Of course, for turnaround researchers the primary goal is to be able to determine appropriate responses to organizational decline. This study builds upon previous research by providing researchers and practitioners with a method for seeing beyond simplistic prescriptions for declining firms and for determining the factors driving a firm's actions.

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