RESEARCH ON TURNAROUND

Strategies for Survive in Economic Crisis

Jullimursyida Ganto, Ph.D

Unimal Press
Lhokseumawe, Aceh

RESEARCH ON TURNAROUND STRATEGY:

STRATEGIES FOR SURVIVE IN ECONOMIC CRISIS

universitas
MALIKUSSALEH

JULLIMURSYIDA

RESEARCH ON TURNAROUND STRATEGY:

STRATEGIES FOR SURVIVE IN ECONOMIC CRISIS

UNIMAL PRESS

Judul: **RESEARCH ON TURNAROUND STRATEGY: STRATEGIES FOR SURVIVE IN ECONOMIC CRISIS**
xiv + 142 hal., 15 cm x 23 cm

Cetakan Pertama: April, 2018
Hak Cipta © dilindungi Undang-undang. *All Rights Reserved*

Penulis:
JULLIMURSYIDA

Perancang Sampul:
Penata Letak: Eriyanto
Pracetak dan Produksi: **Unimal Press**

Penerbit:

UNIMAL PRESS

Unimal Press
Jl. Sulawesi No.1-2
Kampus Bukit Indah Lhokseumawe 24351
PO.Box. 141. Telp. 0645-41373. Fax. 0645-44450
Laman: www.unimal.ac.id/unimalpress.
Email: unimalpress@gmail.com

ISBN:
978-602-464-023-1

ISBN 602464023-4
9 786024 640231 >

Dilarang keras memfotocopy atau memperbanyak sebahagian atau seluruh buku ini tanpa seizin tertulis dari Penerbit

About the Author

Dr. Jullimursyida is a Lecturer at Department of Management and currently, she is a Deputy Dean on Academic at Economic Faculty, University of Malikussaleh. She earned her Bachelor and Master from Economic Faculty, University of Syiah Kuala and gained her Doctor of Philosophy from University Science of Malaysia in Strategic Management.

She wrote few articles that has been published in national and international journal such as The South East Asian Journal of Management, Jurnal Ekonomi Media Ilmiah Indonusa, Executive Journal of Business and Management. She also attended international conferences that held by Australia and New Zealand Academy of Management Conference (ANZAM), Global Conference on Business and Economic (GCBE), International Conference on Business Management Research (ICBMR), International Conference of the Asian Academy of Applied (AAAB).

Her research interest is in Strategic Management research, Job Satisfaction Research, Marketing-related Research and Human Resource Management research.

Dedication

To my parents; Drs. Haji Idris Jalil and Hajjah Nuraliah Ganto
My uncle Haji Adnan Ganto
To my lovely husband Amru Usman, M.Sc
My daughters; Batrisyia Atikah and Nurin Qasrina

Foreword

The study of organizational decline and turnaround has gained importance with the recent increase of business failures. Many companies in Asia faced trouble in many sectors during last economic recession of 1997/1998. Indonesia is one of the countries that was hit by this economic downturn. Many companies failed and went bankrupt, but some of them still survived after the crisis. The dramatic depreciation of the exchange rate and the collapse of confidence in the financial and banking sector triggered capital flight in late 1997 and early 1998.

The financial crisis quickly spilled over to the real sector. Domestic prices of tradable goods adjusted upwards toward higher world prices (in Rupiah terms) because of the dramatic depreciation of the exchange rate. High interest rates coupled with difficulties in the banking system led to a reduction in private sector borrowing during this period. Real wages fell in 1998 and investment slowed to a trickle.

Construction, manufacturing, and banking and finance sectors were hardest hit in terms of the fall in real value added. Within the manufacturing sector, construction materials, steel production, transportation, and wood products recorded the greatest decline in real value added between minus 23 and minus 55 percent. Indicative of the sharp decline in aggregate demand, imports had fallen by 36 % in the 10 months to October 1998 compared to the same period in 1997.

Hence, the research on this situation is needed as the result of few research conducted on turnaround situation in Indonesia. This book will teach on how to doing research and develop methodology. However, the construction comments are needed to provide the book getting better.

Jullimursyida
Lecturer at Economic Faculty
University of Malikussaleh

Acknowledgement

Bismillahirrahmanirrahim.

Many thanks to Allah the Lord of universe for providing me the strength and emotional support. Nothing is possible without our God divine intervention. May his blessing and mercy be upon to our prophet Muhammad SAW.

I acknowledge the contribution and support of Professor Mohamed Sulaiman, Dato' Professor Daing Nasir Ibrahim, Associate Professor Zainal Ariffin Ahmed, Dr. Siti Nabiha Abdul Khalid, Dr. Suhaimi Shahnon, Professor Muhamad Jantan, Professor Mahfooz Ansari and Associate Professor Yuserrie Zainuddin, Associate Professor T. Ramayah, Dr. Jasman J. Ma'aruf,Dr. Iskandar Madjid, Dr. Mahdani, Prof. Badia, Dr. Lilis, Dr. Kitima, Dr. Nit, Dr. Abdullah Hemdi, and Dr. Majdi.

Many thanks to 101 CEOs who have kindly participate in this research. Finally, I must thank to Chancellor of University of Malikussaleh and the Dean of the Economic Faculty University of Malikussaleh for support and financing me to provide this book.

Daftar Isi

List Of Tables

List Of Figures

Chapter One
Introduction

Background of the Study

The importance of the Asian financial crisis affecting South East Asian economies has been widely discussed. Moreover, an increasing amount of work has been conducted to show how macroeconomic issues under governmental direction can help to improve the situation (Bruton, Ahlstrom & Wan, 2001). On the other hand, turnaround appears to be one of the subjects that are receiving increasing attentions from researchers, managers and consultants. However, it has received minimal examination in Asia, with studies usually focusing more on external environment or macroeconomic issues but less on the management of Asian firms themselves (Ahlstrom & Bruton, 2004; Bruton, Ahlstrom & Wan, 2001; Fisher, Lee, & Johns, 2004). While, such information is important to managers in the region who are struggling to reverse their firms' decline, it is also important to investors or lenders from outside Asia who are unfamiliar with unique issues present for a turnaround effort in Asia region (Bruton, Ahlstrom & Wan, 2001).

The Asian economic crisis had hit many countries in Asia. The crisis was triggered by short or long term changes in the external or internal environment, and that attempts were made to address them through various types of change and reform (White, 2004). One of the countries that was hit hardest is Indonesia. Hence, many companies in Indonesia comprising many sectors were faced with hardship during the resulting economic recession of 1997/1998. Hence, many failed and went bankrupt, but some of them still survived after the crisis. On another front, many authors uncovered the many strategies adopted by the companies to overcome the crisis (Bruton, Ahlstrom, & Wan, 2003; Maimon, 1999). Widianto and Choesni (1999) conducted a study in Indonesia and found that many firms had adopted different strategies to cope up with the crisis. However, it is still unclear what turnaround strategy the companies adopted in their quest to get out from the decline in Indonesia.

Turnaround has considerable importance, because it deals with reversing performance (Chowdhury, 2002). Because of this, turnaround is viewed as a performance issue in strategic management. Generally, turnaround is concerned with how businesses get in and out of the failure track (Maimon, Ling & Agus, 1987). Business decline and turnaround basically confront businesses, which are facing crisis situation (e.g. cash distress, production decline and profitability crisis). Unless appropriate actions in the form of turnaround are taken, businesses will become insolvent or go bust. A turnaround therefore, represents a very important management process to save a company from deteriorating further into a more problematic situation or even fatal jeopardy. The process has been described by Zimmerman (1986) as painful. Bibeault (1982) prescribed a stage-by-stage process of turnarounds (partly based on his experience) but cautioned that in reality it could be very complex. Prescription by Pearson (1987) on turnaround highlighted the need for loss making companies among others to be precise and decisive.

Important turnaround context and process lines of inquiry that have been ignored by the literature as a whole have been identified by highlighting studies that have exceptionally pursued them. A central issue that the body of literature as a whole has failed to properly address is the identification and testing of links between the content of turnaround strategy, the context in which they occur, and the process by which they are implemented (Pandit, 2000). The process of turnaround, that is how firms move away from crippling deterioration in performance to enduring success or eventual death, has also received no attention (Chowdhury, 2002). Therefore, it can be said that, there is a severe lack of theory on the subject turnaround. This results in a scenario wherein there is a wide gap between empirical findings (based either on large sample or on case descriptions) and the work already done. Rectification of the situation is essential toward systematically uncovering the causal structure of events from the onset of a firm's decline to its ultimate recovery or death. Notwithstanding, there are also limited empirical evidence on turnaround (Chowdhury, 2002; Sudarsanam & Lai, 2001).

This study therefore was undertaken as an attempt to identify the causes of decline in, the chosen turnaround strategy by, and the effect of turnaround on firm's performance of, the Indonesian manufacturing firms following the economic crisis in 1997/1998.

The choice to focus on turnaround strategy is made to clarify whether the same strategies that produced firm's turnarounds in the U.S., or other Western economies, will be similarly effective in Asia. It has to be noted that there is a lack of research in this area in the East, particularly in Indonesia and only a few in Malaysia e.g., Maimon, Ling & Agus (1987), Maimon (1999), and Sim (1991). The studies done so far did not find conclusive evidence of causes, processes and effects of turnaround. In addition, many findings support the view that theories of organization developed largely in the West will not automatically be applicable to Asia, and that their applicability must be evaluated (Ahlstrom & Bruton, 2004).

The Economic Crisis and

The Indonesian Manufacturing Sector

Indonesia was hit hardest by the recent economic crisis in Asia (Nasution, 1998). The central bank, Bank Indonesia, abandoned the exchange rate intervention and moved to the floating exchange rate system, to defend the external reserve position. After that, the exchange rate and interest rate were jumping wildly and moving uncontrollably. The external value of rupiah has depreciated by over 80 percent from July 1997 to June 1998 (Rp. 2,400: US $1 to Rp. 16,000: US $1). During the same period, the composite stock price index at the Jakarta Stock Exchange plunged by more than 50 percent. By the end of 1997, only 22 from 282 listed companies on the Jakarta Stock Exchange operated with sufficient cash flow. Bank deposits and loans interest rates soared to over 50 percent per annum in 1998. Meanwhile, the liquidity was very tight and depositors had to pay an expensive penalty for withdrawing time deposits before their maturity dates (Nasution, 1998). In addition, Claessens, Djankov, and Klapper (2003) found that the number of companies that went bankrupt increased from 11 companies for the period between 1978 and August 1998 to 24 companies in the last 3 months of 1998 alone in Indonesia.

In the manufacturing sector, after three decades of economic development, the sector's contribution in Indonesia to the value-added creation surpassed agriculture. In 1969 the share of the manufacturing sector in GDP is merely 7%, compared to 36% for agriculture. However, in 1996, the picture was reversed; the share of manufacturing was 25%, while agriculture was 16%. One important characteristic of the Indonesian manufacturing industry was its high dependency on raw materials and intermediate goods from imported sources. There was no question about this dependency when raw materials and intermediate goods cannot be obtained domestically (Widianto & Choesni, 1999). There is one scheme that reimburses taxes charged on imported inputs if the final products are destined for the export market. As a result, export oriented producers had little incentive to develop linkages with domestic supplier of inputs. Thus, labor-intensive export-oriented industries like garments and footwear manufacturing that emerged had minimal linkages to small-scale domestic suppliers.

The dramatic depreciation of the exchange rate and the collapse of confidence in the financial and banking sectors triggered capital flight out of Indonesia in late 1997 and early 1998. The financial crisis quickly spilled over to the real-property sector. Domestic prices of tradable goods inevitably adjusted upwards toward the correspondingly higher world prices (in Rupiah terms), as a result of the dramatic depreciation of the exchange rate. High interest rates coupled with difficulties in the banking system led to a reduction in private sector borrowing during this period. Real wages fell in 1998 and investment slowed to a trickle.

Construction, manufacturing, and banking and finance sectors were hardest hit in terms of the fall in real value added. The manufacturing sector, comprising construction materials, steel production, transportation, and wood products recorded the greatest decline in real value added, between minus 23 and minus 55 percent. Indicative of the sharp decline in aggregate demand, import fell by 36 % in the 10 months to October 1998 compared to the same period in 1997. The total value of exports showed a drastic decline in the first eight months to August 1998 (Widianto & Choesni, 1999).

Industrial production was adversely affected by the crisis through both price effects that increased the cost of production and income effects that decreased the demand for products in the markets. However, it was unclear how large and widespread the impacts were. It was also possible that some enterprises might have benefited from the crisis; for instance, sectors that utilized domestic raw materials and exported their products. Therefore, one would expect considerable variations in the production trends both within and across industrial sectors. The impacts of the crisis on firm's economic performance appeared to be mixed. While many firms had been adversely affected by the crisis to varying degrees, some firms were better off because of the depreciation of the Rupiah. This depended on the type of industry, whether or not the firms exported part of their production, and the differences in resource and the endowment of the region. Firms operating in Java had greater reduction in capacity utilization rates and had smaller workforces in 1998 compared to firms operating outside Java (Widianto & Choesni, 1999).

Firms in Indonesia identified the sharp decline in domestic demand and the effect of the depreciation of the Rupiah in rising input costs (and presumably its volatility) as the major causes of the fall in output levels in 1998 (Widianto & Choesni, 1999). The high cost of capital was cited as the third most common cause of the fall in output. Access to credit and guarantee of letters of credit were not rated as major causes of the decline in output at the end of 1998. Firms had adopted different strategies to cope with the economic crisis. Some firms had shifted from supplying the domestic market to export markets. Other firms relied more on informal sources of short-term finance such as family, partners and shareholders rather than banks.

This study attempts to answer the question about the causes of output decline by manufacturing firms following the economic crisis of 1997/1998 and what the companies did in order to survive from the decline. It was found by BPS (2001) that there were still many companies that survived after the crisis even though they were hit badly by it.

Problem Statement

Chowdhury (2002) asserts that turnaround is of considerable importance because it deals with reversing organizational performance. Almost all of Indonesian companies were affected by the economic crisis of 1997/1998 (Widianto & Choesni, 1999). Many of them still survived two years after the crisis while some failed and went bankrupt. Unfortunately, there is a dearth of empirical research with regard to the turnaround strategies undertaken by the Indonesian manufacturing firms during the economic crisis of 1997/1998. There is also limited knowledge and empirical research concerning the problems faced by the Indonesian manufacturing sector in terms of the causes of companies' decline during economic crisis, and the effect of turnaround strategies adopted on firm's performance. This research was motivated by the following considerations:

1. The dearth of empirical research using primary data to investigate the causes of decline, turnaround strategies adopted and the effect of those strategies on firm's performance.
2. The dearth of study carried out on turnaround strategies as mediating the relationship between the causes of decline and firm's performance.
3. The inconclusive results showed by past studies of the causes of decline and the turnaround strategies involved.
4. The inconclusive results showed by past studies of turnaround strategies adopted on firm's performance.

Research Question

From the aforementioned research background and problem statement, the following research questions are laid down to be answered by this research. They are:

1. What are the major causes of decline?
2. What are the relationships between causes of decline and turnaround strategies?
3. What are the relationships between turnaround strategies and firm's performance?
4. Do turnaround strategies mediate the relationship between causes of decline and firm's performance?

Research Objectives

The general purpose of this research is to review and evaluate the turnaround strategies adopted by the companies to overcome the crisis. The specific objectives of this research then are:

1. To determine the major causes of decline in Indonesian manufacturing firms as perceived by the Chief Executive Officer.
2. To investigate the relationship between causes of decline and turnaround strategies.
3. To investigate the relationship between turnaround strategies and firm's performance.
4. To investigate the mediation effect of turnaround strategy between the causes of decline and firm's performance.

Significance of the Study

This research is expected to contribute towards a better understanding of turnaround strategies as a whole and those that have been undertaken by the Indonesian manufacturing firms. Anand and Singh (1997) argued that there are two important reasons for studying declining industries. First, due to the nature and magnitude of the changes in the global economy during the last two decades, an ever-greater number of sectors are going through rapid growth or rapid decline, while the literature on business strategy addressed some questions specific to declining industries, empirical studies on corporate strategy focusing on declining industries are rare. Second, there will be greater divergence between the interest of managers and shareholders in declining industries than the general population.

There has been no study of turnaround strategy and their effects in Indonesia since the financial crisis of 1997. Ahlstrom and Bruton (2004) support the belief that businesses in Asia differ significantly from those in the West, particularly in how strategies such as turnaround are undertaken. This study is a modest attempt to fill in the gap between the theory and practice of turnaround strategy. Robbins and Pearce (1997) argued that the gaps exist between theory and empirical findings for two reasons. First, the research designs employed in past large-sample studies did not adequately control for the contingency, identified by early turnaround theorists, that firms must have weak strategic postures for strategic change to be essential to turnaround (e.g., Hofer, 1980; Hofer & Schendel, 1978; Schendel, Patton, & Rigss, 1976). Second, the methodologies used in most large-sample studies of turnarounds did not reliably measure the extent of strategic change undertaken in a turnaround attempt. Therefore, past empirical studies provided only weak tests of the value of strategic change to turnaround attempt success.

Intentionally left blank

Chapter Two
Theory on Decline

Definition of Decline

Expansion (growth) and decline in organizations are part of the dynamics of organization. The study on expansion in organization has been given much attention by previous researchers, but discussion on decline has only been emerging since the late 1970s and early 1980s as important organizational condition (Weitzel & Jonsson, 1989). While, the current business environment is one of unpredictable instability, which can lead a business into rapid decline if its management does not understand the signals of business decline (Scherrer, 2003).

There is much more difficulties in empirical study on organizational decline than the study of expansion. Managers of expansion organizations welcome the chronicler of organizational events, while those in charge of organizations suffering declining performance or liquidation usually have little time and no interest in working with administrative scientists, because their concern in survival. However, the study on organizational decline is important because of the enormous social consequences resulting from disruptions to the economy and to individuals dependent on organizations for products and services, as well as for jobs (Weitzel & Jonsson, 1989).

Company's decline has been treated from many perspectives in the organizational literature (Weitzel & Jonsson, 1989). Argenti (1976) views decline as when a company, which has hitherto been operating successfully, first begins to falter and then has to fight to remain profitable. Bibeault (1982) defined decline as the situation wherein companies still survive after faced with problems. While Slatter (1984) used the term decline to refer to those firms or operating units whose financial performance indicates that the firm will fail in the foreseeable future unless short term corrective action is taken. Organizations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten the organization's long term survival (Weitzel & Jonsson, 1989). Barker and Patterson (1996) stated that decline occurs when an organization becomes less adapted to its environment and resources are subsequently reduced within the organization.

Sometimes, decline and failure are used with the same meaning. Actually, there are differences between these two words. Bibeault, (1982) defined failure as the company that was going to fail after facing problems. Failure also refers to a company whose performance is so poor that sooner or later it is bound to have to call in the receiver or cease to trade or go into voluntary liquidation, or which is about to do any of these, or has already done so (Argenti, 1976). Finally, Slatter (1984) defined failure as when the company will fail if it does not adopt the specific turnaround strategies within two or three years. From the definitions above, we can conclude that there is a distinction between decline and failure of the company.

When analyzing a firm's decline, we have to be careful to distinguish between causes and symptoms of decline (Slatter, 1984). Symptoms are merely 'tell-tale' signs-danger signal that give clues as to what might be wrong with the firm. But knowing causes of firm's problems is to help the sick firm to recover. However, other researchers used symptoms of decline as causes of financial distress (Denis & Denis, 1995; Sudarsanam & Lai, 2001). While financial distress itself refers to the decline on financial performance (Sudarsanam & Lai, 2001). Previous studies showed there are no differences between factors that contribute to decline, failure, and turnaround (Denis & Denis, 1995; Hambrick & Schecter, 1983; Pant, 1991; Robbins & Pearce, 1992; Sudarsanam & Lai, 2001). Therefore, the present study will use causes of decline for further discussions.

Most of the previous research used the financial performance to define decline. Schendel and Patton (1976) defined decline as an earnings decline. Bibeault (1982) says decline refers to net income or profit decline. For Slatter (1984), decline is defined as declining of real profit before taxes. Many researchers used ROI, ROS and ROA to define company decline (Hambrick & Schecter, 1983; O'Neill, 1986; Pant, 1991).

In this research, decline is defined as a decline in production. It was decided to use production decline because in 1997/1998 in Indonesian manufacturing sector, the output of production dropped by about 12.8% (Abimanyu, 1999) and the effects of economic crisis was shown by a drop in Indonesian GDP of about 13.4%. Ishida (2003) found that the industry failed to increase output. Thus, the manufacturing industry was considered to suffer from output decline during 1997/1998. All manufacturing firms in the sector shall be the sample of this study. Any decline in output consequently will have an impact by a reduction of, or negatively on, sales growth and return on sales. Hence, decline in output is reflected by ROI, ROS, and sales growth.

The Causes of Decline

The cause of decline is an important determinant to the turnaround strategies (O'Neill, 1984). The earliest study about causes of business decline was Argenti (1976). He found the factors that cause corporate decline to be poor management, lack of accounting information, firms' unresponsiveness to change, failure of big projects, environmental change, hostile environment, normal business hazards, lack of financial control, over-trading, high-gearing, and stiff competition. While, D'Aveni (1989) conducted a research on organizational decline found four important findings, they are: (1) results confirmed the existence of different patterns of decline, (2) these patterns of decline are related to the timing of the consequences of decline, (3) the consequences of decline include managerial imbalances, actions concerned with efficiency, centralization effects, and strategic paralysis, and (4) firms may delay or even avoid bankruptcy if their environment is sufficiently growing to support a resource deficient firm.

Heng, Ibrahim and Jantan (1995) using ten potential causes of corporate decline in small, medium and large-size organizations in Malaysia, found that the factors are; lack of financial control, poor management, competition, high cost structure, changes in market demand, adverse movements in commodity price, lack of marketing efforts, failure of major projects, poor acquisition, weak financial policy. They found that five factors causing insolvency in small size organizations, namely; lack of financial control, failure of major projects, weak financial policy, poor management and competition. While only two factors seem to influence medium size organizations, they are; lack of financial control and failure of major projects. However, the study shows that none of the causal factors are influential toward large size organizations.

Maimon, Ling and Agus (1987) found the causes of decline are: rapid decline in market demand, core business affected due to rise in competition, high fixed cost as a percentage of value added, poor management, general operation in efficiency, product market weakness, lack of control, no sustainable competitive edge, limited resources compared to competitions, indivisible assets. In addition, the most important causes of corporate decline were: core business being affected by competition, rapid decline in market demand and high fixed costs as a percentage of value added. The first of the two causes appeared to be externally induced, possibly by recession.

Boyle and Desai (1991) assert that the causes of companies' decline were mostly determined by internal factors. The internal factors in their view were financial impact, organization structure/change, human resources, sales/ marketing, and planning. While external factors identified were companies product or service that injures someone, owner is injured or becomes ill, declining market sales, drop in the number of prospects and economic downturns. Crawford (1991) found that the causes of Australia's corporate decline were due to: (a) deregulation of the banking system and the subsequent over supply of available money for lending, (b) widespread community expectations of continuing inflation in assets prices encouraging speculations rather than production, (c) the bias towards higher gearing ratios caused by the tax deductibility of interest and asset price speculation, (d) more favourable treatment of capital gains as opposed to income by the taxation system, (e) poor bank lending practices, (f) bad management on the part of borrowers, (6) inadequate corporate regulation and poor corporate morality, and (g) government management of macro economic policy.

Theng and Boon (1992) studied on factors affecting the decline of SMEs in Singapore. He found that high taxes, economy in recession, the tight labour market, high labour cost and high interest rate were the external factors affecting SMEs decline in Singapore. While a short sighted view of the future, lack of knowledge of the company's products, followed by lack of managerial experience and skill, lack of initiative, lack of vitality and enthusiasm, lack of entrepreneurial judgment, high operating expenses, lack of capital, lack of control over cash, inappropriate marketing strategy, low labour productivity, lack of cash flow analysis and lastly lack of budgets or forecast were the internal factors contributing to decline.

Maimon (1999) conducted a turnaround survey on KLSE companies, using the data in early 1997. She found that the source factors of firms' decline are poor management, high price companies, poor acquisition management, high gearing use in appropriate financing sources, adverse movement in commodity price, and high cost structure. In addition, as many as half, of the respondent companies indicated being affected by externally induced factors coupled with poor financial management as an important internal cause.

Balgobin and Pandit (2001) conducted a research on stages in the turnaround process, the case of IBM UK. They found that causes of decline of IBM UK are decrease in demand, increase in competition, increase in input costs, poor management, inadequate financial control and high costs structure, and all those factors are related to one another. Furthermore, the performance decline at IBM UK was so severe, threatening its existence, before a radical change was triggered through intervention by the parent corporation and a change of top management. In addition, IBM UK needs the new management, cost reduction, asset reduction and revenue generation actions to address the causes of decline and restore profitability.

Based on literature above, the causes of business decline can be divided on external and internal factors of decline. The detailed discussion on these two terms is described below.

External Factors of Decline

External Factors of decline are factors occurring outside the organization that can influence the decline of the organization. External factors can be divided into two types: external changes and external constraints (Bibeault, 1982). Bibeault (1982) also stated that management can work around external changes but has more difficulty with external constraints. External change itself is the change of external condition of the organization that can influence the decline of the organization and they are beyond management control in the short run. While, external constraints are those external conditions that prevent reaction even when management senses action is required and has made the correct decision (Bibeault, 1982). The variables included in external factors are: economic change, competitive change, political change, society change, and government constraints.

1. Economic change

Turning to economic change, managers have to consider such events such as a devaluation of a major currency, an international monetary crisis, and such trends as the economic cycle, inflation, interest rates, exchange rates, and patterns of disposable income. Inflation is the most severe economic phenomenon. But while the poorly managed company still has not adopted inflation accounting, the well managed company has not only done this but is already conducting a careful scrutiny of the economic scene to determine what their next major economic hazard might be. Changes in general economic climate, will also certainly affect the performance (McRobert & Hoffman, 1997; Slatter, 1984). Higher interest rate means an increase in the cost of production. If this increased cost is not transferred to the customer, then it has to be borne by the entrepreneur, resulting in a lowering of the profit margin. Higher interest rates as well as higher tax rate tend to reduce profits and if this trend continues, it may not be worth pursuing the business (Mall & Shanmugam, 1988).

2. Competitive Change

Bibeault (1982) found that price competition is one of the forms of competitive change where other firms lower prices to introduce their products to new markets. During the companies downturn phase, many of them suffer lowered selling prices because they try to ward off a competitor's attempt to introduce lower priced products. Sometimes, the companies are surprised by sudden appearance of competitors. This quick entry usually is due to new technology or unknown foreign companies.

Under the heading of competitive trends or events, the emergence of foreign low-cost producers, the merger of two competitors, price competition, product competition, the announcement of a competitor's new range of products, and the appearance of an entirely new company in the industry, all such changes are bound to have a profound impact, sooner or later, upon a company. Not to keep one's ear close to the ground or not to try to calculate and quantify the consequences and not to take appropriate action is certain to lead to loss of competitive edge over a period of years (Slatter, 1984). He also found that price competition is the main factor causing decline in British manufacturing industry due to price competition from overseas competitors in motor cycle, machine tools and textiles. Major changes in the level of competition also exert severe strains on the business, as sales will fall.

3. Political Change

Whether at the local, at national or international level, politicians may affect one's production resources. They can affect one's raw materials, markets and finance; politicians are playing a growing role in business all over the world. New quotas, duties, taxes, levies and legislation of all sorts pour out of government agencies.

But more insidious, because they are not written down and published, are the changes in political attitudes towards business in general and certain industries and companies in particular (Argenti, 1976).

4. Society Change

To accommodate many of the changes in society there is a need for long term analysis (Bibeault, 1982). Social change could take the form of attitude toward the work. The example given by Bibeault (1982) was seen to be changing a decade or more ago but many companies have still not really understood how profound is the movement towards “participation” and “job satisfaction”. There is a risk of losing touch with one’s employees and precipitating strikes. Strikes appear to be caused by social changes that companies have not accommodated themselves.

A great number of companies have lost touch with their market or their customers because they did not see, or did not react to, social trends such as changes in life style, in composition by age or colors of given population, in attitudes to pollution and customer protection (Argenti, 1976).

5. Government Constraints

The government of a country can provide opportunities and also constraints for a company. Politicians are playing a growing role in business all over the world (Bibeault, 1982). They can make policies, laws, and regulations which affect production resources, raw material, market, and finance whether at national or international level. The government’s impact on the business is through taxation, employment laws, welfare legislation, pollution control, product safety and consumer welfare legislation, etc.

From the literature above, we can conclude that external factors of decline are the factors that the company cannot control by themselves, but they can react towards them. They have to take action to minimize the effect of those conditions on their organization. Obviously, the external condition is an important situational element since it has a strong impact on a firm’s strategic direction (Francis & Pett, 2004).

Internal Factors of Decline

Internal factors of decline occurring inside the organization can influence the decline of the organization. The internal factors could be: poor management, lack of financial control, failure of major projects, high cost structure, overtrading, poor acquisition, and lack of marketing effort.

1. Poor Management

There is a wide or even universal agreement that the prime cause of decline is poor management. Poor management usually refers to either one or more of the following:

1. One man rule is intended to describe chief executives who dominate their colleagues rather than lead them, who make decisions in spite of their hostility or reticence, who allows no discussion, will hear no advice (Argenti, 1976).
2. Non-participating board, outside or non executives of subsidiary companies who sit on main boards take little parts in matters which affect the company as a whole. Their interest is active only when the discussion bears on their particular area of expertise (McRobert & Hoffman, 1997).
3. Unbalanced top team, in which all of the board members are all accountants, all engineers, or whatever (Slatter, 1984).
4. Lack of management depth. Slatter (1984) found that lack of adequate management skill at the level below that of chief executive is a contributory factor causing decline. Lack of management depth can be found where decline has been relatively slow, because of these situations the better managers have usually left long before the ultimate crisis occurs.
5. Weak finance function. This factor can be the cause of decline because many companies have no finance director and only permit the chief accountant to be present at board meetings when an annual or a special-project budget is being discussed (McRobert & Hoffman, 1997).
6. Inadequate strategic understanding of the industry. Firms run by a chief executive who does not know the position and prospect of each market on which the operation depends is a firm with a high risk of decline (McRobert & Hoffman, 1997).

2. Lack of Financial Control

Lack of financial control often leads to management being unable to pinpoint the products (Slatter, 1984), markets and activities which are losing money. Products or businesses which are using cash and generating cash have to be identified. Specifically, lack of financial control includes the absence of:

1. Inadequacies in cash flow forecast.
   Teng (2002) stated that cash flow problems arise from poor cash management. Even companies with good products or services can literally be choked to death by poor cash flow as they are unable to continue with the normal daily operations.
2. Costing systems.
   Costing systems are critical to the company's financial health as they have tremendous impact on its profitability and long term viability (Teng, 2002).
3. Budgetary control.
   Poor budgetary control can result in improper allocation of resources and inability to foresee problems that require immediate attention (Teng, 2002).

3. Failure of Major Projects

A number of writers and experts, e.g. Slatter (1984) and Maimon (1999), mentioned the failure of major projects as a potent cause of decline. There seems to be a wide agreement, that one of the almost tediously repetitive mistakes that lead to decline is the major project where costs and times are underestimated or revenues overestimated and start up difficulties. These errors always seem to be enormous. Costs are never mildly greater, nor time neither schedules a little later, nor revenues slightly less than forecast, the miscalculations are monumental. Consequently, the company is unable to complete the project within the contracted timeframe (Teng, 2002). From Argenti's (1976) viewpoint, a major project includes a merger, a diversification programme, an expansion programme, the launch of a major new product or the introduction of a new service, a research programme, buying materials or components in bulk or as futures, and so on, i.e., not just physical projects such as building a factory, it is any undertaking or obligation that is large compared with the resources of the company.

4. High Cost Structure

A firm that has substantially higher cost structure than that of its major competitors is likely to be at a competitive disadvantage at all times. Even those companies focusing on relatively price insensitive product-market segment will have lower profit than their direct competitors, with the result that they will generate less profit and less additional borrowing power (Slatter, 1984). Maimon (1999) found that high cost structure is the potent cause of decline. High cost structure includes difficult accessibility to raw materials, difficult accessibility to suitable labour, difficult accessibility to production know how, and high overheads.

5. Poor Acquisition

Acquisitions are often executed primarily to implement growth strategies or diversification. Acquiring a business that does not fit into these objectives can be very costly. Anand and Singh (1997) found that acquisition is one of the causes of decline of firms. Acquisition that may cause firms to enter into a crisis situation includes acquiring of losers, overpaying of premium and poor post acquisition management (Slatter, 1984).

6. Overtrading

Overtrading is popularly used to describe a firm that is expanding so fast that its financial resources cannot keep up with the demands placed upon them (McRobert & Hoffman, 1997). Slatter (1984) stated that overtrading is the process by which firm's sales grow at a faster rate than the firm is able to finance from internally generated cash flow and bank borrowings. Overtrading is the characteristic of growth firm (Slatter, 1984). Collapse from overtrading can occur in several ways, of which two are interesting to note. The first strikes at healthy as well as unhealthy companies and arises solely because the managers underestimate the amount they must borrow or the time it may take to arrange the loans. Although banks might be willing and able to grant a loan, there is simply not enough time to make the arrangements before, like the wages have to be paid. The second relates to the company which, in an attempt to expand, increases turnover at the expense of profit margins.

7. Lack of Marketing Effort

Slatter (1984) found that, lack of marketing effort may take many forms but typically, it can be due to: (1) poorly motivated sales force with a non-aggressive sales manager, (2) ineffective and wasted advertising, (3) efforts not targeted on key customers and key products, (4) poor after sales service, (5) lack of market research/knowledge of the customers buying habits, (6) outdated or a lack of promotional material, and, (7) weak or non-existent new product development function. Lack of marketing effort may cause sales and profit decrease. This cause is often found in conjunction with more fundamental marketing problems of a strategic nature such as severe price and product competition.

The discussion above described internal factors which are factors that the management can control. From previous research, internal conditions are partially responsible for decline in about eight out of ten times (Bibeault, 1982). And it seems the primary cause of decline is poor management (Argenti, 1976). There is a need for anticipating and successful management of activities to prevent these various internal causes from coming into effect to ensure an avoidance of decline (Weitzel & Jonsson, 1989). In addition, external and internal conditions of organization tended to focus on change of strategy position, such as turnaround strategies (Ginsberg, 1988).

Gowen and Tallon (2002) conducted a survey on turnaround strategies of American and Japanese electronics corporations. They proposed six factors of firms' decline, they are: (1) decreasing product line profitability, (2) decreasing account profitability, (3) fluctuating foreign currency rates, (4) increasing financial expenses, (5) increasing production/operation cost; and (6) increasing unproductive assets. The six turnaround actions that they proposed were: (1) redesign the product or process, (2) eliminating unprofitable products, (3) using gain sharing or non-deferred profit sharing, (4) reducing marketing/sales costs, (5) increasing capacity utilization, and (6) divesting a subsidiary. They also proposed six turnaround results, they are: (1) increasing sales growth, (2) decreasing unit labor costs, (3) increasing return on investment, (4) increasing operating profit margin, (5) increasing cash flow, and (6) increasing employee morale.

Their study found that the turnaround firms can be classified as high turnaround firms and low turnaround firms. Hence, the result showed that firstly, for four of the six turnaround antecedents, the average high turnaround response is significantly greater than the average low turnaround response, but especially for decreasing product line profitability and increasing production/operation costs. Secondly, for all six turnaround actions, there are significantly greater means for the high turnaround firms than that for the low turnarounds firms, especially for increasing capacity utilization, redesigning the product or process, and eliminating unprofitable products. Finally, the average response for the high turnaround firms is significantly greater than the low turnaround firms' mean response for all six turnaround results items especially for decreasing unit labor costs, increasing employee morale and increasing return on investment. In addition, Japanese turnaround firms have greater inclination to divest a subsidiary and use gain sharing or profit sharing, but fewer propensities to eliminate unprofitable products than American turnaround firms. And Japanese turnaround firms have lower return on investment and operating margin than American turnaround firms.

Scherrer (2003) found the common sense of decline were: (1) management by exception rather than flexible planning, (2) delegation without control, no feedback review or reinforcement, (3) a vertical organization chart where there is little, if any, interaction among departments, (4) managers with responsibility for more than five direct reports, (5) employees with more than one boss, answering with several bosses is impossible, (6) chain of command broken when employees deem it necessary, (7) formal communications are not used, (8) over reliance on strategic plan, resulting in role behavior rather than creative thinking, (9) over reliance on objectives by management, (10) senior managers' abuse of outside activities and company perks, (11) marketing the wrong product and in the wrong place, (12) aging production techniques, (13) inadequate research and development, (14) inadequate production equipment, (15) inappropriate channels of distribution, (16) non-responsive financial information system, (17) loss of competitive advantage, (18) displacement by competition, (19) changing technology, (20) consumer, regulatory, and economic changes, and, (21) inadequate understanding of customers' needs.

Maheshwari and Ahlstrom (2004), proposed the framework of integrating the variables of organizational decline and turnaround (the figure presented in Figure 2.1). The framework describes that managers have two choices concerning significant environmental changes, no action or actions that could prove appropriate or faulty. The response is influenced by two sets of variables, endogenous and exogenous. Exogenous variables include dynamism, munificence, legitimacy and hostility. While endogenous variables include ownership, leadership, board structure, slack, decision making system, internal stakeholders, and capabilities.

Chapter Three
Theory on Turnaround Strategy

The Definition of Strategy

The word *strategy* derived from the ancient Greek word "strategia," which connoted the art and science of directing military forces (Rue & Holland, 1986). According to Pearce and Robinson (2005), strategy is a company's game plan, and reflects a company's awareness of how, when, and where it should compete, for whom it should compete and for what purpose it should compete. By strategy, managers mean their large-scale, future-oriented plans for interacting with the competitive environment to achieve company objectives. Three factors that have a significant influence in strategy are; the external environment, the internal resources, and the goals that are being pursued (Miller, 1998).

Corporate Strategy Alternatives

Corporate strategy is concerned with which businesses an organization will be in and how its resources will be distributed among those businesses (Rue & Holland, 1989). According to Miller (1998), Rue and Holland (1989) there is numerous corporate strategy alternatives exist, which can all be placed into four basic categories, they are: (1) growth, (2) stability, (3) defensive, and (4) a combination of the three strategies.

1. Growth Strategies

O'Neill (1986) asserts that growth strategies are those actions, which are designed to boost the firm ahead. A firm should select a growth strategy that results in an increase in sales or market share only if that growth is expected to result in an increase in firm value. Several different generic strategies fall into the growth category. The most frequently encountered and clearly identifiable of the growth strategies (Miller, 1998; Rue & Holland, 1989) are:

(1). Concentration: a concentration strategy is one that focuses on a single product or service on a small number of closely related products or services. This is the strategy followed when an organization concentrates on extending the sales of its current business. There are basically three approaches to pursuing a concentration strategy: market development, product development, and horizontal integration.

(2). Vertical integration: vertical integration occurs when a business moves into areas that serve either as suppliers to or as customers for its current products or services. If a business integrates by moving into an area that serves as a supplier, the process is referred to as backward integration. But if a business integrates by moving into an area that serves customer or user of its products or services, the process is referred to as forward integration.

(3). Diversification: occurs when organization moves into areas that are clearly differentiated from its current businesses.

2. Stability Strategy

According to Rue and Holland (1989) a stability strategy is not a do-nothing approach; rather, it is a do-the-same-thing approach. This strategy occurs most often when an organization is satisfied with its current situation and wants to maintain the status quo. Under the stability strategy, a company makes few changes in its products, markets, and production methods (Miller, 1998; Rue & Holland, 1989).

3. Defensive Strategies

According to Miller (1998) defensive strategies are used when a company wants or needs to reduce its operations. Most often, defensive strategies are used to reverse a negative trend or to overcome a crisis or problem situation.

Defensive strategies include:

(1). Turnaround strategy which is designed to reverse a negative trend and to get the organization back on the track to profitability. Turnaround strategy usually tries to reduce operating costs, either by cutting "excess fat" and operating more efficiently or by reducing the size of operations. Specific action that can be taken to operate more efficiently include eliminating or cutting back employee compensation and/or benefit, replacing higher-paid employees with lower paid employees, leasing rather than buying equipment, reducing expense accounts, and even cutting back marketing efforts.

(2). Divestiture strategy that occurs when an organization sells or divests itself of a business or part of a business. There are many reasons why an organization may adopt a divestiture strategy, but probably the most frequently encountered one is that previous diversifications did not work out.

(3). Liquidation strategy that occurs when an entire company is either sold or dissolved. The decision to sell or dissolve may come by choice or force. When liquidation comes by choice, it can be because the owners are tired of the business or are near retirement. When an organization is forced to sell out, or to liquidate its assets, the decision often occurs because of a deteriorated financial condition.

4. Combination Strategy

A combination strategy is used when an organization simultaneously employs different strategies for different organizational units. A combination strategy is used more often than any single generic strategy with the exception of growth strategies. In fact, most multi-business organizations use some type of combination strategy, especially when they are serving several different markets (Miller, 1998; Rue & Holland, 1989).

The Turnaround Strategy

An economic downturn normally motivates private corporations to undertake turnaround strategies to protect their assets from continued decline (Pheng & Hua, 2001). Turnaround itself is to produce a noticeable and endurable improvement in performance, to turnaround the trend of results from down to up, from not good enough to clearly better, from underachieving to acceptable, and from losing to winning (Goodman, 1982). According to Harvey (2004), the major differences between a turnaround and normal business are: (a) a different type of leadership is usually required, (b) The CEO and management will be under more pressure because the turnaround has to be done in addition to normal ongoing management, (c) required actions are usually more severe because of actions not taken in the past, (d) faster decisions and actions are generally required because of the critical situation prevailing, (e) there is generally less margin for error but also higher consequences of error, (f) a different set of legal circumstances and risk, and (g) the situation will usually be worse than thought.

For the purpose of this study, the definition of turnaround used is following Harker's (2001) definition that defines turnaround as a process that takes a company from a situation of poor performance to a situation of good sustained performance. This definition is used because of the fact that turnaround is a management process which takes place within context, which emphasizes practices and procedures (Harker, 2001).

Hofer (1980) introduced the severity of the turnaround situation into the heuristic for selecting appropriate turnaround strategy. He encouraged researches to specify the magnitudes, time frames, and patterns and severities of performance inadequacies and declines. Hofer (1980) also conceptualized a link between decline and the degree of cost and asset reductions that a firm should include in its recovery response. He referred to cost and asset reduction activities as operating turnaround strategy, adapting the term from Schendel and Patton (1976). Operating strategies designed for cost reduction were recommended for firms in less severe of decline. Drastic cost reduction coupled with asset reductions were recommended for firms in more severe of decline.

Bibeault (1982) was the first author to discuss a multi-stage model of turnaround. Based on his observations, he proposed that turnaround was typically accomplished through a two-stage process. The first stage involved an emergency plan to halt the firm's financial hemorrhaging and stabilization plan to streamline and improve core operations. These plans are combined to produce the firm's retrenchment stage. The second phase involved a return to growth or recovery stage. The initial stage was directed toward the primary objectives of survival and achievement of a positive cash flow. The means to achieve this objective encompassed the classic retrenchment activities: liquidation, divestment. Product elimination and head cost cuts. The advanced stage of the turnaround process shifts toward objectives of growth and development, and growth in market share. The means employed for achieving these objectives are acquisitions, new products, new markets, and increased market penetration. Between the two stages, Bibeault (1982) speculated that a decision was needed on a strategy for the firm. As the rate of financial decline approaches zero, the firm must decide whether it will pursue recovery in its retrenchment reduced form through a scaled back version of its preexisting strategy, or whether it will shift to a return to growth stage. It is at this point that the ultimate direction of the turnaround strategy becomes clear. Essentially, the firm must choose either to continue to pursue retrenchment as its dominant strategy or to couple the retrenchment stage with a new recovery strategy that emphasizes growth. Bibeault's (1982) major contribution to the development of the turnaround literature was his separation of retrenchment from the concept of recovery. He argued that it was possible and enlightening to observe retrenchment as an isolated phenomenon and as a precursor to recovery activities.

Robbins and Pearce (1982) investigated the textile industry during the economic and competitive turmoil of the 1980s. The study of 32 publicly held textile-manufacturing firms provided evidence that retrenchment was a critical first stage for the strategies undertaken by companies that successfully achieved turnaround. Further, they found that the severity of the decline situation was the best indicator of the type and extent of retrenchment that was needed, although an immediate cost cutting response to financial decline (absolute and relative to the industry) was consistently found to be of value. The researchers also presented a model of turnaround based on evidence that business firm turnaround characteristically involved a multi-stage process in which retrenchment could serve as either a grand or operating strategy.

Hambrick and Schecter (1983) were the first to empirically re-examine the Schendel and Patton (1976) and Hofer (1980) case method-based propositions. Although Hambrick and Schecter's research ignored the cause of the decline situation, it represented an important addition to the literature the first used of multiple variables to represent turnaround strategy. Specifically, they set about to verify the existence of recovery strategies that were classified as entrepreneurial (revenue generating, product/market refocusing) or efficiency (cost cutting and asset reduction). In essence, the research question was whether successful turnaround firms in fact implemented these theorized strategies. The research findings supported the existence of the recovery strategies. Cost cutting, asset reduction and product/market refocusing were found in their theorized forms, while the idea of revenue generating was best captured by strategy that was characterized by increased capacity utilization, and increased employee productivity.

Slatter (1984) identified ten major generic turnaround strategies which UK firms commonly applied as: change of management, strong central financial control, organizational change and decentralization, product market reorientation, improved marketing, growth via acquisitions, assets reduction, cost reduction, investment, debt restructuring and other financial strategies.

O'Neill (1986) investigated the relationship of contextual factors to the effectiveness of four primary turnaround strategies; management (new head executive, new definition of business, new top management team, morale building (among employees), cutback (cost cutting, financial and expense controls, replacing losing subsidiaries), growth (new product promotion methods, entering new product areas, acquisition, add markets), and restructuring (change in organizational structure, new manufacturing methods). His model correctly predicted a negative relationship between growth strategy and turnaround success where there were strong competitive pressures. Where firms were in weak market positions, success was found for cutback and restructuring strategies.

The major contribution from the Hambrick and Schecter (1983) and O'Neill (1986) studies was the validation of the efficiency approach to recovery. In fact, there was evidence that for firms competing in mature or declining industries, efficiency or operating recovery strategies offered the best prospects for successful turnaround. This was an important contribution. For the first time, retrenchment (cost cutting and asset reducing) was found to be sufficient under certain circumstances to re-establish the long-term viability of the firm.

Maimon, Ling and Agus's (1987) research indicated that the turnaround strategies popularly adopted were strengthening of financial control, organizational change and cash generation. Hence, most of the companies have already undertaken strengthening of financial control and reduction of various expenses, and were still conducting improvement on marketing effort and product reorientation indicating the surpassing of the initial and emergency phases of a corporate turnaround.

Addison and Hamilton (1988) found that the company turnaround process in New Zealand companies to be similar to the turnaround process of company in UK and USA, even New Zealand companies are smaller and less diverse. In addition, the typical recovery process was changes in top management and asset reduction.

Sim (1991) stated that the successful turnaround strategies used in his study were: change in top management, cost reduction, strengthened financial control, change of CEO, improved efficiency and capacity utilization, debt restructuring, new product market focus, organization change, selective product market pruning, reduction of assets, growth via diversification, divestment and liquidation, R&D improvements, and investment in plant/equipment.

Kose, Larry and Jeffry (1992) studied about restructuring initiated in response to product market pressures by normal corporate governance mechanisms. Such voluntary restructurings, motivated by the discipline of the product market and internal corporate controls, will play a relatively more important role in the 1990s due to a weakening in the discipline of the takeovers. Hence, their data suggest that the firms retrenched quickly and, on average, increased their focus. There is no evidence of abnormally high levels of forced turnover in top managers. There is, however, a significant and rapid cut of 5% in the labor force. Further, the cost of goods sold to sales, and labor costs to sales ratios, both declined rapidly, more than 5% in the first two years after the negative earnings. The first to be cut is research and development, increased investment, and also reduced their debt/asset level by over 8% in the first year after the negative earnings. In addition, they also document the reasons, management and analysts reported for the negative earnings. Overwhelmingly the firms blame bad economic conditions and, to a lesser extent, foreign competition.

Chowdhury and Lang (1993) found that performance turnaround is related to the rate of decline, and that firms achieving turnaround are those able to marshal financial support for the turnaround. They also found three weaknesses in small firm management practice. First, management needed sensitive internal and external scanning to detect subtle, but potentially crippling, changes in the competitive environment. Second, it is important for small firm manager not to attribute gradual performance decline to uncontrollable market forces and then remain inactive. Lastly, if decline presents a consistent pattern, managers should seek institutional help and become more persuasive with constituencies, such as creditors, in obtaining support.

Kang and Shivdasani (1997) compared the restructuring of a sample of Japanese and US manufacturing firms that had a substantial declining in operating performance. They found several similarities in the operational responses by firms subsequent to the performance decline. Both Japanese and US firms downsize their operations by selling assets, closing plants, reducing capital expenditures and production, and through employee layoffs. Both groups of firms also expand their operations and make acquisitions. The US responses are accompanied by frequent external takeover pressures, while such explicit pressures are absent for Japanese firms. There are also some notable differences in firms' responses between Japan and the US. The overall frequency of assets contraction actions among US firms is roughly twice that of Japanese firms, and the frequency of assets sales is almost seven times that of Japanese firms. Layoffs also appear to affect a larger fraction of the firm's workforce in the US than in Japan. They found that the responses undertaken by Japanese firms are related to the distribution of equity ownership and debt claims. In particular, the likelihood of an asset downsizing, employee layoffs and removal of outside directors' increases with ownership by the firm's main bank and by the firm's other block-holders. Increased ownership by block-holders also decreases the likelihood of acquisition, and increases the probability of top management turnover, outside succession events, and addition of outside directors to the board. The results suggest that the nature of the restructuring process during poor performance is a function of the distribution of claims among the firm's investors and those main banks and block-holders in Japan perform an important role in this process.

Michael and Robbins (1998) conducted research on retrenchment among small manufacturing firms during recession. They had four hypotheses and all hypotheses are supported. Their first finding is R&D will be a lower priority for retrenchment than any other factor. Second is marketing channels will be a lower priority for retrenchment than advertising. Third is machinery and other equipment will be a lower priority for retrenchment during recession than inventories, and lastly, executives and front line supervisors will be lower priorities for retrenchment during recession than hourly employees. Hence, their studied made two contributions to the turnaround strategy literature. First, retrenchment is identified as a common strategy but not universal response of small firms to recession, and retrenchment is likely to be the primary strategy for these firms. Their second contribution was that the cost and asset factors most commonly used for retrenchment are those procurable in factor markets containing little or no asset specificity.

Maimon (1999) found that the most commonly adopted turnaround strategies were debt restructuring and cost reductions. The other strategies were change of management, centralizing financial control, decentralization, assets reduction, growth via acquisition, product market reorientation, improved marketing and more investment.

Barker, Patterson and Mueller (2001) studied organizational causes and strategic consequences of the extent of top management team replacement during turnaround attempts. They found three important items. Firstly, the length of time a firm has been converging on a particular strategic orientation and firm size were significant inertial forces associated with reduced levels of top management team replacement during a turnaround attempt. Secondly, an increase in outsider control of the board was associated with increased levels of top management team replacement. And lastly, the extent of replacement of top management team, while having no association with domain change activity, was positively associated with changes in: (a) business level strategy, and (b) structure and controls at firms attempting turnaround.

The study conducted by Pheng and Hua (2001) on the strategic responses of construction firms to the Asian financial crisis of 1997-1998 in Singapore found that restructuring appears to be a popular strategy adopted by the responding firms of economic uncertainties. They also found that shrink selectively, cost cutting, and long term strategies were also adopted by the construction companies in Singapore.

Sudarsanam and Lai (2001) studied corporate financial distress employing the Z scores to define distress and they used the data from recovery and non-recovery firms. They found that higher proportion of non-recovery firms restructured their operations, cut dividends and restructured their debts in post distress years. These firms also appeared to restructure more intensively than recovery ones, but restructuring does not point to being the causes of non-recovery. The reason why these firms are unable to recover was because the restructuring actions taken by these firms in the later years of distress were too late.

Rasheed (in press) found that the choice of turnaround strategy depends on the interaction between perceived performance and resource availability. His findings support previous findings (D'Aveni, 1989) that found, when firms perceive high levels of past financial performance and resources are available to support their strategic plan, they are likely to choose growth strategy. Firms also chose growth strategy when a very low combination of financial performance, perception and resource were available.

Kow (2004) stated that there are six key elements of a successful turnaround strategy required, they are: (1) an appropriate strategic vision, (2) an organizational structure, (3) a set of business processes, (4) a human resource architecture that will support the vision, (5) technological innovation that will nourish the organization as well as enhances the product ranges, and (6) an organizational culture that will accept and commit to the effort. Whatever, these six elements will not drive nor sustain an organizational turnaround on their own. In addition, its appropriate mix and their interrelationship that will drive performance improvement.

Carney (2004) conducted a research on the institutions of industrial restructuring in Southeast Asia. He defined corporate restructuring as: (a) changes in the structure of incumbent organizations (such as ownership change, patterns of corporate governance, an expansion or contraction of firms' product market domains, the acquisition of new types of capability), (b) the birth of new organizational populations (venture capital partnerships, widely held firms, start ups), (c) the diffusion of new business and managerial practice that alters the character of relations between firms and core stakeholders (between the financial sector and owners, between managers and employees, etc).

However, to achieve the successful turnaround, management must first do four things, namely: (1) acknowledge the problem, (2) accept responsibility for it, (3) have the willingness to change, and (4) have the ability to change (Heinrich, 2004). In addition, Rojas (2003) stated that there are seven key actions for successfully changing company's direction and improving performance, they are: (1) control cash, (2) evaluate accounting and financial reporting systems, (3) focus on strategic solutions, (4) know the size of the market, (5) clean up the balance sheet, (6) change processes to increase productivity, and (7) communicate clearly.

From the discussion we can summarize that turnaround strategies could be divided into: management strategy, cutback strategy, growth strategy, and restructuring strategy.

1. Management Strategy

Management strategies are those actions, which involve a change in top management personnel, or are enacted personally by the top management team (O'Neill, 1986). This strategy includes:

(1). New headman (from inside the company). To decide the new head man from inside the company it is important to consider the type of person required to be. Choosing the wrong man or woman might render the strategies and methods of implementation he or she decides upon to effect a turnaround may well be wrong as well and the result should be insolvency too.

(2). New headman (from outside the company). Sometimes the company choose the new head man from outside the company because of many reasons, for example, the company doesn't have the appropriate man or women from within to choose from, or the outside man is more capable and reliable.

(3). New top management team. Top management is the single most important factor leading to decline and stagnation. A change in top management may occur even if the need for turnaround was brought about by factors beyond the control of management. Just as important as the decision to replace the chief executive, and therefore strategic in nature, is the decision as to the type of person required to be the new chief executive of a firm in need of turnaround. Again, if the wrong man (or women) is chosen, than the strategies and methods of implementation he (or she) decides upon to effect a turnaround may well be wrong, and the result will be insolvency.

(4). Morale building among employees. It means that employees should know what actually happens when the company is in crisis. They must have responsibility on their job and strive to do better. All the employees have to work together in order to transform their company from loser company to the winner.

2. Cutback Strategy

Cutback strategies are those actions, which are taken to stem further decline (O'Neill 1986). This strategy includes:

(1). Financial and expense control. A strong financial and expense control is virtually a law of turnaround situations. Financial control means cash flow forecasts, budgets, detailed knowledge of the manufacturing and overhead costs, and control over capital expenditure (Slatter, 1984). Control needs to be centralized under the new headman because in turnaround, strict financial and expense control need to be imposed on the organization.

(2). Debt restructuring. This strategy involves an agreement between the failing firm and its creditors, example the banks, to reschedule and sometimes convert interest and principal payment into other negotiable financial instruments.

(3). Cost cutting. Cost cutting program is aimed at increasing the firm's profit margin (as percentage of sales) and thus, indirectly, at improving cash flow (Slatter, 1984). Its objective is to improve the firm's cost position relative to that of competitors. The options open to a firm to increase profits margins are basically oriented at pricing and volume decisions of cost cutting. In a loss-making situation, profit margins are even more sensitive to a reduction in costs than an increase in price.

(4). Asset reduction. Asset reduction can be in the form of reducing working capital and disposing of fixed assets. A reduction of working capital requirements involves reducing debtors' days and cutting inventory levels. Reducing fixed assets will involve selling surplus plant or losing plant, machinery, and selling property.

3. Growth Strategy

Growth strategies are those actions, which are designed to boost the firm ahead (O'Neill 1986). This strategy includes:

(1). Growth via acquisition. Acquisitions are most commonly used to turnaround decline firm. The objective of this strategy is rather than by organic growth it is relatively faster in term of speed at which turnaround can be achieved by following the acquisition route. It is a strategy available to firms in a crisis situation but rarely adopted because they usually lack financial resources to make an acquisition. However, once survival is assured, acquisition may be part of the strategy to achieve sustainable recovery.

(2). Entering new product area. The decision to enter new product area is made by evaluating the appropriateness of both the firm's current strategy and all of the strategic options open to the firm. Slatter (1984) stated that focusing in this strategy may involve: (1) addition or deletion of product lines, (2) addition or deletion of customers, (3) changes in sales mix by focusing marketing efforts on specific products and/or specific customers, (4) complete withdrawal from a market segment and (5) entry into a new product segment.

(3). Improved marketing. Improved marketing describes how the firm maximizes its potential profit within the product market segments in which it has chosen to compete by adjusting the key elements of the marketing mix; product line, selling, pricing, distribution channels, advertising and promotion, service, etc (Slatter, 1984).

4. Restructuring Strategy

Restructuring strategies are those actions, which involve redesign in the central core of the business (O'Neill 1986). This strategy includes:

(1). New manufacturing methods. Ineffective manufacturing plants are usually characterized by an above average level of downtime, resulting from either poor production planning, machine breakdown, or both (Slatter, 1984). New manufacturing methods are required to overcome inefficiency.

(2). Change in the organization's structure. Organizational change is riskier than strategic change, but not for turnaround situation, where it can direct attention away from the problem facing the business. The reasons are: (1) the appropriate organization structure for a firm is determined at least in part by the firm's product-market strategy, (2) a new headman knows both the strengths and weaknesses of the individuals in neither the firm nor how the informal organization structure works in the early days of turnaround, (3) changing the organization is not merely a question of drawing up a new organization chart, writing new job descriptions where appropriate, and informing every one of the changes (Slatter, 1984). Further he also stated that there are three situations that may be useful and necessary for changing in the organization structure: (1) restructuring may be necessary to facilitate the divestiture of part of the business, (2) change can assist the new man to gain management control over the firm, (3) restructuring may be useful for a large firm where a quick turnaround is almost impossible to achieve unless the cause of decline is a one of event that has not adversely affected the core business.

(3). Establishing new distribution methods. This strategy is aimed at increasing the firm's sales volume and indirectly will increase cash flow.

The review of turnaround strategies above indicated that companies may take several turnaround strategies to overcome the decline. Several strategies can be implemented simultaneously or in sequence. Companies may choose a variety of turnaround strategies to get them back to financial health. It seemed cutback and restructuring strategies are mostly adopted by the companies in decline situation (Hambrick & Schecter, 1983). The choice of turnaround strategy is contingent on external and internal conditions of organization. Unfortunately, empirical evidence based on large scale analysis on the turnaround strategies is limited (Sudarsanam & Lai, 2001).

Turnaround Strategies and Firm Performance

It was theorized that the choice of a particular turnaround strategy would be a function of the business situation. The turnaround strategy will have an effect on firm performance and how businesses compete will directly determine its resulting performance (Hambrick, 1983). During a turnaround process, profitability is not the mission of the business; the objective is to survive. Once survival is achieved and the firm is conducting good business then only will profitability come (Scherrer, 1989). The firms that undertake the turnaround strategies will have a better performance than the firms that have not taken turnaround strategies. Gavin (2004) stated that the basic requirements for a successful turnaround have to fulfill the following conditions: (1) a viable core business (or businesses), (2) sufficient organizational resources and knowledge, and (3) adequate financial resources to allow the company to survive through the turnaround period.

Iacocca (1984) President of Chrysler Corporation, the third largest automobile producer in the US, was able to turnaround the company. It is showed by an increase in operating income during 1981-1983. Before that, Chrysler was in a difficult situation. But after their new CEO took several efforts to save the company, Chrysler was able to repay its government-backed loans far ahead of schedule, as its revenues and profits rose steadily.

Hambrick and Schecter (1983) who studied turnaround attempts by businesses in mature industries indicated three primary successful turnaround gestalts: asset/cost surgery, selective product/market pruning, and piecemeal strategy. Assets/cost surgery was pursued primarily by businesses with low levels of capacity utilization; selective product/market pruning was undertaken primarily by businesses with high levels of capacity utilization; and the piecemeal strategy was followed primarily by businesses with high market share. Those successful turnaround gestalts have the most likely prospect of having a good margin.

O'Neill (1986) investigated turnaround strategy in commercial banking and found that successful turnaround banks control their interest cost by achieving a lower cost mix of deposits. This statement is confirmed by ranking of the second measure of interest cost, interest on deposits/time and savings. This latter measure of interest cost ranks last in discriminatory power in the discriminant analysis model, suggesting that turnaround and decline banks pay similar rates for these expensive deposits. Turnaround banks manage to attract a higher portion of the cheaper demand deposits.

Table 3.1

Operational Definitions of Turnaround Situation and Turnaround Success

Authors	Turnaround Situation	Turnaround Success
Schendel, Patton & Riggs (1976)	Four consecutive years of earnings decline	Four consecutive years of earnings improvement.
Schendel & Patton (1976)	At least four years of sub GNP growth in income.	At least four years of above-GNP growth in income.
Bibeault (1982)	At least three years of sustained but not necessarily monotonic decline in net income or profit decline of 80% or more in a single year.	At least three years of sustained income growth.
Hambrick & Schecter (1983)	Average pretax ROI for two years below 10%.	An average two-year pretax ROI greater than 20%.
Slatter (1984)	At least three successive years of declining real profit before taxes.	Real profit before taxes increased in four out of the following six years.
Robbins & Pearce (1992)	Two successive years of increasing ROI and ROS followed by absolute, simultaneous declines in ROI and ROS for a minimum of two years at rate greater than their industry averages.	Two successive years of absolute, simultaneous increases in ROI and ROS at a greater than the industry average and return to pre downturn levels of ROI and ROS.
Chowdhury & Lang (1993)	Negative changes in ROI during 1984-1985.	Average ROI over two years (1986 and 1987) exceeded the 10 percent.

Barker & Mone (1994)	Two successive years of performance decline measured by reductions in ROI.	Two successive years of increases in positive ROI.
Chowdhury & Lang (1994)	Two consecutive years of ROI decline below 10%.	Two consecutive years of ROI exceeded the 10%.
Mueller & Barker (1997)	Three consecutive years of declining return on assets (ROA)	Three years increasing return on assets (ROA)
Gowen & Tallon (2002)	130 American electronics firms and 120 Japanese electronic firms' subsidiaries in the US.	Japanese turnaround firms have greater inclination to divest a subsidiary and use gain sharing or profit sharing. American turnaround firms have greater return on investment and operating margin

Source: Pearce & Robbins (1993) and updated by the author

Barker and Patterson (1996) studied top management tenure and top manager causal attributions at declining firms attempting turnarounds. The questionnaires were mailed to CEOs requesting participation in the research. They found that for the turnaround attempt, different attribution patterns at firms attempting turnarounds based on the extent of the top management team was changed. The decline was more likely to be attributed to internal, stable, and controllable sources when the average top management team tenure was shorter because a greater percentage of the top management team had been replaced. They also found that as more top management team members are replaced, external sources becomes less attributing to decline.

Michael and Robbins (1998) conducted a research on firms in industries adversely affected by recession between of 1987-1992. The respondents were asked whether the recession had positive, negative or neutral impact on their business, and then asked if cost or asset retrenchment was employed in response to the recession. The result of his study indicated that thirty one percent of respondents reported that the recession had no impact on their business, and sixteen percent reported that the recession had a positive impact. Thirty-two percent of the firms did not retrench at all, thirty percent retrenched by reducing costs, and thirty-eight percent retrenched by reducing both costs and assets. The result also showed that retrenchment has positive impact on performance. This study has two contributions. First, retrenchment is identified as a common but not universal response of small firms to recession. Second, the cost and asset factors most commonly used for retrenchment are those most procurable in factor markets containing little or no asset specificity.

Bruton, Ahlstrom and Wan (2001) studied the turnaround success of large and midsize Chinese firms in Hong Kong and Thailand. They found that the turnaround effort needs to be consistent with local setting to be successful. And they argued that removing the CEO immediately may not be judicious. It is better to obtain the CEO's full cooperation to turn the firm around by directing the CEO's attention toward the significant changes needed within the firm and with its relationship with other organizations.

Cronin and Page (2001) studied the relative impact of growth strategies on profit performance. The sample was taken from 35 firms in the supermarket industry, and the data were compiled from the Compustat Data tapes and the supermarket news annual distribution of grocery store sales. He found that market share and sales growth objectives are significantly related to profit performance.

Bruton, Keels and Scifres (2002) conducted a survey on corporate restructuring and performance from agency perspective on the complete buyout cycle. They found that performance increased significantly during the time buyout firms. However, the buyout process is so demanding and stressful that owner/managers are forced to become too introspective. Thus, they suggest that manager and owners must; first consider carefully the wisdom of undertaking a buyout at all. Second, they should think about time frame issues. And finally, owners and managers need to consider their strategic activity choice carefully when planning for restructuring.

Bruton, Ahlstrom and Wan (2003) conducted a research on turnaround in East Asian firms. The sample were from firms in Hong Kong, Singapore and Taiwan where the firms' ROI had decline for 3 consecutive years, and the firm's ROI also had to be lower than the risk free rate of return for those years. The independent variable were change in fixed assets, change in sales, change in accounts receivable/sales and change in chair person with firms' size as a control variables. The results showed that changes in fixed assets, sales and firm size were significantly associated with the performance. However, decrease fixed assets by selling them off, had better financial result, increasing in profitability was associated with decreasing sales. In addition, reduction in accounts receivable during the potential recovery period was not significant, and change in chairman of the board was also not significant with the improvement of performance.

Francis and Pett (2004) studied the retrenchment in declining organization found that the source of decline and the urgency of the decline situation must be considered when investigating retrenchment actions. The result of this study found that the examination of the surgery of decline as measured by severity and suddenness is an important factor for firms to pursue retrenchment responses to decline. This study also found significant influences between the urgency of the situation and specific decline characteristics.

In addition, there is a need to determine what actions are required by the organization faced with declining or dissolving operations within a variety of external conditions (Weitzel, 1989). The action will influence whether negatively or positively the performance of the organization (Ginsberg, 1988).

The studies above describe that performance could be a function of the success of the turnaround strategies adopted. The effect of changes in profitability or stockholders' wealth was an important indicator of turnaround success. However, there are some limitations in previous studies. They are only a few studies using samples of more than 100. Almost all the research data were taken from secondary data (Compustat Data).

Chapter Four
Statement of Hypotheses

The Research Framework

Based on literature review and research problem a framework had been developed in order to capture the relationship of causes of decline to turnaround strategies and how this turnaround strategies influence firm performance. It is presented in Figure 4.1. The model focuses on turnaround strategies. Firm performance is the dependent variable, representing the turnaround of firms, while the factors contributing to decline are independent variables. The factors contributing to the decline include external and internal factors. In this study external factor refers to economic change and competitive change, while internal factor refers to poor management, lack of financial control, failure of major projects, high cost structure and poor acquisition. Turnaround strategies refer to management strategy, growth strategy, cutback strategy and restructuring strategy. Finally, the performance is viewed from the financial perspective. Most previous studies use return on investment (ROI), return on sales (ROS) and sales growth to represent firm performance (Barker & Mone, 1994; Chowdhury & Lang, 1994; Robbins & Pearce, 1992).

This research is founded on the contingency theory which stated that what happen within an organization is dependent on forces or perceived forces outside it. In this study the choice of turnaround strategies are dependent on the perceived causes of decline. The outcome of performance is deemed as dependent on the strategy chosen.

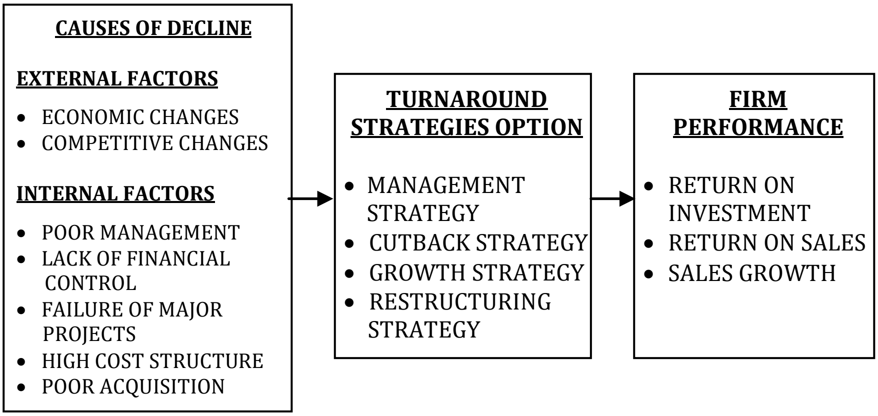

Figure 4.1 Research framework.

The choice to focus on variables presented in the theoretical framework is based on the following criteria. The causes of decline were selected on the following basis: (a) factors that had arisen in company decline in the past studies, (b) factors that had produced contradictory results in previous research.

Dimensions of the turnaround strategy were selected as: (a) those that were more frequently cited in literature, (b) which had clearly played central role in turnaround strategy. Similarly, dimensions of firm performance were selected on the basis of: (a) those were more frequently cited in literature, (b) factors that had arisen in the firm performance in the past studies of turnaround.

Statement of Hypotheses

It was theorized that the choice of turnaround strategies would be a function of the business's situation (Hambrick & Schecter, 1983). Business situation refers to the situation in which the business is in, e.g. the firm in insolvent situation. In this situation the firm has a poor performance. The attributes of a firm's performance downturn independently determine the firm's need for strategic change and therefore the extent of strategic change enacted during a successful turnaround. Extremely poor performance creates pressure for management to change a firm's strategy, if the firm has sufficient resources (Ginsberg, 1998; Huff, Huff & Thomas, 1992).

Previous studies have suggested that the choice of turnaround strategies will be strongly influenced by the factors that caused the company decline (Bibeault, 1982; Slatter, 1984). And caused of the company decline are caused by combinations of external and internal factors (Schendel, Patton & Riggs, 1976). The causes of decline are usually multiple, and Slatter (1984) suggests that successful turnaround requires management to use a number of different generic strategies simultaneously. Factors causing company decline can be externally or internally generated. However, Slatter (1984) and Bibeault (1982) indicated that internal factors have most impact on organization decline. Maimon (1987) found both external and internal factors contributed to the decline. Numerous strategies have to be tailor made to the different turnaround situations. Slatter (1984) found ten generic strategies and O'Neill (1986) has categorized four major turnaround strategies, as reviewed in the literature.

Main hypothesis 1: Perceived economic changes influence turnaround strategy.

Economic decline is rather subjective, and there are very few data available on industry or company incidence of economic decline (Bibeault, 1982). The company could be in an economic decline for years and yet, in the absence of legally enforceable debt, be able to meet its current obligations and thus not be a legal failure. Firms' choice of several strategies in crisis situation is contingent on a range of factors (Sudarsanam & Lai, 2001). Economic condition is one of the causes of decline that may influence the strategies chosen (Sudarsanam & Lai, 2001). It is generally accepted that the higher the level of economic change the greater is the chance of turnaround or conversely the lower the level of economic change, the lesser is the chance of turnaround strategy undertaken. Firms in situation of economic change will choose several strategies to overcome the crisis.

- **H1.a** There is a positive relationship between perceived economic changes and the extent of management strategy in the turnaround.
- **H1.b** There is a positive relationship between perceived economic changes and the extent of cutback strategy in the turnaround.
- **H1.c** There is a positive relationship between perceived economic changes and the extent of growth strategy in the turnaround.
- **H1.d** There is a positive relationship between perceived economic changes and the extent of restructuring strategy in the turnaround.

Main hypothesis 2: Perceived competitive changes influence turnaround strategy.

Competitive change can cause decline (Bibeault, 1982). A firm which fails to be competitive is likely to find itself sliding towards extinction. Slatter (1984) noted that price competition as the main cause of decline in British manufacturing industry due to price competition from overseas competitors in motorcars, motorcycle, machine tools and textiles. Francis and Mariola (2005) suggest that external environment is the starting point for testing the factors that influence turnaround strategies. External environment is positively associated with the number of strategic options available and chances of survival to the firms (Goll & Rasheed, 1997). Specifically, external attribution of decline is positively associated with the extent of top management team replacement in turnaround (Barker & Barr, 2002). Thus, the external environment is an important situational element since it has strong impact on a firm' strategies.

Bibeault (1982) stated that the appropriate actions have to be taken when the companies' competitive situation change. It seems that the higher the level of competition the greater the chances of turnaround or conversely the lower the level of competition the lesser the chance of turnaround.

- **H2.a** There is a positive relationship between perceived competitive changes and the extent of management strategy in the turnaround.
- **H2.b** There is a positive relationship between perceived competitive changes and the extent of cutback strategy in the turnaround.
- **H2.c** There is a positive relationship between perceived competitive changes and the extent of growth strategy in the turnaround.
- **H2.d** There is a positive relationship between perceived competitive changes and the extent of restructuring strategy in the turnaround.

Main hypothesis 3: Perceived Poor management influences turnaround strategy.

Poor management is one of the main factors in the organization contributing to the organizations' decline (Hambrick, 1992). This is supported by several previous studies (Argenti, 1976; Bibeault, 1982; Maimon, 1999; Slatter, 1984). They found that the prime cause of industrial sickness was poor management. Slatter (1984) stated that the companies in poor management situation require new management, organization change and decentralization.

Barker and Barr (2002) investigated the top-manager link to strategic reorientation in declining firms attempting turnarounds. They found that top management problems give the impact on the organization decline which more likely leads to turnaround strategies than external causes of decline. The more ineffective is the management team the greater seems the chances of turnaround. They also stated that if the cause of decline is due to internal condition of the firm, top managers of the company believe that performance recovery can only reached through changing internal firm policies and procedures.

- **H3.a** There is a positive relationship between perceived poor management and the extent of management strategy in the turnaround.
- **H3.b** There is a positive relationship between perceived poor management and the extent of cutback strategy in the turnaround.
- **H3.c** There is a positive relationship between perceived poor management and the extent of growth strategy in the turnaround.
- **H3.d** There is a positive relationship between perceived poor management and the extent of restructuring strategy in the turnaround.

Main hypothesis 4: Perceived lack of financial control influences turnaround strategy.

Slatter (1984) found that lack of financial control is the most common characteristic of declining firms because weak control means that management is unable to pinpoint the products, customers and activities on which it is losing money, and sometimes more important in a crisis situation. It is important for management to know which products or businesses are using cash and which, are generating cash.

When lack of financial control is one of the causes of decline in the companies, the appropriate turnaround strategies implemented are new management, improved financial control and decentralization (Slatter, 1984). It deemed that lack of financial control influences the turnaround strategies adopted. Arguably the higher the lack of financial control the greater the chance of turnaround. So, when the financial control is adequate there will be less chances of turnaround.

- **H4.a** There is a positive relationship between perceived lack of financial control and the extent of management strategy in the turnaround.
- **H4.b** There is a positive relationship between perceived lack of financial control and the extent of cutback strategy in the turnaround.
- **H4.c** There is a positive relationship between perceived lack of financial control and the extent of growth strategy in the turnaround.
- **H4.d** There is a positive relationship between perceived lack of financial control and the extent of restructuring strategy in the turnaround.

Main hypothesis 5: Perceived failure of major projects influences turnaround strategy.

One of the most frequently cited causes of decline is the failure of major projects (Maimon, 1999; McRobert, 1997; Slatter, 1984). This is because major projects require heavy investment and the failure of such investment to take off profitably can strain the cash flows and costs are underestimated or revenues are over estimated. The companies in declining situation are more likely to pursue turnaround strategies (Barker & Duhaime, 1997). Slatter (1984) stated that the failure of major projects in an organization influenced turnaround strategies implementation such as asset reduction. Thus, we can argue that the higher the failure of major projects the greater is the chance of turnaround strategies being undertaken.

- **H5.a** There is a positive relationship between perceived failure of major project and the extent of management strategy in the turnaround.
- **H5.b** There is a positive relationship between perceived failure of major project and the extent of cutback strategy in the turnaround.
- **H5.c** There is a positive relationship between perceived failure of major project and the extent of growth strategy in the turnaround.
- **H5.d** There is a positive relationship between perceived failure of major project and the extent of restructuring strategy in the turnaround.

Main hypothesis 6: Perceived high cost structure influences turnaround strategy.

A firm that has substantially higher cost structure than that of its major competitors is unlikely to be able to compete on price (Heng at al., 1985). With less funds available than competitors, they will not be able to invest much on new product development and marketing. This situation will make the company to be the less capable of building and defending their market position. The common problem encountered in turnaround situations is the inability of firms to compete on price because their cost is too high, and the appropriate strategies adopted to be out of these problems are cost reduction and product market (Slatter, 1984). He also stated that the average number of generic strategies employed in successful turnarounds is considerably greater than the average number of factors causing decline.

Thus, we can say that high cost structure has an impact on turnaround strategies. Logically, the higher the cost structure, the higher the chance of turnaround strategies to be undertaken and the reverse should, therefore, be true as well.

- **H6.a** There is a positive relationship between perceived high cost structure and the extent of management strategy in the turnaround.
- **H6.b** There is a positive relationship between perceived high cost structure and the extent of cutback strategy in the turnaround.
- **H6.c** There is a positive relationship between perceived high cost structure and the extent of growth strategy in the turnaround.
- **H6.d** There is a positive relationship between perceived high cost structure and the extent of restructuring strategy in the turnaround.

Main hypothesis 7: Perceived poor acquisition influences turnaround strategy.

Acquisitions have played an increasingly important role in the corporate strategy of large and medium sized firms during the past twenty years (Slatter, 1984). As use of acquisition increases, so has the incidence of acquisitions being a direct cause of decline. Slatter (1984) also found that primarily firms facing acquisition as one of the causes of decline will implement asset reduction strategy.

While Harker (2001) found that acquisition is a key element in the development of the strategies of the companies that were successfully turned around.

It seems that poor acquisitions have significant influence on turnaround strategies adopted. Thus, we can argue that the higher the rate of failure of acquisition the higher is the chance for turnaround. Conversely, the higher is the success rate of acquisition the lower is, the chance of turnaround.

- **H7.a** There is a positive relationship between perceived poor acquisition and the extent of management strategy in the turnaround.
- **H7.b** There is a positive relationship between perceived poor acquisition and the extent of cutback strategy in the turnaround.
- **H7.c** There is a positive relationship between perceived poor acquisition and the extent of growth strategy in the turnaround.
- **H7.d** There is a positive relationship between perceived poor acquisition and the extent of restructuring strategy in the turnaround.

Main hypothesis 8: Turnaround strategy influences firm performance.

Since corporate turnaround is clearly about the losing of competitive advantage, the threat of extinction, and the subsequent regaining of competitive advantage, it seems appropriate to begin by focusing on current theoretical ideas on the sources of competitive advantage and the nature of organizational survival. The resource of the firm affects the firm's ability to implement strategies to improve its efficiency and effectiveness (Barney, 1991). Efficiency improvement can also be caused by significantly greater sales achieved by turnaround firms during the recovery process (Pearce & Robbins 1993; Ramanujam, 1984).

Turnaround action has a favorable impact on company performance, irrespective of the cause of the firm's problems in decline (Robbins & Pearce, 1992). While top management change is noted as a precondition for successful turnaround (Bibeault, 1982; Hofer, 1980; Schendel *et al*., 1976; Slatter, 1984), operational strategies that comprise cost reduction, revenue generation, and operating assets reduction have been empirically associated with turnaround success (Hambrick & Schecter, 1989; O'Neill, 1986).

Sudarsanam and Lai (2001) who studied corporate financial distress and turnaround strategies of UK firms found that the strategies that lead the companies out of financial distress are investment and acquisition. Hambrick and Schecter (1989) found that efficiency improving turnaround firms also achieved significantly greater sales growth or market share growth than firms that failed to recover. The successful turnaround companies are the companies that are able to meet the demanding buyers' criteria (Harker, 2001). The subsequent effect on firm performance of various management actions is modeled as either change strategy or attempts to increase efficiency. Corporate strategy, market orientation and organizational learning are three of the most important factors impacting on company performance (Slater & Narver, 1995).

- **H8.a** There is a positive relationship between the extent of management strategy in the turnaround and firm performance.
- **H8.b** There is a positive relationship between the extent of cutback strategy in the turnaround and firm performance.
- **H8.c** There is a positive relationship between the extent of growth strategy in the turnaround and firm performance.
- **H8.d** There is a positive relationship between the extent of restructuring strategy in the turnaround and firm performance.

Main hypothesis 9: Turnaround strategy mediates the relationship between causes of decline and firm performance.

A broad array of external and internal conditions, organizational resources and organizational actions are important influences on turnaround performance (Francis & Mariola, 2005). Previous studies on turnaround found that the firms in crisis situation cannot directly be related to higher performance (Ginsberg, 1988; Sudarsanam & Lai, 2001) without several adopted strategies. Significant benefits can be reached by firms by implementing the strategies in the right way. Strategic management literatures suggest that to respond to global competition, companies have to increase their adoption of advanced technologies, new management practices and the introduction of technologically sophisticated product which fit or matches business strategy (Zahra & Covin, 1993). Robbins and Pearce (1992) proposed the turnaround concept is operationalised as performance decline followed by performance improvement.

While those actions, which need to be taken to improve the performance of an ailing business, can be established by diagnosing the causes of decline (Grinyer & McKiernan, 1990).

- **H9.a1** Management strategy mediates the relationship between economic changes and firm performance.
- **H9.a2** Management strategy mediates the relationship between competitive changes and firm performance.
- **H9.a3** Management strategy mediates the relationship between poor management and firm performance.
- **H9.a4** Management strategy mediates the relationship between lack of financial control and firm performance
- **H9.a5** Management strategy mediates the relationship between failure of major project and firm performance
- **H9.a6** Management strategy mediates the relationship between high cost structure and firm performance.
- **H9.a7** Management strategy mediates the relationship between poor acquisition and firm performance.
- **H9.b1** Cutback strategy mediates the relationship between economic changes and firm performance.
- **H9.b2** Cutback strategy mediates the relationship between competitive changes and firm performance.
- **H9.b3** Cutback strategy mediates the relationship between poor management and firm performance.
- **H9.b4** Cutback strategy mediates the relationship between lack of financial control and firm performance
- **H9.b5** Cutback strategy mediates the relationship between failure of major project and firm performance
- **H9.b6** Cutback strategy mediates the relationship between high cost structure and firm performance.
- **H9.b7** Cutback strategy mediates the relationship between poor acquisition and firm performance.
- **H9.c1** Growth strategy mediates the relationship between economic changes and firm performance.
- **H9.c2** Growth strategy mediates the relationship between competitive changes and firm performance.
- **H9.c3** Growth strategy mediates the relationship between poor management and firm performance.
- **H9.c4** Growth strategy mediates the relationship between lack of financial control and firm performance

- **H9.c5** Growth strategy mediates the relationship between failure of major project and firm performance
- **H9.c6** Growth strategy mediates the relationship between high cost structure and firm performance.
- **H9.c7** Growth strategy mediates the relationship between poor acquisition and firm performance.
- **H9.d1** Restructuring strategy mediates the relationship between economic changes and firm performance.
- **H9.d2** Restructuring strategy mediates the relationship between competitive changes and firm performance.
- **H9.d3** Restructuring strategy mediates the relationship between poor management and firm performance.
- **H9.d4** Restructuring strategy mediates the relationship between lack of financial control and firm performance
- **H9.d5** Restructuring strategy mediates the relationship between failure of major project and firm performance
- **H9.d6** Restructuring strategy mediates the relationship between high cost structure and firm performance.
- **H9.d7** Restructuring strategy mediates the relationship between poor acquisition and firm performance.

Intentionally left blank

Chapter Five
Research Methodology

Research Design

This research involves comprehensive survey of Indonesian manufacturing firms to achieve the research objectives. Therefore, this research involves an empirical study to examine the relationship between causes of decline and turnaround strategies, and the relationship between turnaround strategies and firm performance.

A set of questionnaires was distributed to the CEOs of large manufacturing firms. The sample chosen was based on simple random sampling in order to provide the least bias and most generalize ability. Multiple regressions was used to analyze the relationship between independent and dependent variables, while to analyze the mediator impact of causes of decline and firm performance, hierarchical regression was conducted.

The Population and Sample

The unit of analysis for this study is the organization. For this study the classification for the sample was undertaken from Urata (2001), who defines; (1) small companies are the companies which have 10-50 employees, (2) medium companies are the companies which have 51–250 employees and (3) large companies are the companies which have more than 250 employees. Based on his criteria, the population for this study is about 2000 firms that have more than 250 full time employees of manufacturing firms that is published by the Central Statistic Bureau (Badan Pusat Statistik). The total size of the sample is about 1000 firms randomly selected by having all the 2000 companies' names printed separately on small pieces of paper and putting them in to a basket. Then 1000 companies' names were chosen by pulling out of it a thousand times.

It was decided to study manufacturing firms because:

1. Manufacturing sector is a leading sector in Indonesian economy. This sector has become the main contributor to Indonesian GDP for the last ten years.

2. The turnaround practitioners observed that the firms in Asia that have weathered the economic crisis best are focused manufacturing and technology firms, where the top management team has years or decades of experience in the industry (Bruton, Ahlstrom & Wan, 2001).
3. Manufacturing sector is a popular option to be a sample of turnaround actions taken. Somani (2004) argued why manufacturing is a popular option because when we get involved in a business that does not work out then we have sizeable assets we can dispose of to realize the cash.
4. Manufacturing firms have direct relationships with the environment. They obtain inputs from the environment and distribute the outputs to the environment.

Questionnaires Design

The questionnaire was designed to measure the items in the research model. The items were arranged in four primary sections: (a) information related to general background, (b) information related to causes of decline, (c) information related to turnaround strategies, and (d) information related to the firm performance. Data were collected through mail questionnaires to the CEO of the organization.

The questionnaire was translated into Indonesian language by the Language Center (English), and then it was translated back into English to assure accuracy of translation. The Indonesian version was used in the survey.

The methodology used in this study is similar to those used by Hambrick and Schecter (1983), Grinyer and Mckiernan (1990), Robbins and Pearce (1992), Arogyaswamy and Barker (1995), and Barker and Duhaime (1999). The questionnaire was modified in parts to suit the model to be tested and also the Indonesian conditions.

Table 5.1
Questionnaire Design

Sections	Questions	Number of Questions
1	Respondent's and company profile	11 items
2	Economic change	5 items
	Competitive change	7 items
	Poor management	8 items
	Lack of financial control	4 items
	Failure of major projects	4 items
	High cost structure	5 items
	Poor acquisition	4 items
3	Management strategies	5 items
	Cutback strategies	5 items
	Growth strategies	4 items
	Restructuring strategies	4 items
4	Firm performance	3 items

Variables and Measures.

The variables developed in this research require a number of measures, which are adopted from different sources.

Economic change. Refers to the change of economic condition during the crisis situation of 1997/1998, such as devaluation of major currency, an international monetary crisis, interest rate and inflation. Those items derived from Argenti (1976), McRobert & Hoffman (1997).

Competitive change. As measured by Argenti (1976) and Slatter (1984). This variable measured the perceived competitive changes in the form of price or product changes such as foreign low cost producers, merger of two competitors, product competition, price competition, competitor's new range of products, and an entirely new company. These items were measured on a 5-point scale, with 1 referring to not serious at all and 5 referring to most serious.

Poor management. Defined as the fault of management in the organization. As measured by Argenti (1976), and Slatter (1984), this variable includes non participating board, one man rules, unbalanced top team, weak finance function, and lack of management depth, inadequate strategic understanding of industry, and a chief executive who believes that he or she can achieve fantastic success in any business sector.

Lack of financial control. As measured by Argenti (1976), and Slatter (1984), this variable refers to the absence or inadequacies in cash flow forecasts, costing system or budgetary control.

Failure of major project refers to the situation where costs of major projects and times are underestimated or revenue overestimated. The source was adopted from Argenti (1976), and Slatter (1984).

High cost structure. Using Argenti (1976), and Slatter (1984), four items were designed to measure this dimension. They are high overheads, difficult accessibility to raw materials, difficult accessibility to suitable labour, and difficult accessibility to production know-how.

Poor acquisition refers to acquisition of losers or overpaying of premium and poor post acquisition management. Based on Argenti (1976) and Slatter (1984) studies, three items were developed. The items measured were the acquisition of losers, over paid acquisition, and poor post acquisition management.

Management strategy refers to those actions, which involve a change in top management personnel, or are enacted personally by the top management team. As measured by O'Neill (1986) and Slatter (1984), these variables refer to the strategy of getting a new head man, new top management team, and morale building among employees.

Cutback strategy. Based on O'Neill (1986), and Slatter (1984) study, this dimension refers to those actions, which are taken to stem further decline. This variable was measured by financial and expense control, debt restructuring, cost cutting, and asset reduction.

Growth strategy refers to those actions, which are designed to boost the firm ahead. According to O'Neill (1986), and Slatter (1984), the variable is measured by growth via acquisition, entering new product area, and improved marketing.

Restructuring strategy. As measured by O'Neill (1986), and Slatter (1984), this variable refers to those actions, which involve redesigns in the central core of business. The items include in this variable were new manufacturing methods, change in the organization structure, and establish new distribution methods. These items were measured on 5 point scale with 1 being "not used at all", and 5 being "used as central strategy".

Firm performance. This study uses financial performance as the measure of perceived firm performance. Seven point scale was used, rating from 1 "decrease by more than 10%" to 7 "increase by more than 10%" (Elitan, 2003). Financial performance refers to performance as measured by ROI, ROS and sales growth (Robbins & Pearce, 1992).

Firms were analyzed over seven-year period, between of 1995-2001. In keeping with convention, and as depicted in Figure 2, the two years of decline were dated *t* (the second of year of decline) and *t-1* (the first year of decline), the years of normal operations *t-2* and *t-3*, and the post-decline years, *t+1*, *t+2* and *t+3.*

Year t – 3	t – 2	t – 1	t	t + 1	t+2	t+3
+	+	+	+	+	+	
|---------Normal ---------- |		-------Decline period-----|		--------Post decline --------|		

Figure 5.1 Pre decline, decline and post decline year.

The Questionnaire

There has been little research in Indonesian manufacturing firm during and after economic crisis. Thus, in many ways this effort can be regarded as exploratory research. The questionnaire technique is useful for providing this type of research with the data at a relatively low cost. It is particularly suited for a researcher who seeks information about what he knows, believes and expects. The questionnaire technique is also more efficient and practical. It allows for a large sample. Furthermore, the questionnaire has the advantage of increasing the generality of the data and making the respondents more confident in providing truthful answers (Sekaran, 2000).

Data Collection Procedures

For the purpose of this research, a total of 1000 questionnaires written in Indonesian language were sent to the CEOs of large manufacturing firms in Indonesia. Most of the companies were located in East Java. The others are in West Java, Jakarta, and Central Java.

On the 28th of August 2003, the questionnaires were mailed. An effort was made to minimize the non-response rate. Towards that goal, each set of questionnaire was accompanied with (1) a covering letter from the Deputy Dean, School of Management, (2) a support letter from the supervisor of this research, (3) a support letter from the Dean of Economics Faculty, University of Malikussaleh, Aceh, where the researcher works, and (4) a self addressed and duly stamped envelope for the respondents' convenience. Participants were promised a copy of the executive summary of research findings.

After one month, the first reminder was mailed to those that had not replied. The reminder were also accompanied by an enclosed self addressed and duly stamped envelope, a covering letter from the Deputy Dean school of Management, Universiti Sains Malaysia, a support letter from the supervisor of this research, a support letter from the Dean of Economics Faculty, University of Malikussaleh, Aceh, where the researcher works. In two months that followed, 110 responses were received and all the data are useable.

In early December 2003, the second reminder was sent. And again, a covering letter from the Deputy Dean school of management, a support letter from the supervisor of this research, a support letter from the Dean of Economics Faculty, University of Malikussaleh, Aceh, where the researcher works, a self addressed and duly stamped envelope were enclosed with the questionnaires.

The second reminder resulted in 14 responses, 9 questionnaires were useable. The accumulated number of the useable response was 101 respondents, 7 refused to participate and the remaining 63 questionnaires were unusable (23 questionnaires due to companies did not show decline in performance). Hence, the data collection stage was ended in March 2004 and no further reminders were sent out.

Statistical Methods Used

This study used several statistical tools and methods from the Statistical Package for Social Science (SPSS) software for Windows, version 11.5. The statistics tools included in this study are:

1. Factor analysis to test validity and reliability
2. Descriptive statistics to describe the characteristics of respondents and the factors extracted.
3. Chi-Square test to test the respondents' response bias.
4. Multiple regressions to test the effects of independent variables on dependent variables.
5. Hierarchical regressions to test the mediator effect on the relationship between independent variables and dependent variables.

1. Factor and Reliability Analysis

According to Sekaran (2000) one important step in data analysis is to understand the dimensionality of variables in the proposed model or the relationships in empirical research. Factor analysis was performed on the individual items contained in the questionnaire to see if they are related to the theoretical dimensions and if the variables can be reduced to a smaller number. Factor analysis is needed to identify the structure of interrelationship among a large number of variables by defining common underlying dimensions that are known as factors.

The cut off point that is used in this research .50, that is consistent with Hair et al. (1998), who argues a factor loading of .50 and above is considered significant in the sample of 120 observations. Eigenvalue of more than 1 is also considered significant. If Eigenvalue is less than 1, it indicates that the factor is not capable of explaining the variance contained in a single variable.

Reliability analysis was conducted on the factors extracted to test the internal consistency of the measurement instrument. Based on Nunnaly (1978) guidelines, the reliability of .50 - .60 is sufficient, although a coefficient of .70 and above is desirable (Hair, et al., 1998). Thus, for this study, a minimum reliability (Cronbach's alpha) value of .60 was set. A Cronbach's alpha of below .60 is considered poor.

2. Descriptive Statistic and Correlation

The descriptive statistics (means and standard deviations) were conducted to all independent variables and dependent variables. The raw data was transformed into a form that will make them easy to understand and interpret.

Pearson correlations were utilized In order to understand the amount of correlation between dimensions of causes of decline, turnaround strategies, and firm performance.

3. Test of Difference

Lessler and Kalsbeek (1992) stated that the problem with the non-response is the bias or systematic distortion in a survey occurring because of inability to obtain responses from some members of the selected sample. They refuse to participate because of scheduling difficulties, the requested data in some cases were considered confidential. CEOs are among the busiest people and CEOs usually receive a large number of requests for participation in research studies. This may demotivate them from participating in any particular study.

In this research, non-response bias was addressed by comparing early to late respondents. The early respondents were considered before the second reminder (110 respondents), and the respondents after the second reminder (14 respondents) were considered as late respondents.

4. Multiple Regressions

Hair et al. (1998) stated that multiple regression analysis is a statistical technique that can be used to analyze the relationship between a single dependent (criterion) variable and several independent (predictor) variables. Regression analysis was conducted to find how much of the variance on each turnaround strategies is explained by a set of causes of decline and how much the variance on firm performance is explained by turnaround strategies. It is also to provide a means of assessing the relative importance of the individual variables.

According et al. (1998), four underlying assumptions are used to check the variables in the multiple regression analysis. They are:

1. Linearity: refers to the phenomenon that measures the degree to which the change in the independent variable is associated with the dependent variables.
2. Homoscedasticity: the assumption of homoscedasticity is the variance of the dependent variable that approximately is the same at the different levels of the explanatory variables.
3. The independence of the error terms means the predicted value that is not related to any other prediction, and
4. Normality in the error term of distribution. In this research, the assumption of normality was determined by looking at residual plots that appear to be normal.

The degree of multicollinearity and its effect on the results are examined before the regression results are considered valid. There are stages to examine multicollinearity. The first stage is comparisons of conclusion drawn from the variance inflation factors (VIF) and tolerance values were made. Hair et al. (1998) stated that the condition indices and VIF should not exceed the threshold values of .30 and .10 respectively. The second stage is checking the cases falling in the outlier ranges of the distribution (the outlier cases).

5. Hierarchical Regression

Hierarchical regression was utilized to assess the intervening effects of dimension of turnaround strategies between causes of decline and firm performance.

In order to examine the effect of mediator variables in this study, four steps of linear regression were conducted. The first step was run to see the relationship between independent variables and dependent variables. The purpose of this step was to know whether the relationship exists between dependent and independent variables. The second step was run to see the linear regression on independent variables and mediator variables. The third step was run with mediator variables and dependent variables, to know whether the relationship exists between mediator and dependent variables. The fourth step in examining the effect of mediator was run with independent, mediator and dependent together. In this step only the variables that have relationship in the first, second and third step included. The variables that do not have any relationship will be excluded for this hierarchical regression. The last step was run to know whether the mediator variable behaves as fully mediator, partially or no effect at all.

Intentionally left blank

Chapter Six
Respondents and Companies Profiles

Response Rate

Table 6.1 below displays the response to the survey for this study. The numbers of questionnaires distributed were 1000 with two reminders to obtain meaningful rate of response. From 1000 questionnaires that have sent, only 47 companies participated in the first month and all the data were usable. After one month the first reminder was sent to those who had not yet responded (from this reminder, 110 companies participated within two months, and 45 questionnaires were useable). Whereas the second reminder two month after the first reminder (only 14 respondents participated, and only 9 questionnaires useable). Finally, 171 questionnaires were return during August 2003 and March 2004. Hence, 7 companies refuse to participate, 63 questionnaires returned but unusable and only 101 completed questionnaires can be used for this study. The total response rate 17,1% but rate of usable response is 10,1%. The participation of 101 companies can be considered to be a reasonable given that the respondents were the CEOs of the organization. It is in line with Bruton, Ahlstrom and wan (2003) study of turnaround in East Asian firms, that the sample used is 90 firms. However, the response rate of this study is similar with the study that conducted within lndonesian manufacturing firms. For instance, Herri (2002), achieved 11.70 % response rate and Ellitan (2003), achieved a response rate of 18.41%.

Table 6.1
Distribution of Questionnaires

Items	N
Questionnaires distributed	1000
Total response	171
Refuse to participate	7
Unusable response	63
Useable response	101
Not returned	829
Total response rate	17.1%
Rate of usable response	10,1%

Respondent's Profiles

The profile of respondents is presented in Table 6.2.

Table 6.2
Summary of Respondent Profile

Respondent's profile	Categories	Number of respondent	Percentage (%)
Level in company	Chief Executive Officer	101	100
Age	20-29	5	5.0
	30-39	37	36.6
	40-49	27	26.7
	≥50	32	31.7
Gender	Male	88	87.1
	Female	13	12.9
Educational level	High school	9	8.9
	Bachelors degree	71	70.3
	Postgraduate degree	21	20.8
Working experience	1-5 years	23	22.8
	6-10 years	30	29.7
	11-15 years	24	23.8
	≥16 years	24	23.8

All the respondents are the CEO of the companies. The majority of them are male (87·1%), while female only (12.9%). Befitting their senior positions the younger age group is small, only 5.0%, 30-39 years old (36.6%), 40-49 (26.7%), and greater than 50 is

31.7%. Most of them are degree holders (70.3%), with 21 respondents (20,8%) master's and doctorate's degree, the remainder graduated from senior high school (8.9%). 29.7% of respondents have been working for 6-10 years in the company, (23.8%) 11-15 years and more than 16 years, 22.8% of respondents have been working for 1-5 years.

Companies' profile

Table 6.3 below shows the characteristics of the companies in the sample.

Table 6.3

Summary of Companies' Profile

Companies' profile	Categories	Number of respondent	Percentage (%)
Companies age	5-15	40	39.6
	16-25	20	19.8
	≥26	41	40.6
Industry classification	Food, beverage and tobacco	13	12.9
	Textile and other textile products	36	35.6
	Wood products, paper and chemical products	17	16.8
	Metal, rubber and machinery	8	7.9
	Others	27	26.7
Permanent employees	250-499	38	37.6
	500-999	25	24.8
	1000-1499	22	21.8
	≥1500	16	15.8
Temporary employees	0-249	82	81.2
	250-499	8	7.9
	500-999	7	6.9
	1000-1499	2	2.0
	≥1500	2	2.0
Sales revenue	<25 billion rupiah	29	28.7
	26-100 billion rupiah	45	44.6
	≥100 billion rupiah	27	26.7
Profit during crisis	Decrease >10%	69	68.3
	Decrease <10%	32	31.7

Most of the companies have been in operation for more than 26 years (40.6%), 5-15 years (39.6%), and the others (19.8%) 16-25 years. Thirty five point six (35.6%) of the companies are in textile area and 12.9 % in food, beverage and tobacco industry, 16.8% in wood products, paper and chemical products 7,9% in metal, rubber and machinery, while 26.7% is from others sector. Majority of firms (62.4%) had less then 1,000 permanent employees and others (37.6%) have greater than 1000 permanent employees. 81.2% of them have 0-249 temporary employees. 7.9% have 250-499 temporary employees and others (10.9%) have greater than 500 temporary employees.

In terms of company sales revenue, most of the companies (44.6%) had between 26-100 billion Rupiah, 28.7% firms had less than 25 billion Rupiah in sates revenue. For profit during crisis, 68.3% companies experienced profit decrease of more than 10%, 31.1% of them had profit decrease less than 10%.

Chi-Square Test for Non-response Bias

A test of non-response bias was conducted to compare the early (92 responses) response which were received before the second reminder and late response (9 responses) which were received after the second reminder. Comparison was made on the basis of age of respondents, gender, educational level, working experience, companies' age, industry classification, permanent employees, temporary employees, sales revenue and profit during crisis.

The result from the Table 6.4 shows that there were no significant differences between early and late respondents. Although there were significant difference between earlier and late respondents on profit during crisis (decrease >10%, decrease <10%, and stable or Increase <10%), given that the majority were of those having a decrease of up to 10%. It can be concluded that there is no serious response bias.

Table 6.4
Chi-Square Test for Early and Late Responses

	Categories	Early	Late	sig
Age	20-29	5	0	.87
	30-39	34	3	
	40-49	24	3	
	≥50	29	3	
Gender	Male	81	7	.38
	Female	11	2	
Educational level	High school	9	0	.15
	Bachelors degree	66	5	
	Postgraduate degree	17	4	
Working experience	1-5	23	0	.13
	6-10	25	5	
	11-15	23	1	
	≥16	21	3	
Companies age	5-15	35	5	.56
	16-25	19	1	
	≥26	38	3	
Industry classification	Food, beverage and tobacco	12	1	.70
	Textile and other textile products	31	5	
	Wood products, paper and	16	1	
	chemical products	8	0	
	Metal, rubber and machinery	25	2	
	Others			
Permanent employees	250-499	36	2	.64
	500-999	22	3	
	1000-1499	19	3	
	≥1500	15	1	
Temporary employees	0-249	73	9	.68
	250-499	8	0	
	500-999	7	0	
	1000-1499	2	0	
	≥1500	2	0	
Sales revenue	<25 billion rupiah	28	1	.32
	26-100 billion rupiah	41	4	
	≥100 billion rupiah	23	4	
Profit during	Decrease >10%	66	3	.01

crisis	Decrease <10%	26	6

Chapter Seven
Factor Analysis, Reliability and Data Testing

Factor and Reliability Analysis

Sekaran (2000) stated that the procedures for testing the goodness of measures must be utilized prior to any analysis. The goodness of measures was assured and tested, the techniques used as suggested by Sekaran (2000) were used in the study. The factor and reliability analyses were the analyses that were included in these measures.

One important step in data analysis is to confirm whether or not the variables representing responses to questions are uniquely associated to the theoretical dimensions of the variables of interest. We can determine that the theorized dimensions emerge and it will reveal if the items are indeed tapping the construct of interest with using factor analysis (Sekaran, 2000). Another purpose of factor analysis is to summarize the patterns of correlations among the dimensions and variables and to reduce a large number of variables to a smaller numbers.

For the data reduction purposes, an exploratory factor analysis was conducted using 30 questions of causes of performance decline, 14 questions of turnaround strategies and 3 items of firm performance. Results of factor analysis were analyzed using Statistical Package for Social Sciences (SPSS) version 11.05 for Windows. According to Hair et al. (1998), the factor loadings greater than .30 are the minimum requirements, factor loadings of .40 are considered more important, and factor loadings of .50 and above are considered significant. Thus, for the purpose of this study, Hair et al. (1998) recommendations were used. Each item should be loaded .50 or above on one factor, and .30 or lower on the other factors which was considered as one factor. The result and discussion on factor analysis are summarized below.

According to Nunnally (1978), the reliability of .50 - .60 is sufficient for the early stages of the research, while Hair et al. (1998) argued that .70 is desirable. However, for the purpose of this study, Nunnally (1978) arguments will be used. The result of reliability test for the different constructs was obtained from using the reliability procedure in SPSS. The detailed results are presented together with the factor analysis.

1. Factor Analysis on Causes of Performance Decline

The results of the factor analysis on causes of performance decline are displayed in Table 7.1 and Table 7.2. The measure of sampling adequacy (MSA) is .81. While the Barlett test of sphericity is significant, indicating that there is sufficient number of significant inter-correlations for factor analysis. The results of factor analysis on 30 questions related to causes of performance decline provided six factors with factor loading from .59 to .90 and their eigenvalues for factor 1 is 8.36, factor 2 is 3.94, factor 3 is 2.42, factor 4 is 2.14, factor 5 is 1.54, and factor 6 is 1.23. These six factors captured 72.76% of the variance in the data. From seven original theorized dimensions, they were reduced to six dimensions, named as: (a) poor management, (b) competitive changes, (c) poor acquisition, (d) economic changes, (e) failure of major project, and (f) high cost structure.

The first factor contains six of the seven items related to poor management and three items related to lack of financial control. It seemed that lack of financial control is also related to poor management, thus we named the first factor as poor management (Cronbach's alpha .93). The second factor contains six questions related to competitive changes. Therefore, the factor is named as competitive changes (Cronbach's alpha .91). The third factor consists of three questions related to acquisition, henceforth it would be named as poor acquisition (Cronbach's alpha .91).

The fourth factor is named as economic changes because this factor consists of 4 items related to economic changes (Cronbach's alpha .77). The fifth factor contains of three items related to failure of major project. Therefore, the factor would be named as failure of major project (Cronbach'c alpha .77). And the last factor consists of two items of the four items related to high cost structure so named as high cost structure (Cronbach's alpha .57).

Table 7.1

Measure of Sampling Adequacy and Partial Correlation (Anti Image) on Causes of performance decline

	X1.1	X1.2	X1.3	X1.4	X2.1	X2.2	X2.3	X2.4	X2.5	X2.6	X3.2	X3.3	X3.4	X3.5	X3.6	X3.7
X1.1	.64(a)															
X1.2	-.05	.51(a)														
X1.3	-.38	-.25	.59(a)													
X1.4	-.19	-.41	-.19	.71(a)												
X2.1	.08	-.14	-.03	.01	.83(a)											
X2.2	-.03	-.05	-.01	.16	-.21	.86(a)										
X2.3	.19	-.03	.02	-.05	.00	.13	,76(a)									
X2.4	-.04	.15	-.07	-.05	-.26	-.29	-.41	.84(a)								
X2.5	-.04	-.09	.06	.08	-.06	-.26	-.42	-.09	81(a)							
X2.6	-.19	-.01	.15	-.15	-.03	-.16	-.01	-.21	-.31	.84(a)						
X3.2	-.18	-.14	.10	-.01	.00	-.03	-.11	.02	.06	.09	.79(a)					
X3.3	-.02	-.06	.13	.06	-.02	.07	.04	.01	-.24	.14	-.14	.90(a)				
X3.4	.15	.28	-.12	-.14	-.04	.07	.16	-.01	-.04	-.16	-.25	-.28	.87(a)			
X3.5	.16	-.09	-.08	.03	-.03	.10	.08	-.12	.06	-.07	.03	-.23	-,14	.85(a)		
X3.6	-.16	-.05	.04	.12	.00	-.08	-.01	.06	-.03	.03	-.05	-.04	-,04	-.71	.84(a)	
X3.7	-.13	.18	-.05	-.08	.08	-.03	-.09	-.00	.08	-.01	-.10	-,09	.06	.09	-.33	.83(a]

Continued

	X4.1	X4.2	X4.3	X5.1	X5.2	X5.3	X6.2	X6.3	X7.1	X7.2	X7.3
X4.1	.86(a)										
X4.2	-.40	.81 (a)									
X4.3	-.62	-.62	.88(a)								
X5.1	.14	-.32	.11	.79(a)							
X5.2	.02	.02	.02	-.45	.73(a)						
X5.3	-.09	.17	-.05	-.01	-.01	.75(a)					
X6.2	.10	-.10	-.10	-.05	-·01	-.00	.81 (a)				
X6.3	-.15	.03	-.13	-.06	-.02	.09	-.19	.79(a)			
X7.1	.10	-.11	-.00	.09	.17	-.17	.20	-.01	.72(a)		
X7.2	-.09	.21	-.04	-.07	-.17	,17	-.02	-.03	7.68	.68(a)	
X7.3	-.11	-.14	.04	-.00	.20	-.23	-.23	.07	-.19	-.46	.76(a)

Measure of Sampling Adequacy (MSA)	.81
Barlett's Test of Shpericity	2004.0
Sig.	6
N	.00
	101

Table 7.2

Factor and Reliability Analysis on Causes of performance decline

	Items	1	2	3	4	5	6	Cronbach's Alpha
	Factor 1: Poor management							
X3.4	Weak financial management	**.84**	.12	.10	.00	.17	.08	
X3.6	Inadequate strategic understanding	**.83**	.07	.11	.02	.18	.17	
X3.5	Lack of management depth	**.79**	.08	.12	.00	.20	.27	
X4.1	Budgetary control	**.78**	.14	.22	.11	.00	.11	
X4.3	Costing system	**.76**	.17	.17	.01	.13	.23	
X3.7	Fantastic success in any business	**.75**	.00	.00	.14	-3.89	-.17	
X3.3	Unbalanced top team	**.73**	.09	.03	.03	.28	.27	
X4.2	Cash flow forecast	**.72**	.19	.17	.05	.09	.27	
X3.2	One man rule	**.59**	-.02	.13	.15	.26	.29	
	Reliability							**.93**
	Factor 2: Competitive changes							
X2.5	Announcement of new product	.07	**.89**	.04	.04	.04	.04	
X2.4	Price competition	.18	**.88**	-.03	.07	.02	.02	
X2.3	Product competition	-.01	**.82**	.21	-.10	-.10	.07	
X2.2	Mergers of competitor	.09	**.81**	-.03	.04	.12	-.00	
X2.6	Appearance of new company	.18	**.81**	-.08	.16	1.09	.09	
X2.1	Emergence low cost producers	.09	**.72**	-.15	-.1	.24	.10	
	Reliability							**.91**
	Continued							
	Factor 3: Poor Acquisition							
X7.2	Over paid acquisition	.18	-.00	**.90**	.00	.13	.07	
X7.1	Acquisition of loser	.16	.01	**.88**	-.02	.13	-.00	
X7.3	Poor post acquisition	.28	-.06	**.85**	.04	.09	.09	

	Reliability							**.91**
	Factor 4:							
	Economic changes							
x1.4	Interest rate	.08	.09	.09	**.78**	.20	.20	
x1.2	Intemational crisis	-.03	.09	.03	**.76**	.C3	.20	
x1.1	Devaluation of Rupiah	.12	.05	-.14	**.76**	-.03	.08	
x1.3	Inflation	.10	-.07	.'15	**.73**	-.16	-.16	
	Reliability							**.77**
	Factor 5:							
	Failure of Major Projects							
X5.2	Start up difficulties	.32	.03	.10	.10	**.87**	.10	
X5.3	Untimely implementation	.22	.07	.27	-.03	**.83**	-.09	
X5.1	Underestimating capital	.43	.42	.06	.17	**.63**	.30	
	Reliability							**.86**
	Factor 6:							
	High Cost Structure							
X6.3	Difficult accessibility to suitable labour	.23	.08	-.05	-.05	.01	**.78**	
X6.2	Difficult accessibility to suitable raw material	.37	.11	.10	.11	.14	**.66**	
	Reliability							**.57**
	Eigenvalues	**8.36**	**3.94**	**2.42**	**2.14**	**1,54**	**1.23**	
	Percentage variance explained	**30.97**	**14.61**	**8.96**	**7.93**	**5.72**	**4.55**	

2. Factor analysis on Turnaround Strategies

Table 7.3

Measure of Sampling Adequacy and Partial Correlation (Anti Image) for Turnaround Strategies

	X8.1	X8.2	X8.3	X9.2	X9.4	X10.2	X11.1	X11.2	X11.3
X8.1	.76(a)								
X8.2	.2	.77(a)							
X8.3	-.42	-.48	.68(a)						
X9.2	,.13	-.06	.11	.67(a)					
X9.4	.14	.03	-.37	.14	.62(a)				
X10.2	-.00	-.00	-.00	-.14	-.03	.77(a)			
X11.1	.01	.01	.03	.03	-.01	-.01	.76(a)		
X11.2	.03	.05	.05	.01	.13	.13	-.26	.72(a)	
X11.3	-.04	.00	.02	.02	.02	-.09	-.29	-.11	.81(a)
Measure of Sampling Adequacy									.73
Barlett's Test of Sphericity									276.186
Sig.									.00
N									101

Table 7.4

Factor and Reliability Analysis on Turnaround Strategies

	Items	1	2	3	Cronbach's Alpha
	Factor 1: Management Strategies				
x8.3	New top management team	**.87**	.07	.22	
x8.2	New head man (from outside the company)	**.85**	.10	.12	
x8.1	New head man (from inside the company)	**.84**	.05	.07	
	Reliability				**.85**
	Factor 2: Restructuring Strategies				
X11.1	New manufacturing methods	.12	**.80**	.06	
X11.2	Change in the organizations	.03	**.78**	-.13	
X10.2	Entering new product area	.44	**.76**	.15	
X11.3	Establishing new distribution methods	.05	**.63**	.18	**.74**
	Reliability				
	Factor 3: Cutback Strategies				
x9.2	Debt restructuring	.08	.16	**.83**	
x9.4	Asset reduction	.26	.02	**.81**	
	Reliability				**.64**
	Eigenvalues	**3.08**	**1.93**	**1.12**	
	Percentage variance explained	**34.24**	**21.46**	**12.44**	

Table 7.3 and Table 7.4 display the outcomes of factor analysis on turnaround strategies. The results indicate that the MSA is .73 and the Barlett test of sphericity is significant, and the total variance explained is 68.14%%, It means that these three factors cumulatively captured 68.14% of the variance in the data. The factor

loading is ranging from .63 to .87. It is indicating that all the items related to these dimensions are appropriate for factor analysis.

The results also show factor analysis on 14 items related to turnaround strategies, which yielded 3 factors from 4 factors before factor analysis. They are named as management strategies (alpha .85), restructuring strategies (alpha 74), and lastly cutback strategies (alpha .64).

3. Factor analysis on Firm performance

Table 7.5

Measure of Sampling Adequacy and Partial Correlation (Anti Image) for Firms Performance

	ROI 95-96	ROS 95-96	SG 95-96	SG 97-98	ROS 97-98	ROI 97-98	ROI 99-01	ROS 99-01	SG 99-01
ROI 95-96	.60(a)								
ROS 95-96	.63	.60(a)							
SG 95-96	-96	-.48	.76(a)						
SG 97-98	.21	-.09	-.09	.80(a)					
ROS 97-98	.16	-.16	-.16	-.33	.67(a)				
ROI 97-98	-.26	.19	.09	-.23	-,69	.66(a)			
ROI 99-01	.05	-.03	-.08	.13	-,06	.03	.75(a)		
ROS 99-01	-.19	.08	.03	.03	.07	.02	-.43	.62(a)	
SG 99-01	.18	-.11	.13	.05	-.02	.02	-.11	-.55	.69(a)
Measuring of Sampling Adequacy									.68
Barlett's Test of Sphericity									490.279
Sig.									.00
N									101

Table 7.6

Factor Analysis on Firm Performance

	Items	1	2	3	Cronbach's Alpha
	Factor 1: Performance during Crisis				
97-98	ROS	**.93**	.05	.10	

97-98	ROI	**.91**	-.00	-.13		
97-98	Sales Growth	**.87**	.00	.08		
	Reliability				**.89**	**.89**
	Factor 2: Performance Before Crisis					
95-96	ROS					
95-96	Sales Growth	.04	**.93**	-.00		
95-96	ROI	-.05	**.87**	-.01		
	Reliability	.05	**.85**	-.08		**.87**
	Factor 3: Performance After Crisis				**.87**	
99-01	ROS	-.08	-.00	**.89**		
99-01	ROI	-.08	-.19	**.83**		
99-01	Sales Growth	-.12	.07	**.80**		
	Reliability					**.81**
	Eigenvalues	**2.98**	**2.31**	**1.77**		
	Percentage variance explained	**33.10**	**26.34**	**19.66**		

The results of factor analysis on firm performance are displayed in Table 7.5 and Table 7.6. The sampling adequacy for all items exceeds .50 for each item, validating the use of the factor analysis. Their eigenvalues are high and cumulatively captured about 79.10% of the variance in the data. The MSA is .68 and the Barlett test of sphericity is significant. lt is indicating that all the items related to these dimensions are appropriate for factor analysis. The factor loading ranged from .80 to .93. After Varimax rotation, the items fall into three factors; they are performance during crisis (factor 1. alpha .89), performance before crisis (factor 2. alpha .87) and lastly performance after crisis (factor 3. alpha .81). For this study, performance after crisis is used, to see whether the strategies adopted have affected the firm performance.

Modified Conceptual Framework and Restatement of Hypothesis

From the results of factor analysis, new hypotheses were constructed. The causes of performance decline had reduced from seven dimensions to six dimensions. The variables affected by changes were poor management and lacks of financial control were grouped together and were labeled as poor management. The variables remained unchanged except for the items for poor acquisition that were reduced from four items to two items.

The turnaround strategies variables were reduced from four dimensions to three dimensions. The variables affected by the changes were growth and restructuring strategies that were grouped together as one, and labeled as restructuring strategies. The other remaining variables were also unchanged except for the items for management strategies, which were reduced from four items to three items. Cutback strategies was reduced from four items to three items.

The three dimensions of firm performance were extracted into one factor. In the light of the new dimensions from factor analysis, the modified research framework is proposed and presented as in Figure 7.1.

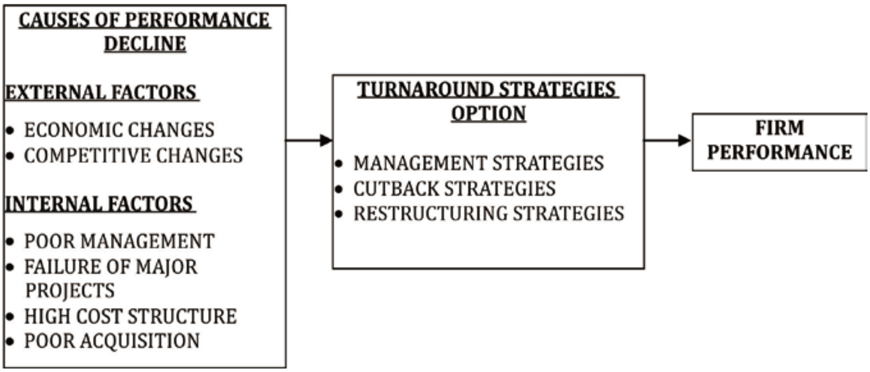

Figure 7.1 Modified research framework.

According to the modified research framework, the following hypotheses are proposed:

Main hypothesis 1: Perceived economic changes influence turnaround strategies.

- **H1.a** There is a positive relationship between perceived economic changes and the extent of management strategies in the turnaround.

- **H1.b** There is a positive relationship between perceived economic changes and the extent of cutback strategies in the turnaround.
- **H1.c** There is a positive relationship between perceived economic changes and the extent of restructuring strategies in the turnaround.

Main hypothesis 2: Perceived competitive changes influence turnaround strategies.

- **H2.a** There is a positive relationship between perceived competitive changes and the extent of management strategies in the turnaround.
- **H2.b** There is a positive relationship between perceived competitive changes and the extent of cutback strategies in the turnaround.
- **H2.c** There is a positive relationship between perceived competitive changes and the extent of restructuring strategies in the turnaround.

Main hypothesis 3: Perceived poor management influences turnaround strategies.

- **H3.a** There is a positive relationship between perceived poor management and the extent of management strategies in the turnaround.
- **H3.b** There is a positive relationship between perceived poor management and the extent of cutback strategies in the turnaround.
- **H3.c** There is a positive relationship between perceived poor management and the extent of restructuring strategies in the turnaround.

Main hypothesis 4: Perceived failure of major project influences turnaround strategies.

- **H4.a** There is a positive relationship between perceived failure of major project and the extent of management strategies in the turnaround.

- **H4.b** There is a positive relationship between perceived failure of major project and the extent of cutback strategies in the turnaround.
- **H4.c** There is a positive relationship between perceived failure of major project and the extent of restructuring strategies in the turnaround.

Main hypothesis 5: Perceived high cost structure influences turnaround strategies.

- **H5.a** There is a positive relationship between perceived high cost structure and the extent of management strategies in the turnaround.
- **H5.b** There is a positive relationship between perceived high cost structure and the extent of cutback strategies in the turnaround.
- **H5.c** There is a positive relationship between perceived high cost structure and the extent of restructuring strategies in the turnaround.

Main hypothesis 6: Perceived poor acquisition influences turnaround strategies.

- **H6.a** There is a positive relationship between perceived poor acquisition and the extent of management strategies in the turnaround.
- **H6.b** There is a positive relationship between perceived poor acquisition and the extent of cutback strategies in the turnaround.
- **H6.c** There is a positive relationship between perceived poor acquisition and the extent of restructuring strategies in the turnaround.

Main hypothesis 7: Turnaround strategies influences firm performance.

- **H7.a** There is a positive relationship between the extent of management strategies in the turnaround and firm performance.
- **H7.b** There is a positive relationship between the extent of cutback strategies in the turnaround and firm performance.

- **H7.c** There is a positive relationship between the extent of restructuring strategies in the turnaround and firm performance.

Main hypothesis 8: Turnaround strategies mediates the relationship between causes of performance decline and firm performance

- **H8.a1** Management strategies mediates the relationship between economic changes and firm performance.
- **H8.a2** Management strategies mediates the relationship between competitive changes and firm performance.
- **H8.a3** Management strategies mediates the relationship between poor management and firm performance.
- **H8.a4** Management strategies mediates the relationship between failure of major project and firm performance
- **H8.a5** Management strategies mediates the relationship between high cost structure and firm performance.
- **H8.a6** Management strategies mediates the relationship between poor acquisition and firm performance.
- **H8.b1** Cutback strategies mediates the relationship between economic changes and firm performance.
- **H8.b2** Cutback strategies mediates the relationship between competitive changes and firm performance.
- **H8.b3** Cutback strategies mediates the relationship between poor management and firm performance.
- **H8.b4** Cutback strategies mediates the relationship between failure of major project and firm performance
- **H8.b5** Cutback strategies mediates the relationship between high cost structure and firm performance.
- **H8.b6** Cutback strategies mediates the relationship between poor acquisition and firm performance.
- **H8.c1** Restructuring strategies mediates the relationship between economic changes and firm performance.
- **H8.c2** Restructuring strategies mediates the relationship between competitive changes and firm performance.
- **H8.c3** Restructuring strategies mediates the relationship between poor management and firm performance.
- **H8.c4** Restructuring strategies mediates the relationship between failure of major project and firm performance

- **H8.c5** Restructuring strategies mediates the relationship between high cost structure and firm performance.
- **H8.c6** Restructuring strategies mediates the relationship between poor acquisition and firm performance.

Data Testing

1. Outlier Analysis

Cohen, West and Aiken (2003) give the definition of outlier as "one or more typical data points that do not fit with the rest of the data". To know whether the outlier is occurring in the data, we can analyze using Z score. If value of Z is 2.5 and above or -2.5 and below in small sample there is outlier, but for the sample of more than 80, the maximum value for Z score is 3 until 4. From the Table 7.7, it can be seen that there is no outlier in the data with the Z score value between -3.82 and 2.18.

Table 7.7
Outlier Testing

Dimension	Value of Z score	
	Minimum	Maximum
Economic changes	-3.82	1.71
Competitive changes	-2.98	1.18
Poor management	-3.44	1.21
Failure of major project	-2.72	1.31
High cost structure	-3.22	1.39
Poor Acquisition	-1.88	1.58
Management strategies	-1.44	1.71
Cutback strategies	-2.15	1.69
Restructuring strategies	-2.99	1.31
Firm performance	-2.64	2.18

2. Multicollinearity

Multicollinearity also must be tested before conducting the regression analysis. It can be decided whether there is multicollinearity or not from: (1) tolerance value and (2) variance inflation factor (VIF). For this study the test of VIF is used. From results it shows that there are no multicollinearities in the regression model, which have values less than 10 (Hair et al, 1998).

3. Normality

Normality is one of four assumptions that must be fulfilled for regression analysis. In this research, the assumption of normality was determined by looking at residual plots that appear to be normal. According to Hair et al. (1998), the data distribution is normal when the residual line closely follows the diagonal. From the results of histogram and normal plot of this research, it was indicated that the residual line closely follows the diagonal. This is to say the data distributions are normal and linear.

4. Homoscedasticity

Homoscedasticity is the variance of the dependent variable that approximately the same at the different levels of the explanatory variables. When the variance of the dependent variable that approximately not the same at the different levels of the explanatory variables, this is to say that heteroscedasticity is present. Diagnosis is made with residual plots. Homoscedasticity is present when the results of scatterplot show an inconsistent pattern. From the results of scatterplot in this study it was shown that there were inconsistent pattern. This would mean that heteroscedasticity is not present.

From the discussion about the assumptions for regression analysis, which are outlier, multicollinearity, normality and homoscedasticity, there are indications that the assumptions are fulfilled. Hence, it can be concluded that regression analysis can be conducted.

Chapter Eight
Hypotheses Testing

Descriptive Analysis

1. Descriptive Analysis of Causes of Performance Decline

Table 8.1 below shows the descriptive statistics on causes of performance decline. The results indicate that competitive change is the most serious factor to the performance decline during the Asian financial crisis in Indonesian manufacturing firms followed by poor management, high cost structure, economic change, and lastly failure of major project.

Table 8.1

Descriptive Statistics on Causes of performance decline

Variables	Minimum	Maximum	Mean	Std. Deviation
Causes of performance decline				
Economic changes	1.00	5.00	3.76	.72
Competitive changes	1.83	5.00	4.10	.76
Poor management	1.33	5.00	4.04	.78
Failure of major project	1.00	5.00	3.70	.99
High cost structure	1.00	5.00	3.79	.86
Poor acquisition	1.00	5.00	3.17	1.15

Scale 1= not serious at all to 5= most serious

2. Descriptive Analysis on Turnaround Strategies

The results of descriptive statistics on turnaround strategies indicate that restructuring strategies is the most important strategies that was adopted by the companies to make the firm survive during the crisis. This is followed by cutback strategies and management strategies. The detailed results are presented in Table 8.2 below.

Table 8.2
Descriptive Statistics on Turnaround Strategies

Variables	Minimum	Maximum	Mean	Std. Deviation
Turnaround strategies				
Management strategies	1.00	4.67	2.68	1.15
Cutback strategies	1.00	5.00	3.23	1.03
Restructuring strategies	2.00	5.00	4.08	.69

Scale 1= not used at all to 5= used as the central strategies

3. Descriptive Analysis on Firm Performance

Table 8.3 below indicates that there are differences in the CEO's perspectives on firm performance before the crisis, during the crisis and after the crisis. Before the crisis the firm performance is increasing between 0% and 5% from the previous year. During the crisis the firm performance decreased between 0% and 5%, and after the crisis the firm performance is stable correspondingly to the previous year.

Table 8.3
Descriptive Analyses on Firm Performance

	Two pre crisis years (1995-1996)		Crisis years (1997-1998)		Post crisis years (1999-2001)	
	Mean	Std. Deviation	mean	Std. Deviation	Mean	Std. Deviation
Firm performance	5.17	1.21	3.47	1.66	3.57	0.84

Scale 1= decrease >10%, to 7= increase >10%

Correlation Analysis

Maholtra (1996) defines the collinearity as the situation where there is high correlation among independent variables and correlation analysis was conducted to provide an initial picture of the interrelationships among the variables.

Hair et al. (1998) states that if among the independent variable the score are above 0.9 it will be highly correlated. From Table 8.4 below, it can be concluded that the collinearity does not occur between independent variables. The outputs of correlation (table 8.4) indicate that economic changes do not have any significant relationship to management strategies, but has positive and significant association with cutback strategies (r = .19, p value <.05) and restructuring strategies (r =.68, p value <.01). While competitive changes do not have any significant association to all of the turnaround strategies. Poor management factor is positively and significantly correlated with management strategies (r = .37, p value .01), cutback strategies (r = .26, p value <.01), and restructuring strategies (r = .20, p value < .05). The results also indicate that failure of major projects is positively and significantly associated with management (r = .25, p value <.05) and cutback strategies (r = .38, p value <.01) and restructuring strategies (r = .21, p value <.05). High cost structure only has a significant association with restructuring strategies (r =.19, p value <.05). Lastly, poor acquisition is positively and significantly correlated with management strategies (r = .22, p value <.05) and with cutback strategies (r =.27, p value <.01).

Finally, the results of correlation also indicate that management strategies has a positive and significant relationship with firm performance (r = .36 p value <.01). Cutback strategies also has significant and positive relationship with firm performance (r = .60 p value <.01). And lastly, restructuring strategies has positive and significant relationship with firm performance (r = .41 p value <.01).

Table 8.4
Correlation Table

Variables	1	2	3	4	5	6	7	8	9	10
Causes of Performance Decline										
1. Economic change										
2. Competitive change	.12									
3. Poor management	.16*	.24**								
4. Failure in major project	.08	.12	56**							
5. High cost structure	.13**	.21**	.50**	.33**						
6. Poor acquisition	.02	.01*	.38**	.35**	.14					
Turnaround strategies										
7. Management strategies	.17	.05	.37**	.25**	.16	.22*				
8. Cutback strategies	.19*	.07	.26**	.38**	08	.27*	.36**			
9. Restructuring strategies	.64**	.05	.20**	.21**	.19*	.02	.18	.21*		

10. **Firms Performance**	.35**	.04	.17	.32**	.20*	.02	.36**	.60**	.41**

Note. * *p*< .05. ** *p* < .01.

Hypothesis Testing

To test the hypotheses of this study, multiple regression and hierarchical regression were used. Multiple regression tests were used to test the individual effects of the several independent variables and also to assess the simultaneous relationship. Hierarchical regression tests were employed to test the mediating effects of turnaround strategies on the relationship between causes of performance decline and firm performance.

1. Multiple Regression Analysis

According to Hair et al. (1998), multiple regression tests were used to analyze the relationship between a single dependent variable and several independent variables. In order to test the hypotheses that were presented before, multiple regression tests were conducted. The multiple regression tests for the purpose of this study were run to determine the variance turnaround strategies explained by six dimensions of causes of performance decline, and to determine the variance of firm performance explained by three dimensions of turnaround strategies.

Causes of Performance Decline and Management Strategies

Three multiple regression tests were conducted in order to test the relationship between the dimensions of causes of performance decline and turnaround strategies. The first multiple regression analysis were run to determine the relationship between six dimensions of causes of performance decline namely; economic changes, competitive changes, poor management, failure of major project, high cost structure and poor acquisition on management strategies. The results are summarized in the following Table 8.5.

Table 8.5
The Relationship between Causes of performance decline and Management Strategies

Independent variable	Std. beta	t - value
Economic changes	.12	1.3
Competitive changes	-.04	-.45
Poor management	.32**	2.49

Failure of major project	.04	.42
Poor acquisition	-.03	-.34
High cost structure	.08	.78
R^2 = .16		
adjusted R^2 = .11		
F value = 3.13		
Sig. F = .008		

**significant at .05

From the Table 8.5 above R^2 is .16. It indicates that six dimensions of causes of performance decline explained 16% the variance of management strategies, with sig. β = .008. From the six dimensions, only poor management have positive and significant association with management strategies (β= .32, $p < .05$). Hence, H3.a is therefore, supported. This shows that the seriousness problem of the poor management will lead to large extent of 'management strategies used in the organization. While another five dimensions, which are; economic changes, competitive changes, failure of major projects, high cost structure and poor acquisition were not found to be insignificantly correlated to management strategies ($p > .10$). Thus, hypothesis H1.a, H2.a, H4.a, H5.a and H6.a are rejected.

Causes of Performance Decline and Cutback Strategies

This is the second multiple regression run to examine the relationship between dimensions of causes of performance decline and cutback strategies. The six dimensions of causes of performance decline, which are: economic changes, competitive change, poor management, failure of major project, poor acquisition, and high cost structure were regressed on cutback strategies. The detailed results are presented in Table 8.6.

Table 8.6
The Relationship between Causes of performance decline and Cutback Strategies

Independent variable	Std. beta	t - value
Economic changes	.16*	1.78
Competitive changes	.02	.25
Poor management	.03	.28
Failure of major project	.32***	2.83

Poor acquisition	-.08	-.78
High cost structure	.15	1.55
$R^2 = .21$		
adjusted $R^2 = .15$		
F value = 4.06		
Sig. F = .001		

* significant at .10 *** significant at .01

The Table 8.6 above shows that R^2 is .21 indicates that the six dimensions of causes of performance decline explained 21% of the variance in cutback strategies. This model is significant at 1% level (sig. F = 0.01). From the six dimensions of causes of performance decline, two of them were found to be positively and significantly affecting cutback strategies. They are; economic changes ($\beta = 16$, $p < .10$) and failure of major projects ($\beta = 32$, $p < .01$), H1.b and H4.b are therefore, supported. ln other words, when the seriousness of economic changes and failure of major projects occurs as factors causes of performance decline lead to large extent of cutback strategies used in the organization. However, the other four dimensions of causes of performance decline were found to be not significantly associated with cutback strategies. They are; competitive changes, poor management, poor acquisition and high cost structure. Obviously, the hypotheses H2.b, H3.b, H5.b and H6.b are rejected.

Causes of Performance Decline and Restructuring Strategies

The third multiple regression test was run to examine the relationship between dimensions of causes of performance decline and restructuring strategies. The six dimensions of causes of performance decline were regressed on restructuring strategies. The detailed results are presented in Table 8.7.

Table 8.7
The Relationship between Causes of performance decline and Restructuring Strategies

Independent variable	Std. beta	t value
Economic changes	.62***	8.04
Competitive changes	-.06	-.79
Poor management	.00	.08
Failure of major project	.16*	1.70

Poor acquisition	.08	.93
High cost structure	-.06	-.78
R^2 = .67		
adjusted R^2 = .45		
F value = 12.90		
Sig. F = .000		
*** significant at .01 *significant at .10		

Table 8.7 above shows R^2 is .67 indicates that the six dimensions of causes of performance decline explained 67% of the variance in restructuring strategies. This model is significant at 1% level (sig. F = 0.00). The results also indicate that from the six dimensions of causes of performance decline, only two dimensions have positive and significant association with restructuring strategies. They are; economic changes (β = .62, $p < .01$) and failure of major projects (β = .16, $p < .10$). Hypothesis H1.c and H4.c are supported. This shows that the seriousness problems of economic changes and failure of major projects will lead to large extent of restructuring strategies used. The other four causes of performance decline dimensions were not significantly related to restructuring strategies. The dimensions are, competitive changes, poor management, high cost structure and poor acquisition. Therefore, H2.c, H3.c, H5.c, and H6.c are rejected.

Table 8.8

Summary of the Hypotheses of Causes of performance decline and Turnaround Strategies

Hypothesis number	**Statement of hypothesis**	**Remarks**
H1.a	There is a positive relationship between perceived economic changes and management strategies in the turnaround	Rejected
H1.b	There is a positive relationship between perceived economic changes and cutback strategies in the turnaround	**Accepted**
H1.c	There is a positive relationship between perceived economic changes and restructuring strategies in the turnaround	**Accepted**
H2.a	There is a positive relationship between perceived competitive changes and	Rejected

	management strategies in the turnaround	
H2.b	There is a positive relationship between perceived competitive changes and cutback strategies in the turnaround	Rejected
H2.c	There is a positive relationship between perceived competitive changes and restructuring strategies in the turnaround	Rejected
H3.a	There is a positive relationship between perceived poor management and management strategies in the turnaround	**Accepted**
H3.b	There is a positive relationship between perceived poor management and cutback strategies in the turnaround	Rejected
H3.c	There is a positive relationship between perceived poor management and restructuring strategies in the turnaround	Rejected
H4.a	There is a positive relationship between perceived failure of major projects and management strategies in the turnaround	Rejected
H4.b	There is a positive relationship between perceived failure of major projects and cutback strategies in the turnaround	**Accepted**
H4.c	There is a positive relationship between perceived failure of major projects and restructuring strategies in the turnaround	**Accepted**
H5.a	There is a positive relationship between perceived high cost structure and management strategies in the turnaround	Rejected
H5.b	There is a positive relationship between perceived high cost structure and cutback strategies in the turnaround	Rejected
H5.c	There is a positive relationship between perceived high cost structure and restructuring strategies in the turnaround	Rejected
H6.a	There is a positive relationship between perceived poor acquisition and management strategies in the turnaround	Rejected
H6.b	There is a positive relationship between perceived poor acquisition and cutback strategies in the turnaround	Rejected
H6.c	There is a positive relationship between	Rejected

	perceived poor acquisition and restructuring strategies in the turnaround

Turnaround Strategies and Firm Performance

To determine the relationship between turnaround strategies and firm performance, multiple regression tests were conducted. Three dimensions of turnaround strategies; management strategies, cutback strategies, and restructuring strategies were regressed to firm performance (performance after the crisis, 1999 – 2001). The detailed results are presented in Table 8.9

Table 8.9
The Relationship between Turnaround Strategies and Firm Performance

Independent variable	β	t - value
Management strategies	.12	1.57
Cutback strategies	.50***	6.20
Restructuring strategies	.27***	3.64
R^2 = .68		
adjusted R^2 = .46		
F value = 28.08		
Sig. F = .000		

*** significant at .01

The Table 8.9 above shows R^2 is .68. lt means that turnaround strategies that consist of management strategies, cutback strategies, and restructuring strategies could explain 68% the variance of firm performance. The model is significant at 1% significant level (sig. F = .000). From three turnaround strategies it is found that cutback strategies is positively and significantly associated with firm performance (β = .50, p <.01). Restructuring strategies is also found to be positively and significantly related to firm performance (β = .27, p <.01). Hypothesis H7.b and H7.c are supported. This indicates that when the large extent of cutback strategies and restructuring strategies used in the organization lead to the increase of firm performance. But, the results showed that management strategies do not have any significant relationship to firm performance. It means that hypothesis H7.a is rejected. The detailed result on the hypotheses is presented in table 8.10.

Table 8.10
Summary of the Hypothesis on Turnaround Strategies and Firm Performance

Hypothesis Number	Statement of Hypothesis	Remarks
H7.a	There is a positive relationship between the extent of management strategies in the turnaround and firm performance.	Rejected
H7.b	There is a positive relationship between the extent of cutback strategies in the turnaround and firm performance.	**Accepted**
H7.c	There is a positive relationship between the extent of restructuring strategies in the turnaround and firm performance	**Accepted**

2. Hierarchical Regression

This study puts turnaround strategies as mediating variables on the relationship between causes of performance decline and firm performance. To test this mediation, hierarchical regression test was conducted. According to Baron & Kenny (1986), the conditions that must be fulfilled to test the mediation effect are: (a) the independent variable should effect the dependent variables to see whether the relationship exist, (b) the independent variables should effect the mediating variable, and the relationship must be significant, (c) the mediator should influence the dependent variable and the relationship must be significant, and lastly (d) independent, mediator and dependent variables are run together. In this step only the variables that have relationship in the first, second and third steps are included. The variables that do not have any relationship will be excluded for this hierarchical regression. Thus, for the test of mediation, only cutback strategies and restructuring strategies will be tested as a mediating variable to investigate the relationship between economic change and failure of major projects with firm performance. The chosen of economic changes and failure of major projects, cutback strategies, and restructuring strategies for the test of mediating due to the fulfillment of those dimensions based on Baron and Kenny's criteria of the mediation testing. The detailed process of hierarchical regression is discussed below.

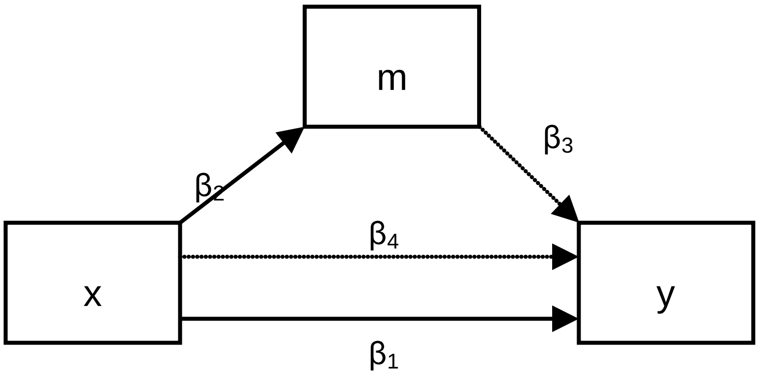

Figure 8.1 The mediation model.

First equation : $y = \beta_1 x$, where β_1 has to be significant
Second equation : $m = \beta_2 x$, where β_2 has to be significant.
Third equation : $y = \beta_4 x + \beta_3 x$, where β_3 has to be significant; if β_4 is not significant, the mediating variable fully mediated the relationship and if β_4 significant, it is a partial mediator.

The Mediation of Cutback Strategies on the Relationship between Economic Change and Firm Performance

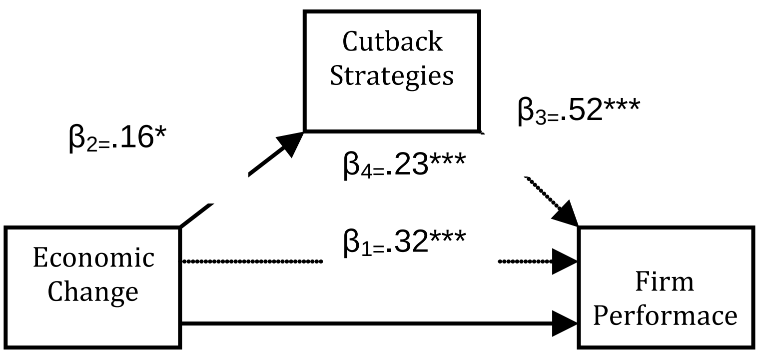

Figure 8.2 The Mediation of Cutback Strategies on the Relationship between Economic Change and Firm Performance

*   = p<.10
*** = p <.01

From the Figure 8.2 above, it shows that ($\beta_{1=}$.32 p <.01), (β_2=.16, p <.10), ($\beta_{3=}$.52, p <.01) and (β_4=.23 p <.01). Thus, it indicates that the extent of cutback strategies in the turnaround process is able to significantly change the amount of variance explained by economic changes on the firm performance. In other words, cutback strategies partially mediated the relationship between economic changes and firm performance. It means that hypothesis H8.b1 is partially accepted. The value of ΔR^2 change is .22, indicates that cutback strategies are able to explain an additional 22% of variance in firm performance when it functions as mediator in the relationship between economic changes and firm performance.

The Mediation of Cutback Strategies on the Relationship between Failure of Major Projects and Firm Performance

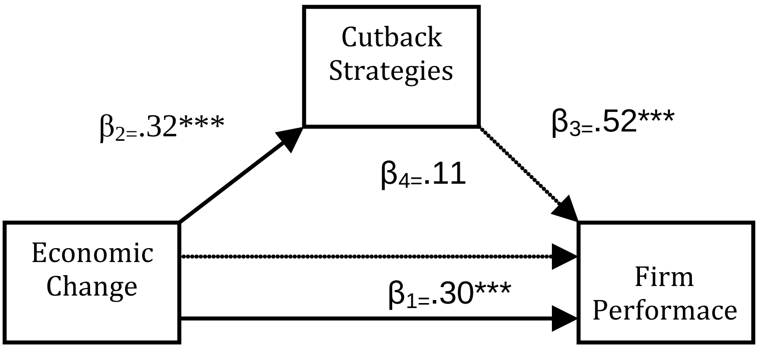

Figure 8.3 The Mediation of Cutback Strategies on the Relationship between Failure of Major Projects and Firm Performance
*** = p <.01

From the Figure 8.3 above it shows that ($\beta_{1=}$.30, p <.01), (β_2=.32, p <.01), (β_3=.52, p <.01) and (β_4=.11, and not significant). Thus, we can conclude that cutback strategies fully mediated the relationship between failure of major projects and firm performance. It indicates that hypothesis H8.b4 is fully accepted. While ΔR^2 change is .22, it means that cutback strategies are able to explain an additional 22% of variance in firm performance when it functions as mediator in the relationship between failure of major projects and firm performance.

The Mediation of Restructuring Strategies on the Relationship between Economic Changes and Firm Performance

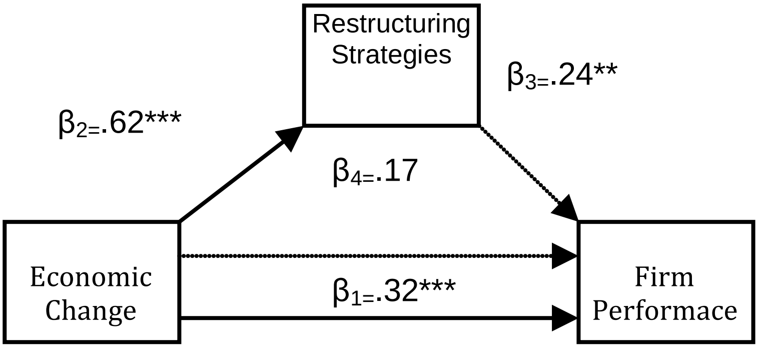

Figure 8.4 The Mediation of Restructuring Strategies on the Relationship between Economic Changes and Firm Performance

** = P <.05

*** = p <.01

From the Figure 8.4 above it shows that (β_1=.32, p <.01), (β_2=.62, p <.01), (β_3=.24 p <.05) and (β_4=.17 and not significant). Thus, we can conclude that restructuring strategies fully mediated the relationship between economic changes and firm performance. In other words, hypothesis H8.c1 is fully supported. The value of ΔR^2 change is .03. It indicated that restructuring strategies is able to explain an additional 3% of variance in firm performance when it functions as mediator in the relationship between economic changes and firm performance.

The Mediation of Restructuring Strategies on the Relationship between Failure of Major Projects and Firm Performance

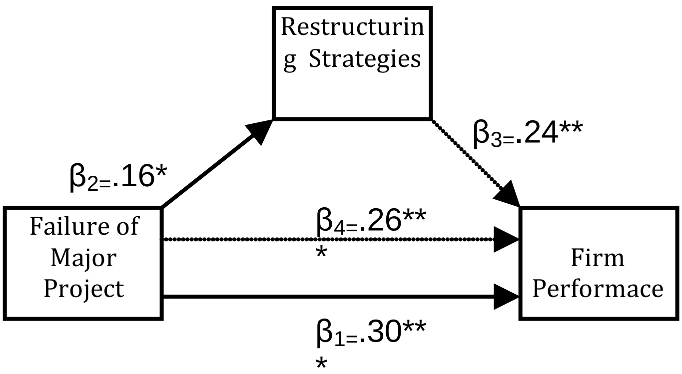

Figure 8.5 The Mediation of Restructuring Strategies on the Relationship between Failure of Major Projects and Firm Performance

* = p < .10
** = p <.05
*** = p <.01

The Figure 8.5 above shows that (β_1=.30, p <.01), (β_2=.16, p <.10), (β_3=.24, p <.05) and (β_4=.26, p <.01). The result indicates that restructuring strategies partially mediated the relationship between failure of major projects and firm performance. Thus, it can concludes that hypothesis H8.c4 is partially supported. The result also indicates that the extent of restructuring strategies in the turnaround process is able to significantly change the amount of variance explained by failure of major projects on the firm performance with the value of ΔR^2 change is .03. It means that restructuring strategies is able to explain an additional 3% of variance in firm performance when it functions as mediator in the relationship between failure of major projects and firm performance.

Table 8.11
Summary of the Cutback Strategies and Restructuring Strategies as a Mediating Variable

Cutback strategies as mediating variable	**Z (Beta std)** Step 1	Step 2	**R²**	**R ² change**	**Remarks**
X5 Failure of major project Y1 Cutback strategies Firm performance	.32***	.23*** .52***	.43***	.22***	Partial effect
X1 Economic changes Y1 Cutback strategies Firm performance	.30***	.11 .52***	.21***	.22***	Full effect
Restructuring strategies as mediating variable	**Z (Beta std)** Step 1	Step 2	**R²**	**R ² change**	**Remarks**
X5 Failure of major project Y3 Restructuring strategies Firm performance	.32***	.17 .24***	.25**	.03**	Full effect
X1 Economic changes Y3 Restructuring strategies	.30***	.26*** .24**	.21***	.03**	Partial effect

Firm performance

** = p <.05   *** = p <.01

Table 8.12

Summary of the Hypotheses on Turnaround Strategies as Mediating Variable

Hypothesis number	Statement of hypothesis	Remarks
H8.a1	Management strategies mediates the relationship between economic changes and firm performance.	Rejected
H8.a2	Management strategies mediates the relationship between competitive changes and firm performance.	Rejected
H8.a3	Management strategies mediates the relationship between poor management and firm performance	Rejected
H8.a4	Management strategies mediates the relationship between failure of major project and firm performance	Rejected
H8.a5	Management strategies mediates the relationship between high cost structure and firm performance.	Rejected
H8.a6	Management strategies mediates the relationship between poor acquisition and firm performance.	Rejected
H8.b1	Cutback strategies mediates the relationship between economic changes and firm performance	**Partially Accepted**
H8.b2	Cutback strategies mediates the relationship between competitive changes and firm performance	Rejected
H8.b3	Cutback strategies mediates the relationship between poor management and firm performance.	Rejected
H8.b4	Cutback strategies mediates the relationship between failure of major project and firm performance.	**Fully Accepted**
H8.b5	Cutback strategies mediates the relationship between high cost structure and firm performance.	Rejected

H8.b6	Cutback strategies mediates the relationship between poor acquisition and firm performance.	Rejected
H8.c1	Restructuring strategies mediates the relationship between economic changes and firm performance.	**Fully Accepted**
H8.c2	Restructuring strategies mediates the relationship between competitive changes and firm performance.	Rejected
H8.c3	Restructuring strategies mediates the relationship between poor management and firm performance.	Rejected
H8.c4	Restructuring strategies mediates the relationship between failure of major project and firm performance.	**Partially Accepted**
H8.c5	Restructuring strategies mediates the relationship between high cost structure and firm performance.	Rejected
H8.c6	Restructuring strategies mediates the relationship between poor acquisition and firm performance.	Rejected

Chapter Nine
Discussion and Conclusion

Discussion

1. Causes of Performance Decline

The causes of performance decline were the independent variables of the study. From the results of factor analysis, causes of performance decline consist of six dimensions from seven dimensions. Those dimensions are economic changes, competitive changes, poor management, failure of major projects, high cost structure, and poor acquisition. These dimensions fall in line with those suggested by Argenti (1976), Slatter (1984), McRobert and Hoffman (1997) and Teng (2002). From the hypotheses testing on the causes of performance decline, several expected and unexpected results emerged. The discussion of the findings on those variables is described below.

Economic Changes

The results of this study indicated that economic changes was the fourth of six important factors of causes of performance decline in Indonesian manufacturing firms. This finding was supported by Schendel and Patton (1976), who found that economic recession was the most common cause of performance decline in USA. This result was also in line with Dun and Bradstreet (1987) findings. During the Asian financial crisis of 199711998 the depreciation of Rupiah was a major problem for Indonesian manufacturing firm, that borrowed funds dominated in US dollar. Firms have to pay seven times more than before the crisis. At the same tirne, inflation rate rose from about 8% to more than 11%. The financial impact was in line with the study by Widianto and Choesni (1999), who found that for Indonesian manufacturing firms, the depreciation of Rupiah and international monetary crisis were two of the most important factors that affected firm decline.

The result of this study indicated that economic changes were not positively related to management strategy. This is to say that firm did not adopt management strategy (appointment of new CEO, Director, etc) when it perceived economic changes as one of the factors contributing to the decline. In the West, it is commonly assumed that the CEO of a firm must be replaced in a turnaround effort. However, in Asia especially in Indonesia, a strong Asian owner/manager typically maintains high levels of ownership, often over 50%. Thus, replacing the owner/manager in a manner similar to what occurs in the West commonly does not occur (Bruton, Ahlstrom & Wai 2001). It brought the impact to recovery process in Indonesia that has been slow, difficult, and frustrating.

As an expected result, economic changes as one of the factors contributing to decline are related to the usage of cutback strategies. This would mean that firms did adopt cutback strategies when it perceived economic changes as one of the factors contributing to the decline. This finding is supported by Maimon's (1999) findings, who found that cutback strategies is one of the strategies that were popularly adopted by Malaysian companies during the economic crisis to save them from further decline. The finding is also in line with John, Lang and Netter (1992), who reported that firms that blamed their poor performance on economic condition responded in general by focusing on cutback strategies.

As expected, the finding of this study shows that economic changes as a cause of performance decline is also related to restructuring strategies. This would mean that firms did adopt restructuring strategies when it perceived economic changes as one of the factors coniributing to the decline. This finding is also supported by Maimon (1999), who found that there is a positive relationship between external causes of performance decline with restructuring strategies. Thus, it seems that when firms perceived economic changes as a cause of performance decline, they would intensively use cutback strategies and restructuring strategies in order to reduce the effect of the crisis and recover.

Competitive Changes

This study found that from the six factors contributing to the decline, competitive change was the most serious factor that contributed to performance decline during economic crisis (1997/1998) in Indonesian manufacturing firms. This finding is in line with the findings of Maimon (1999), who found that competition is one of the external factors contributing to the decline of Malaysian manufacturing companies. It is also in line with Schendel and Patton

(1976), who found that increased competition contributed to the decline in USA companies.

Further, this finding is supported by Dhanani's (2000) research. He found that the lack of competitiveness is the factor that affected company decline during the economic crisis in Indonesia. This study found that competitive change in Indonesia was due to: (1) price competition; (2) the emergence of foreign low cost producers; (3) product competition; (4) the appearance of entirety new company; (5) the announcement of competitor's new range of products; and (6) the merger of two competitors. Similarly, Dhanani (2000) found that lack of competitiveness in Indonesia was due to: (1) the emergence of lower-cost competitors in Indonesia's traditional export products and markets leading to lower international prices, particularly of textile, garments and footwear, (2) The inability of Indonesian producers to reduce production costs, due to their heavy reliance on imported inputs, (3) Indonesia's continued reliance on a small number of exports and a small number of markets, (4) Absence of technological deepening in production and exports, (5) The manufacture of consumer electronics, whose exports have picked up since the onset of the crisis in which 90% of components were imported and assembled using low wages.

Barker and Barr (2OOZ) asserted that external attribution of decline is significantly related with the extent of top management team replacement in turnaround. Contrary to expectation, this study found that competitive change does not have significant association with management strategy, cutback strategies and restructuring strategies. In a situation that firms are faced with price competition, the emergence of foreign low cost producers, product competition, the appearance of entirely new company, the announcement of competitor's new range of products, and the merger of two competitors as factors contributing to performance decline, the management strategies, cutback strategies and restructuring strategies will not be the alternative. This could be one of the reasons why until 2001, the turnaround in Indonesia was slow in its progress and has little impact to the performance.

Competitive changes do not have any significant relationship with turnaround strategies due to the failure to develop supplier and support industries, to diversify its manufacturing base, and to achieve technological deepening of its manufacturing sector. This was because of: (1) absence of an effective industrial technology support system or more accurately, (2) lack of interest on the part of

Indonesian conglomerates and foreign manufacturers in developing a supplier or vendor network, (3) relatively weak human resources, particularly the ability to reverse-engineer and adapt foreign technology to domestic markets, products and scales of production, (4) absence of a strategic vision of where Indonesia wanted to be in terms of industrialization to provide broad signals to investors and guide government policies, (5) an absence of a formal government-business forum where issues of competitiveness could be addressed and resolved (Dhanani, 2000).

Poor Management

From the six factors that contributed to the decline in this study, it was found that poor management is the second factor that most contributes to the decline of the organization. The possible reason is that, Indonesian companies have strong owner/managers, as in many companies where the founding family maintains a strong ownership position (Simanjuntak, 2001). The top manager is the principal owner. The board of directors of the companies usually consists of family members, friends, and close business associates. Thus, the independent monitoring function of the board of directors, which is commonly prevailing in western cultures, is uncommon in eastern cultures (Bruton, Alhstrom & Wan, 2001).

Another possible reason why poor management occurred as one of the major causes of performance decline is due to the fact that most large businesses in Indonesia were organized as conglomerates. These conglomerates are associated with unfair business practices (Simanjuntak, 2001), which occurred on a big scale in the relationship between a group owned by banks with the group's other members. Firstly, banks give loans to group members with little or no collateral leading to companies having extremely high gearing. When the banks recalled the loans at the onset of the crisis, the companies could not repay. Secondly, the practice of transfer pricing and profit or cost centers have been deployed in the relationship between two or more businesses of the same group. Transfer pricing in its explicit and implicit forms are perhaps the most pertinent issues of conglomeration (Simanjuntak, 2001). Some firms were treated as cost centers, while others as profit centers. The cost centers were to show losses for accounting purposes, while the profits were shown elsewhere. Usually firms in the downstream industry might be treated as profit centers and upstream operations as cost centers.

Claessens, Djankov & Klapper (2003) found that the top 15 family groupings in Indonesia controlled a massive 61.7 percent of the total values of listed assets, representing 21.5 percent of GDP using 1996 data. These findings showed how big the numbers were, for these family-owned businesses, in terms of contribution and, in particular, how they are governed. Because of close linkage among firms in the group when one or two gets in trouble, the others are involved.

Tabulujan (2002) described that the number of Indonesian listed companies with two or more family members on the Board of Directors in 1997, were 155. This number contributed to 59.8 percent of the total number of 259 listed companies in that year. Whereas, in 2001 this figure dropped to 125 listed companies, constituting 40.7 percent out of the total number of 307 listed companies in that year. In other words, after the economic crisis, the number of listed companies which had two or more family members within their boards fell by almost 32 percent. Second, he found that the fall in the number of companies with five or more family members of their boards is even more striking. There were '14 companies in 1997 but was reduced by more than half to 6 companies in 2001. In other words, any apparent tendency to stack company boards with family members appeared to have been reversed significantly by 2001. In addition, Tabulujan (2002) asserted that poor corporate governance in Indonesia was a root cause of performance decline.

The results of multiple regression tests indicated that poor management factor has significant association with management strategy (replacement of CEO, or board member). This particular result contradicts with the result of Bruton, Alhstrom and Wan (2003) study. They found in East Asia the removal of the firm's leaders is rarely done, particularly to be replaced by outsiders such as the board members or even by creditors.

However, the finding is in line with Slatter (1984), who found that the companies in poor management situation require new management. The finding is also in line with Tabulujan (2AA2), who found that the reduced number of family members on the boards of Indonesian companies in 2001. One possible reason why two or more family members on the boards of Indonesian companies dropped by 32 percent in 2001 was due to pressure on leading lndonesian corporate players to reduce the number of family members in their companies. This was aimed to blunt criticism regarding the prevalence of insider relationship within their companies. Thus, most of the companies changed the headman with someone from outside of their family members.

Another reason why poor management is related to management strategy was media attention on large Indonesian family businesses reached new heights. In order to capture the attention of the media, the companies prefer to change their family members in the companies with somebody else from outside their family. The example of media attention on large Indonesian family businesses described by Tabulujan (2002), took place some time in mid 1998, when two extensive features on the corporate groups of the Sudano Salim (Liem sioe Liong) family and the Habibie family were published. It is one possible reason that such media spotlight could have played a significant role in indirectly pressuring Indonesian business families to reduce the number of their family members in their corporate boards.

A phenomenon of Indonesian companies was that some individuals hold multiple board positions at the same time (Tabulujan, 2002). This phenomenon is supported by this study which found that board of directors was one of the reasons of poor management.

Tabulujan (2002) found that in Indonesian listed companies, many individuals held muttiple board position at the same time prior to the crisis. But this figure changed during 1997-2001, when the number of individuals who held multiple board positions fell from 246 to 226, a reduction of about seven percent. In contrast to the sharp fall in that category, the number of individuals with two board positions actually increased from 148 in 1997 to 174 in 200L fn other words, the figures reflected a twofold movement. First, there was a general fall in the number of individuals holding multiple board positions. Second, there was a significantly larger number of such individuals preferring to hold only two concurrent board positions.

According to Tabulujan (2002) in 1997, Mukhtar wijaya held the highest number of positions in fisted companies. He was from Sinar Mas conglomerate. According to Indonesian capital Market Directory (1997), he held four directorships comprising of one president directorship, two vice president directorships, and one directorship. He also held two others commissionership. In contrast, according ICMD (2001), the record number of executive board positions in 2001 was held by Marimutu Sinivasan from the Texmaco conglomerate, who was a president director of five listed companies.

It is possible that individuals, who hold such multiple positions in listed companies, also have other board positions in unlisted companies.

Contrary to expectation, this study found that poor management is not associated with cutback strategies and restructuring strategies. This would mean that when poor management appears as one of the factors contributing to decline, cutback strategies and restructuring strategies are not the alternative strategies for the companies to implement. This particular result contradicts with the result of Slatter (1984), which found that poor management situation requires organization change and decentralization in UK companies. However, this result supports Ahlstrom and Bruton (2004) study. They asserted that theories of organization developed largely in the West will not automatically be applicable to Asia, and that their applicability must be evaluated.

Failure of Major Projects

The study indicated that failure of major projects is the fifth factor contributing to the output decline of lndonesian manufacturing firms. Most of the companies faced start up difficulties, untimely implementation of the projects and underestimating capital requirements. Since the economic crisis in 199711998 many companies could not finish their projects on time because of the difficulties to get capital and raw materials that required other currencies (mainly US Dollars), because of the instability of the Rupiah rising almost four fold (US $1 = Rp. 16,000). The other factor that contributed to the failure was the underestimating of operating capital requirements. It means that before the crisis the company had a certain sum budgeted for the project but when the economic crisis hit the companies, the budget was no longer sufficient for the project.

In Indonesia, many companies were involved primarily in simple blending, packaging and assembly operations, with the result that in 1997, the value of imported raw materials, intermediate inputs and components ranged from 45% in chemical industries, to 53% in machinery, 56% transport equipment industries and 70% in electrical goods industries. Even labour intensive industries relied heavily on imported raw materials, intermediate inputs and components, ranging from 40%-43% in the textile, garment and leather industries, and 56% in the footwear industry. Firms need the government to assist domestic companies in building up their manufacturing capacity (Dhanani, 2000). However the types of government interventions adopted, including regulations on controlling local content requirements have met with little success (Aswicahyono, Basri & Hill, 2000).

Contrary to expectation, the results of the analyses indicated that failure of major projects does not have significant association with management strategy. This is to say that in situations of failure of major projects situation, management strategy (replacement of CEO, or board member) is not the strategy to be considered for adoption.

As expected the failure of major projects as a cause of performance decline has significant relationship with cutback and restructuring strategies. This finding is in line with Slatter (1984), who found that the failure of major projects in an organization influenced implementation of asset reduction. It is also in line with Maimon (1999), who found that in order to recover; companies slashed their operation cost, and restructured their debt to avoid the big problem of debt servicing in the future. This is to say that when companies are faced with failure of major projects, they seemed to be more active to adopt the cutback and restructuring strategies if they wish to achieve recovery.

High Cost Structure

The study found that high cost structure is the third factor that contributed to company decline in Indonesia. This result is supported by Maimon's (1999) findings, who found that cost structure is the factor that contributed to the decline of firms in Malaysia.

Slatter (1984) asserted that when the firms are in high cost structure situation, the appropriate strategies adopted to eliminate these problems are cost reduction and product market. Contrary to expectation however, this study found that high cost structure does not have any relationship with management strategy, cutback strategies and restructuring strategies. This would mean that in difficult situations of accessibility to raw material and accessibility to suitable labour, management strategy, cutback strategies and restructuring strategies are not the alternative strategies to implement by the firms.

There are a number of reasons why high cost structure does not have any significant relationship with turnaround strategies. Firstly, manufacturing firms suffered from difficulty in accessibility to suitable raw materials during the economic crisis of 199711998. This finding is consistent with the findings of lshida (2003), who found that Indonesian manufacturing firms found it difficult to access suitable raw materials because they depended heavily on imported inputs, while the currency is still depreciating. This finding is also supported by Dhanani (2000), who found that in 1997, the high price of imported raw materials in manufacturing firms, while intermediate inputs and components had risen. This was due to the lack of domestic suppliers, support industries and weak domestic industrial linkages. The absence of supplier and support industries is due primarily to the costly, risky and lengthy process of setting up such industries. lt requires up to three years for certain vehicle component manufacturers for instance, with no guarantee of success, to be setup and running. For its part, apart from the generally ineffective regulations on local content requirements, the government was not actively involved in supporting the development of supplier and support industries, and the building of a strong group of domestic firms which could develop linkages with foreign establishments through effective extension services, technical support services and other similar firm level measures to build up local capabilities. Those problems contributed to the causes of the output of production decline in lndonesian manufacturing firms (Dhanani, 2000).

Secondly, until 2000, the manufacturing firms still faced difficult accessibility to suitable man power. This finding is in line with the finding of Dhanani (2000) that found there is relatively weak high level human resources in manufacturing firms, particularly the ability to reverse-engineer and adapt foreign technology to domestic markets, products and scales of production. In Indonesia, institutions for higher learning for science and engineering produced poor quality graduates who were unable to work independently, and who had inadequate general skills in problem solving, analyzing technical problems, teamwork, technical report writing and oral presentation. As for in-plant training, the majority of firms found it unnecessary to train their workforce due to the dominance of simple processes in their plants. Those that did, mostly in the higher-technology category, however, have not done it systematically or extensively (Dhanani, 2000).

Poor Acquisition

The mean value of descriptive statistic on causes of performance decline showed that poor acquisition is not a serious factor contributing the companies decline in lndonesia in 199711998. The possible reason why poor acquisition is not the serious factor contributing to the decline is due to acquisition is only practiced by a small number of businesses in lndonesia before the crisis. Firms would rather start a new business than acquire existing firms. This particular result contradicts with the result of Slatter's (1984) study that asserts that acquisitions have played an increasingly important role in the corporate strategy of large and medium sized firms during the past twenty years in UK.

However, there has been an increase in cross border mergers and acquisitions of companies after the crisis from $809 million in 1995 to $1,112 million in 1999, or about 37% (Agami, 2002). He found that the decrease in cross border merger and acquisitions in lndonesia was due to: (1) the decrease in exchange rates of the currencies in these countries; (2) decrease in the value of assets; (3) decrease in market prices of stock; (4) changes of government regulations regarding foreign ownership of corporations, and (5) efforts by large multinational corporations to globalize operations.

Slatter (1984) found that firms facing acquisition as one of the causes of performance decline will implement asset reduction strategy. Contrary to Slatter's (1984) finding, this study found that poor acquisition does not have any significant relationship with management strategy, cutback strategies and restructuring strategies. This lends support to earlier finding of the major causes of performance decline that indicates poor acquisition is not one of the major factors contributing to performance decline. It would mean that in Indonesian manufacturing firms, poor acquisition rarely occurred due to the a few number of businesses practicing acquisition before the crisis in 1997/1998.

2. Turnaround Strategies

The result of factor analyses showed that from four variables of turnaround strategies, they were reduced to three variables. Those variables are management strategy, cutback strategies, and restructuring strategies.

Management Strategies

The value of the mean indicated that management strategy (i.e. appointment of new OEO, Director, etc) is used only to a little extent by the companies to overcome the decline. It seemed that management strategy is not the important strategy of Indonesian manufacturing firms. This finding was supported by Bruton, Alhstrom and Wan (2003) who found that it is uncommon in Eastern companies to change the CEO unlike in the western companies. In western countries, CEO changes were significant for firms undertaking a successful turnaround· In Eastern countries, the founding family maintains a strong ownership position. Therefore· the principal owner (who is also typically the founder) is the central manager in the company. The board of directors of the company usually consist of family members, friends, and close business associates. Many individuals in key management positions used to be family members or close friends (Bruton, Alhstrom & Wan, 2001). But, in Indonesian case, after the economic crisis of 1997/1998, the two or more of family members' situation prevailing in the company was reduced. |t means that the domination of family members in corporations after the crisis is not as strong as before the crisis.

The result of multiple regression analyzes showed that management strategy does not have any significant relationship with performance. .|t means to say that the implementation of the management strategy during the economic crisis in Indonesian manufacturing firms wit| not lead to the betterment of companies' performance. The result is in line with Fisher et al (2004), who found the insignificant relationship between change of the CEO and performance. This lends support to earlier findings that replacement of top management is not an important strategy to turnaround in Indonesian manufacturing firms. It is also consistent with Bruton· Ahlstrom· and Wan (2003) who found that change in chairman of the board was not significant with the improvement of performance. But, this is contrary to Barker and Duhaime's (1997) study that found that change of the board was associated with better performance.

The reason given by Barker and Barr (2002) why management strategy does not have significant relationship with firm performance was due to top managers of declining firms often fail to undertake changes in strategy as part of their turnaround attempts.

Cutback Strategies

The value of the mean indicated that cutback strategies (debt restructuring, assets reduction, and cost cutting) are one of the important turnaround strategies adopted by the Indonesian manufacturing firms. This result is supported by Maimon's (1999) finding, who found that cutback strategies is adopted by most Malaysian companies during the economic crisis of 1997/1998. Teng (2002) also stated that cutback strategies is important and will be an effective remedy in decline situation.

The result of multiple regression test showed that cutback strategies has a positive relationship with firm performance. It indicates that the companies are likely to implement the cutback strategies in other to achieve better performance, Thus, the adoption of cutback strategies will raise firm performance, The result is in line with O'Neill (1984) who found that during a decline, there will be a positive relationship between cutback strategies and turnaround success because the decline requires attention to the process of cutting non-profitable models, lines, distribution centers and production centers. This would mean that when firms are faced with decline, they are more likely to adopt cutback strategies to gain positive impact to firm's performance.

Restructuring Strategies

As expected, restructuring strategies is the most important strategy to achieve better performance in Indonesian manufacturing firms. This result is supported by Bruton,Alhstrom and wan (2003), Maimon (1999), Michael and Robbins (1998). They found that restructuring strategies is mostly adopted in recessions, This result is also in line with O'Neill (1984), who asserts that restructuring strategies is the strategy adopted by successful turnaround but less attention is given in unsuccessful turnaround, lt is clear that restructuring strategies are important for the company to survive from the crisis.

The results of multiple regression tests indicated that restructuring strategies has a significant association with firm performance. This is to say that the company that is faced with decline is more likely to implement restructuring strategies intensively and hence will achieve better performance than the company that had not adopted restructuring strategies. This would mean that the implementation of turnaround strategies will lead to improvement in the firm's performance.

3. Mediating Effects of Turnaround Strategies on the Relationship between Causes of Performance Decline and Firm Performance

It is true that before recovery the decline must be recognized not only in Western firms but also in Eastern firms (Bruton, Alhstrom & Wan, 2001). This study found that causes of performance decline must be recognized before turning around the company, but unlike the Western companies, in Eastern companies the recognition may comes slower (Bruton, Alhstrom & Wan, 2001).

Many studies had been conducted to seek the relationship between turnaround strategies and firm performance, while other studies looked at the relationship between causes of performance decline and turnaround strategies. But, there is limited previous study which looked at turnaround strategies as a mediating variable that mediates the relationship between causes of performance decline and firm performance. Thus, in this study turnaround strategies are postulated as mediating variables.

Baron and Kenny (1986) stated that "in general, a given variable may be said to function as mediator to the extent that it accounts for the relation between the predictor and the criterion". The results of the hierarchical regressions indicated that turnaround strategies mediate the relationship between causes of performance decline and firm performance. From the three turnaround strategies postulated, named as; management strategies, cutback strategies, and restructuring strategies, it was found that cutback strategies and restructuring strategies play mediator roles between causes of performance decline and firm performance. But contrary to expectation, this study found that management strategies did not mediate the relationship between causes of performance decline and firm performance. However, this lends support to earlier finding that indicates management strategies is used to a little extent in Indonesian manufacturing firms to overcome the decline.

The results of hierarchical regression tests also indicated that firstly, cutback strategies partially mediate the relationship between economic changes and firm performance. This is to say that the extent of cutback strategies adopted in the turnaround process is able to significantly change the total variations in the firm performance explained by economic changes. It means the increase in economic changes will lead to the increase in the adoption of cutback strategies and will have positive impact on firm performance.

Secondly, it was found that cutback strategies fully mediate the relationship between failures of major project on firm performance. This is to say that the extent of cutback strategies adopted in the turnaround process is able to significantly change the total variations in the firm performance explained by failure of major projects. This would mean that failures of major projects do not directly lead to better performance; it does so by encouraging the companies to adopt cutback strategies to gain better performance.

Thirdly, it was found that restructuring strategies fully mediate the relationship between economic changes and firm performance. This is to say that the extent of restructuring strategies adopted in the turnaround process is able to significantly change the total variations in the firm performance explained by economic changes, The positive signs of beta coefficients of this mediator indicated economic changes did not directly lead to better performance. It did so by encouraging the companies to adopt restructuring strategies.

Finally, it was found that restructuring strategies partially mediate the relationship between failure of major projects and firm performance, This is to say that the extent of restructuring strategies adopted in the turnaround process is able to significantly change the total variations in the firm performance explained by failure of major projects. It means the increase in failure of major projects will lead the increase in the adopted cutback strategies and will have positive impact on firm performance. This would mean that the firm performance is more likely to be improved if restructuring strategies was adopted following failures of major projects.

Implications

1. Heoretical Implications

Many firms experienced deteriorating performance resulting from the economic crisis in 199711998. Many researches have indicated that a large number of companies adopted many strategies to avoid failure. These findings show that many companies can gain their competitive advantage again and survive in their business but there were still some that failed.

Contingency theory indicates that the choice of several turnaround strategies depends on the external and internal conditions. It means that turnaround strategies depend on the environment, which is represented by external and internal of causes of performance decline while performance depends on the type of strategies used.

In line with contingency theory, the findings of this study found that causes of performance decline is significantly related to turnaround strategies adopted by Indonesian manufacturing firms, for instance in decline situation due to failure of major projects, the firm is more likely to adopt cutback strategies and restructuring strategies. Turnaround strategies adopted also have positive and significant impact on firm performance, especially cutback strategies and restructuring strategies. This would mean that the type of turnaround strategies adopted depends upon external and internal factors of decline. An improvement in firm's performance also depends upon the type of turnaround strategies adopted. This finding support Hofer's (1980) view of contingency theory, when he found that turnaround strategies adopted were dependent upon the situation.

This study also found that turnaround strategies, especially cutback and restructuring strategies play as mediator between the relationship of causes of performance decline and firm performance. There was no previous study which tested empirically turnaround strategies as mediating variables. Thus, this study will enhance the body of turnaround theory. The other findings that contribute to the theory of turnaround are the result of factor analysis. In the previous studies conducted in the West found that poor management and lack financial control are considered as different factors contributing to performance decline (Slatter, 1984). This study found that poor management and lack of financial control become one factor that contributes to the performance decline.

2. Practical Implication

There are several implications from the outcomes of this research. lt could enhance the managerial practice. There is a lack of empirical research in causes of performance decline and turnaround strategies in Indonesian manufacturing firms. The results of this study provide the brief description of the causes of performance decline and the turnaround strategies adopted by large manufacturing companies in Indonesia following the Asian financial crisis.

This study indicated that competitive change, poor management, high cost structure, economic changes, failure of major projects and poor acquisition are the major factors that contributed to causes of performance decline during the economic crisis of 1gg711998 in Indonesian manufacturing firms. Thus, in the future, companies have to manage their resources well in order to create their competitive advantage. The company must be more proactive to forecast future economic conditions.

This study found that management strategy is not commonly adopted by Indonesian manufacturing firms, whereas it is mostly adopted in many companies which suffered from crisis in the West. This is due to some of the CEOs who are family members, friends or relatives of the owners. So it is important to ignore this emotional relationship and go back to the procedure that if the manager during crisis time is not effective, then he/she should be replaced, by someone inside or from outside the company.

Since, it is found that cutback strategies and restructuring strategies have positive and significant association with firm performance during the economic crisis in 1997/1998 in Indonesian manufacturing firms. Thus, this study suggests that to survive and grow from the crisis, the Indonesian manufacturing firms need to use cutback and restructuring strategies intensively. In order to improve the effectiveness of these strategies it is important to gain the support from all levels of the organization to implement the strategies. The improvement in cutback and restructuring strategies adopted will lead to improvement of firm performance.

Managers especially CEOs and other top level managers have to be proactive rather than reactive. They cannot wait for the decline to happen and then only use turnaround strategies when it is already too late. They should see the decline signals and be proactive by using strategies needed to avoid the imminent crisis. Managers should attend courses in creativity, strategic planning, forecasting, environmental analysis, etc, so that they could be more proactive.

Conclusion

Generally it can be concluded that the perception of the causes of performance decline positively stimulates turnaround strategies, while turnaround strategies themselves also have positive impacts on firm performance. Based on these findings it can be concluded that the research questions of this study have been answered.

The first research question of this study was to find the major causes of performance decline during economic crisis in 1997/1998. The findings show that competitive change, poor management, high cost structure, economic changes, and failure of major projects are the major factors contributing to companies' performance decline in Indonesian manufacturing industry. These causes of performance decline have positive impact on the choice of turnaround strategies.

The second research question of this study was to investigate the relationship between the causes of performance decline and turnaround strategies. The results indicate that poor management has positive relationship with management strategies, while economic changes and failure of major projects have positive relationships with cutback strategies and restructuring strategies. This study also found that competitive changes and high cost structure as an important factors that contribute to decline but do not have any significant relationships with the turnaround strategies. This finding is in line with Bruton, Ahlstrom and Wan (2003) who found that in the East even when faced with strong outside pressures the institutions still carry on with their strong culture. Top management can still limit the actions that are understood as important to firms undertaking a turnaround unlike in the West. This study also found that management strategies (replacing top management) is not important turnaround strategies in Indonesia, while this strategy is one of the important strategies in the West. This finding is also supported by Bruton, Ahlstrom and Wan (2003); they found the differences between Western and Eastern practices in terms of turnaround strategies adopted by the companies that suffer decline. The important strategies in the West are not automatically adopted in the East.

The third research question was to investigate the relationship between turnaround strategies and firm performance. The finding shows that turnaround strategies have positive impact on firms' performance. The detailed findings indicated that restructuring strategies has positive relationship with firm performance. It means that the increase in the adoption of restructuring strategies will bring about turnaround and increase firms' performance. Cutback strategies also have positive relationship with firm performance. Thus, the adoption of cutback strategies is also associated with turnaround success and firm performance improvements. Management strategies are the only strategies that do not seem to have any relationship with firm turnaround and performance. From the findings of this study, most of board of directors in Indonesian manufacturing firms consists of the family members; hence, the impact is on low independence of monitoring and will influence the firm performance.

The last research question was to investigate the mediation effect of turnaround strategies between causes of performance decline and firm performance. The result of hierarchal regression showed that cutback strategies do mediate the relationship between economic changes and failure of major projects with firm performance. Restructuring strategies also mediates the relationship between economic changes and failure of major projects with firm performance. These show conclusively that turnaround strategies do work. The contingency theory provided a useful framework for the study of turnaround strategies and their effectiveness.

REFERENCES

Abimanyu, A. (1999). *Indonesian Manufacturing Industry and Trade Policy Recovery.* Paper of Regional Conference on Industrial Restructuring Asean. October 26-27. Kuala Lumpur.

Addison, R., & Hamilton, R. T. (1988). Company turnaround in New Zealand. *Management Forum,* 14 (2), 95-103.

Afsah, S. (1999). *Impact of Financial Crisis on Industrial Growth and Environmental Performance in Indonesia*. Working paper, US-AEP, 1-9.

Agami, A. M. (2002). The role that foreign acquisition of Asian companies played in the recovery of the Asian financial crisis. *Multinational Business Review,* 10(1), 11-20.

Ahlstrom, D. & Bruton, G. D. (2004). Guest editors' introduction to special issue. Turnaround in Asia: laying the foundation for understanding this unique domain. *Asia Pacific Journal of Management,* 21, 5-24.

Anand, J., & Singh, H. (1997). Asset redeployment, acquisitions and corporate strategy in declining industries. *Strategic Management Journal*, 18 (Summer Special Issue), 99-118.

Anderson, C. R., Hellreigel, D., & Slocum Jr, J. W. (1977). Managerial response to environmentally induced stress. Academy of Management Journal, 20(2), 260-272.

Anheier, H. K. (1999). *When Things Go Wrong: Organizational Failures and Breakdowns.* Sage Publications, Inc, California.

Ansoff, I., & McDonnell, E. (1990). *Implementing Strategic management.* 2nd ed. Prentice Hall, Cambridge, USA.

Applegate, J. (2001). *Working with a Turnaround Expert to Save Your Business.* Pelham, New York.

Arbose, J. (1987). The turnaround in Swiss industry: how the smokestack crowd discovered marketing. *International Management*. 42, 16-20.

Argenti, J. (1976). *Corporate Collapse: the Cause and Symptoms,* McGraw Hill.

Arogyaswamy, K., Barker III, V. L., & Ardekani, M. Y. (1995). Firm turnarounds: an integrative two-stage model*. Journal of Management Studies*, 23 (4), 493-525.

Arpi, B., & Wejke, P. (1999). *International Turnaround Management: From Crisis to Revival and Long-term Profitability.* MacMillan Press Ltd, London.

Aswicahyono, H., Basri, M. C., & Hill, H. (2000), How not to industrialize? Indonesia's automotive industry. *Bulletin of Indonesian Economic Studies*, 36(1), 30-37.

Badan Pusat Statistik (BPS). (1997). *Directory Manufacturing Company Tahun 1997*, Jakarta, Indonesia, BPS.

Badan Pusat Statistik (BPS). (2001). *Directory Manufacturing Company Tahun 2001*, Jakarta, Indonesia, BPS.

Bailey, G., & Szerdy, J. (1988). Is there life after downsizing?. *The Journal of Business Strategy,* January/February, 8-11*.*

Baldwin, C. Y., & Mason, S. P. (1983). The resolution of claims in financial distress the case of Massey Ferguson. *The Journal of Finance*, XXXVIII(2), 505-523.

Balgobin, R., & Pandit, N. (2001). Stages in the turnaround process: the case of IBM UK. *European Management Journal,* 19(3), 301-316.

Baron, R. M., & Kenny, D. A. (1986). The moderator-mediator variable distinction in social psychological research: conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology,* 51, 1137-1182.

Barker III, V. L., & Duhaime, I. M. (1997). Strategic change in the turnaround process: theory and empirical evidence. *Strategic Management Journal*, 18, 13-38.

Barker III, V. L., & Mone, M. A. (1994). Retrenchment: cause of turnaround or consequence of decline?. *Strategic Management Journal,* 15, 395-405.

Barker III, V. L., & Patterson, Jr. P. W. (1996). Top management team tenure and top manager causal attributions at declining firms attempting turnarounds. *Group & Organization Management,* 21 (3), 304-335.

Barker III, V. L., Patterson, Jr. P. W., & Mueller, G. C. (2001). Organizational causes and strategic consequences of the extent of top management team management during turnaround attempts. *Journal of Management Studies,* 38 (2), 235-269.

Barker III, V. L., & Barr, P. S. (2002). Linking top manager attribution to strategic reorientation in declining firms attempting turnarounds. *Journal of Business Research,* 55, 963-979.

Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management,* 17, 99-129.

Barney, J. B., & Wright, P. M. (1998). On becoming a strategic partner: the role of human resources in gaining competitive advantage. *Human Resource Management*, 37, 31-46.

Belcher, T., & Nail, L. (2000). Integration problem and turnaround strategy in a cross-border merger a clinical examination of the Pharmacia Upjohn merger*. International Review of Financial Analysis*, 9(2), 219-234.

Bergh, D. D. (1998). Product-market uncertainty, portfolio restructuring, and performance: an information-processing and resource-based view. *Journal of Management,* 24(2), 135-155.

Bibeault, D. G. (1982). *Corporate Turnaround; How Manager Turn Losers into Winners*, New York, McGraw Hill.

Boyle, R. D., & Desai, H. B. (1991). Turnaround strategy for small firms. *Journal of Small Business Management,* July, 33-42.

Bruton, G. D., Ahlstrom, D., & Wan, J. C. C. (2001). Turnaround success of large and midsize Chinese owned firms: evidence from Hong Kong and Thailand. *Journal of World Business*, 3(2), 146-165.

Bruton, G. D., Keels, J. K., & Scifres, E. L. (2002). Corporate restructuring and performance: an agency perspective on the complete buyout cycle. *Journal of Business Research,* 55, 709-724.

Bruton, G. D., Ahlstrom, D., & Wan, J. C. C. (2003). Turnaround in East Asian firms: evidence from ethnic overseas Chinese communities. *Strategic Management Journal,* 24, 519-540.

Cameron, K. S., Whetten, D. A., & Kim, M. U. (1987). Organizational dysfunctions of decline. *Academy of Management Journal*. 30(1), 126-138.

Caplan, S. (1992). *Saving Your Business: How to Survive Bankruptcy and Successfully Reorganize Your Company.* Prentice Hall, New Jersey.

Carney, M. (2004). The institutions of industrial restructuring in Southeast Asia. *Asia Pacific Journal of Management*, 21, 171-188.

Castrogiovanni, G. J., & Brutton, G. D. (2000). Business turnaround process following acquisition: reconsidering the role of retrenchment. *Journal of Business Research,* 48, 25-34.

Chanda, P. (2002). *Corporate Turnaround: strategies for Renewal.* McGraw Hill, Singapore.

Chakravarthy, B. S. (1986). Measuring Strategic Performance. *Strategic Management Journal,* 7, 437-458.

Chowdhury, S. D. (2002). Turnarounds: a stage theory perspective. *Canadian Journal of Administrative Science,* 19(3), 249-266.

Chowdhury, S. D., & Lang, J. R. (1993). Crisis, decline, and turnaround: a test of competing hypotheses for short-term performance improvement in small firms. *Journal of Small Business Management,* (October), 8-17.

Chowdhury, S. D., & Lang, J. R. (1994). Turnaround actions, contingency influences, and profitability: the case for slack and capital intensity. *Canadian Journal of Administrative Science,* 11(3), 205-213.

Chowdhury, S. D., & Lang, J. R. (1996). Turnaround in small firm: an assessment of efficiency strategies. *Journal of Business Research*, 36, 8-17.

Claessens, S. (2000). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics,* 81-112.

Claessens, S., Djankov, S., & Klapper, L. (2003). Resolution of corporate distress in East Asia. *Journal of Empirical Finance,* 10, 199-216.

Crawford, D. (1991). Corporate strategies for survival and growth. *Australian Journal of Management,* 16(2), 223-228.

Cronin, Jr. J. J., & Page, Jr. T. J. (2001). An examination of the relative impact of growth strategies on profit performance, *European Journal of marketing,* 22 (1), 57-68.

Cohen, J., Cohen, P., West, S., & Aiken, L. S. (2003). Applied Multiple Regression/Correlation Analysis for the Behavioral Sciences, 3rd, London, Lawreence Erlbaum Associates.

Connors, R., & Smith, T. (1999). 180 days to a 180-degree turnaround. *Journal of Business Strategy*, May/June, 15-19.

David J. D., & Diane K. D. (1995). Causes of financial distress following leveraged recapitalization. *Journal of Financial Economics*, 37, 129-157.

Davis, D. (1988). *How to Turnaround a Company*. *A Practical Guide to Company Rescue*. Cambridge : Simon & Schuster.

Davis, H. A., & Sihler, W. W. (2002). *Financial Turnaround: Preserving Value.* Prentice Hall, USA.

D'Aveni, R. A. (1989). The aftermath of organizational decline. *Academy of Management Journal,* 32 (3), 577-605.

DeDee, J. K., & Vorbies, D. W. (1998). Retrenchment activities of small firms during economic downturn: an empirical investigation. *Journal of Small Business Management, 36* (3), 46-61.

Delhaise, P. F. (1998). *Asian in Crisis: The Implosion of the Banking and Finance Systems.* John Wiley & Sons (Asia) Pte Ltd, Singapore.

Denis, D. J., & Denis, D. K. (1995). Causes of financial distress following leveraged recapitalization. *Journal of Financial Economics*, 37, 129-157.

Dhanani, S. (2000). *Indonesia: Strategy for Manufacturing Competitiveness.* Written report. UNIDO, Jakarta.

Dun & Bradsheet (1987). *The Business Failure Record Annual.* New York.

Embassy of the United States of America (2002). *Chronology of the Crisis.* Written report. Jakarta, Indonesia.

Embassy of the United States of America (2002). *Signs of Times: Indonesian Economic.* Written report, Jakarta, Indonesia.

Ellitan, L. (2003). *Technology adoption and firms' performance, an empirical study from Indonesia*, School of Management, USM, Malaysia: Thesis PhD.

Fiegenbaum, A., & Karnani, A. (1991). Output flexibility–a competitive advantage for small firms. *Strategic Management Journal*, 12, 101-114.

Filatotchev, I., & Toms, S. (2001). *Corporate Governance, Strategy and Survival in a Declining industry: A Study of UK Cotton Textile Companies.* Working paper, The University of London.

Finkin, E. F. (1980). Company turnaround*. The Journal of Business Strategy,* 14-24.

Fisher, G., Lee, J., & Johns, L. (2004). An exploratory study of company turnaround in Australia and Singapore following the Asia crisis. *Asia Pacific Journal of Management,* 21, 149-170.

Francis, J. D., & Mariola, E. (2005)). *Decline, Turnaround and Managerial Ownership*. Fourth International Business and Economy Conference*,* IBEC 2005, January 6-9. Honolulu, Hawaii.

Francis, J. D., & Pett, T. L. (2004). Retrenchment in declining organizations: towards an integrative understanding*. Journal of Business and Management,* 10 (1), 39-52.

Fredenberger, W. B., Lipp, A., & Watson, H. J. (1997). Information requirements of turnaround managers at the beginning of engagements*. Journal of Management Information Systems*, 13 (4), 167-192.

Frost, F. A., & Joson, G.R. (1998). Turnaround strategy of electric utilities in New Zealand and the Philippines. *Strategic Change*, 7, 289-300.

Gaughan, P. A. (1999). *Merger, Acquisitions, and Corporate Restructurings.* John Wiley & Sons, Inc, USA.

Gaskill, L. R., Auken, H. E. V., & Manning R. A. (1993). A factor analytic study of the perceived causes of small business failure. *Journal of Small Business Management,* October, 18-31.

Gavin, E. T. (2004). Turnaround tactics. *Collection & Credit Risk.* (October), 58-60.

Ginsberg, A. (1988). Measuring and modeling changes in strategy: theoretical foundations and empirical direction*. Strategic Management Journal*, 9 (6), 559-575.

Goldress, J. E., & Christian R. W. (1976). Management in crisis. *Management Review*, August, 29-37.

Goll, I., & Rasheed, M. (1997). Rational decision-making and firm performance: the moderating role of environment. *Strategic Management Journal,* 18, 583-591.

Goodman, S. J. (1982). *How to Manage a Turnaround: A Senior Manager's Blueprint for Turning an Ailing Business into a Winner.* New York, NY. Free Press.

Gopal, R. (1991). Turning around sick companies-the Indian experience. *Long Range Planning*, 24(3), 79-83.

Gopinath, C. (1995). External influence on firms: an exploratory model of bank strategies. *Journal of Business Research*, 34, 133-143.

Gowen III, C. R., & Tallon, W. J. (2002). Turnaround strategies of American and Japanese electronic corporations how do they differ in formulating plans and achieving results?, *Journal of High Technology,* 13, 225-248.

Grant, R. M. (1991). The resource-based theory of competitive advantage: implication for strategy formulation. *California Management Review*, Spring, 114-135.

Grant, R. M. (1996). Toward a knowledge-based theory of the firm. *Strategic Management Journal,* 17 (Winter Special Issue), 109-122.

Grinyer, P., & McKiernan, P. (1990). Generating major change in stagnating companies. *Strategic Management Journal*, 11, 131-146.

Hall, W. K. (1980). Survival strategies in a hostile environment. *Harvard Business Review*, September-October, 75-85.

Hair, J. F., Anderson, R. E., Tatham, R. L., & Black W. C. (1998). *Multivariate Data Analysis.* 5th Ed, Prentice Hall International Inc, New Jersey.

Hambrick, D. C., & D'Aveni, R. A. (1992). Top team deterioration as part of the downward spiral of large corporate bankruptcies. *Management Science,* II(10), 1445-1466

Hambrick, D. C., & Schecter, S. M. (1983). Turnaround strategy for mature industrial-product business units. *Academy of Management Journal*, 26 (2), 231-248.

Harker, M. (1996). Managing company turnarounds: how to develop "destiny". *Marketing Intelligent & Planning,* 14(3), 5-10.

Harker, M. (1996). Managing the company turnaround process: a case study of the Australian heavy engineering industry. *Journal of Engineering and Technology management,* 13, 245-261.

Harker, M. (1998). The role of marketing in the company turnaround process. *Industrial marketing Management,* 27(4), 315-327.

Harker, M., & Harker, D. (1998). The role of strategic selling in the company turnaround process. *The Journal of Personal Selling & Sales Management,* 18(2), 55-67.

Harker, M. (2001). Market manipulation: a necessary strategy in the company turnaround process?. *Qualitative Market Research: An International Journal.* 4 (4), 197-206.

Harker, M., & Sarma, B. (2000). Leadership and the company turnaround process. *The Leadership and Organization Development Journal,* 21 (1), 36-47.

Harrigan, K. R. (1976). Strategies for declining industries*. The Journal of Business Strategy,* 20-34.

Harrigan, K. R. (1980). Strategic formulation in declining industries. *Academy of Management Review*, 5 (4), 599-604.

Harrigan, K. R., & Porter, M. E. (1976). End–game strategies for declining industries. *Harvard Business Review*, July-August, 111-120.

Harvey, N. (2004). Managing turnaround. *Accountancy SA,* August, 16-19.

Heng, K. K, Ibrahim, D. N., & Jantan, M. (1995). *Causes of Insolvency and Organizational Size.* 1st Annual Asian Academy of Management Proceedings, 306-320.

Heinrich, M. (2004). The hidden psychology of a corporate turnaround. *Commercial Lending Review,* 19(4), 44-47.

Herri (2002). *Ciri-ciri pengurus atasan, strategy dan prestasi syarikat*. School of Management, USM, Malaysia, Thesis PhD.

Hitt, M. A., Bierman, L., Shimizu, K., & Kochhar, R. (2001). Direct and moderating effects of human capital on strategies and performance in professional service firms: a resource-based perspective. *Academy of Management Journal*, 44 (1), 13-28.

Hofer. C. W. (1980). Turnaround strategies*. Journal of Business Strategy*, 1(1), 19-31.

Huff, J. O., Huff, A. S., & Thomas, H. (1992). Strategic renewal and the interaction of cumulative stress and inertia*. Strategic Management Journal*, Summer Special Issue, 13, 55–75.

Indonesian Bank Restructuring Agency (2001). *Asset Management Credit*. Working progress, IBRA, Indonesia.

Indrawati, S. M. (2002). Indonesia economic recovery process and the role of government. *Journal of Asian Economics,* 13, 577-596.

Iacocca, L & Novak, W. (1984). *Iacocca: An Autobiography*. Bantam, New York.

Ishida, M. (2003). *The impact of the economic crisis on the manufacturing sector in Indonesia: switching decision under exchange rate volatility.* University of Indonesia, Jakarta, Indonesia, Thesis PhD.

John, K., Lang, L.H.P., & Netter, J. (1992). The voluntary restructuring of large firms in response to performance decline. *The Journal of Finance*, XLVII (3), 891-917.

Journal Business Strategy (1988). Brunswick's dramatic turnaround, interview with CEO Jack F. Reichert. *Journal of Business Strategy*, 9, (1), 4-7.

Journal Business Strategy (1988). Winning turnaround strategy at Black & Decker, an interview with marketing executive Gary T. DiCamillo. *The Journal of Business Strategy*, March/April, 30-33.

Kang, J. K., & Shivdanasani, A. (1995). Firm performance, corporate governance, and top executive turnover in Japan*. Journal of Financial Economics*, 38, 29-58.

Kang, J. K., & Shivdanasani, A. (1997). Corporate restructuring during performance declines in Japan. *Journal of Financial Economics*, 46, 26-65.

Kast, F. F., & Rosenzweig, J. E. (1973). *Contingency Views of Organization and Management.* Science Research Associates.

Khandwalla, P. N. (1983). Turnaround management of mismanaged complex organization. *International Studies of Management & Organization*, XIII (4), 5-41.

Kim, H., Hoskinson, R. E., Tihanyi, L., & Hong, J. (2004). The evolution and restructuring of diversified business groups in emerging markets: the lessons from Chaebols in Korea. *Asia Pacific Journal of Management,* 21, 25-48.

Kim, W. B. (2003). Economic crisis, downsizing and "layoff survivor's syndrome". *Journal of Contemporary Asia,* 33(4), 449-464.

Kow, G. (2004). Turning around business performance: part I. *Journal of change Management,* 4(3), 229-246.

Kuncoro, A. (2000). *Economic Development in Indonesia and the Economic Alternatives after the Crisis.* Conference on the Economic Crisis in Southeast and Korea. February 15-17. Bangkok.

Lai, J., & Sudarsanam, S. (1997). Corporate restructuring in response to performance decline: impact of ownership, governance and lenders, *European Finance Review,* 1, 197-233.

Lessler, J. T., & Kalsbeek, W. D. (1992). *Non Sampling Error in Survey*. Wiley, New York.

Mall, C. P., & Shanmugam, B. (1988). Survival strategies for small business in developing countries. *Management Forum*, 14(2), 89-94.

Maheshwari, S. K., & Ahsltrom, D. (2004). Turning around a state owned enterprise: the case of scooters India limited. *Asia Pacific Journal of Management,* 21, 75-101.

Maholtra, N. K. (1996). *Marketing Research: An Applied Orientation,* Second edition, Prentice Hall, International Editions.

Maimon, S. K., Ling, J. P. M., & Agus, A. (1987). Corporate turnaround in the manufacturing sector of Malaysia. *Malaysian Management Review*, 23(1), 35-48.

Maimon, S. K. (1999). *Strategic management options in Malaysian financial crisis: turning around companies*. 3rd AAM Conference, Kuala Terengganu, 669-679.

Mathias, R. C. (1999). Does financial structure affect new investment and sales growth of financially distressed Malaysian and Thai firms?. *Malaysian journal of Economic Studies,* XXXVI (2), 17-41.

Marshall, C. (1989). Turnaround king. *Business Month*, 133(2), 40-43.

McRobert, A., & Hoffman, R. (1997). *Corporate Collapse: An Early Warning System for Lenders, Investors and Suppliers.* The McGraw-Hill Companies, Inc, Australia.

Meyer, H. (1997). Turnaround is fair play. *The Journal of Business Strategy*, May/June, 56-59.

Miller, D., & Shamsie, J. (1996). The resource-based view of the firm in two environments: the Hollywood firm studios from 1936 to 1965. *Academy of Management Journal,* 39, 519-543.

Michael, S. C., & Robbins, D. K. (1998). Retrenchment among small manufacturing firms during recession*. Journal of Small Business Management*, 36 (3), 35-45.

Miller, A. (1998). *Strategic Management.* McGraw Hill, USA.

Morrow Jr, J. L., Johnson, R. A., & Busenitz, L. W. (2004). The effects of cost and assets retrenchment on firm performance: the overlooked role of a firm's competitive environment. *Journal of Management,* 30(2), 189-208.

Mosakowski, E. (1993). A resource-based perspective on the dynamic strategy-performance relationship: an empirical examination of the focus and differentiation strategies in entrepreneurial firms. *Journal of Management*, 19 (4), 819-839.

Moulton, W. N., Thomas, H., & Pruett, M. (1996). Business failure pathways: environmental stress and organizational response. Journal of Management, 22(4) 571-595.

Mueller, G. C., & Barker III, V. L. (1997). Upper echelons and board characteristics of turnaround and turnaround declining firms. *Journal of Business Research,* 39, 119-134.

Nasution, A. (1998). *The Meltdown of the Indonesian Economy in 1997-1998: Causes and Responses*. Working paper, University of Indonesia.

Navarro, J. R. (1998). Turnaround and renewal in a Spanish shipyard. *Long Range Planning*, 31(1), 51-59.

Nichols, D. (1987). Three Texas turnarounds from bust to boom. *Management Review*, 76, 30-34.

Nueno, P. (1992). *Corporate Turnaround: A Practical Guide to Business Survival.* Nichols Publishing, New Jersey.

Nunnally, J. (1978). *Psychometric Theory.* New York, McGraw-Hill.

O'Neill, H. M. (1986). Turnaround and recovery: what strategy do you need?. *Long Range Planning,* 19(1), 81-88.

O'Neill, H. M. (1986). An analysis of the turnaround strategy in commercial banking. *Journal of Management Studies*, 23(2), 165-187.

Orser, B. J., Scott, S. H., & Riding, A. L. (2000). Performance, firm size and management problem solving*. Journal of Small Business Management, October,* 42-58.

Pandit, N. R. (2000). Some recommendation for improved research on corporate turnaround, *Management,* 3 (2), 31-56.

Pant, L. W. (1991). An investigation of industry and firm structural characteristics in corporate turnarounds. *Journal of Management Studies*, 28 (6), 623-643.

Parker, B., & Helms, M. M. (1992). Generic strategies and firm performance in a declining industry. *Management International Review*, 32, 23-39.

Pearce II, J. A., & Robbins, D. K. (1993). Toward improved theory and research on business turnaround. *Journal of Management*, 19, 613-636.

Pearce II, J. A., & Robinson Jr, R. B. (2005). *Strategic Management*: *Formulating, Implementation, and Control*. 9th Edition, McGraw-Hill, Irwin.

Pearson, B. (1987). *Common Sense Business Strategy.* London, Mercury Books.

Pennings, J. M., Lee, K., & Witteloostuijn, V. A. (1998). Human capital, social capital and firm dissolution. *Academy of Management Journal*, 41, 425-440.

Peteraf, M. A. (1993). The cornerstones of competitive advantage: a resource-based view. *Strategic Management Journal*, 14, 179–191.

Pheng, L. S., & Hua, L. N. (2001). The strategic responses of construction firms to the Asian Financial Crisis in 1997-1998. *International Journal for Construction Marketing,* 1(2), 1-14.

Porter, M. E. (1996). What is strategy?. *Harvard Business Review*, November-December, 61-78.

Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review,* May/June, 79-91.

Primio, A. D. (1988). When turnaround management works. *The Journal of Business Strategy,* January/February, 61-64.

Pucko, D. (1997). Radical restructuring: the key to survival in Slovenia. *Long Range Planning*, 30, 741-752.

Rasheed, H. S. (in press). Growth or retrenchment strategy choice for declining entrepreneurial firms: the effects of performance and resources. *Revise and resubmit for Journal of Business and Entrepreneurship.*

Richardson, B., Nwankwo, S., & Richardson, S. (1994). Understanding the causes of business failure crisis: generic failure types: boiled frogs, drowned frogs, bullfrogs and tadpoles. *Management Decision*, 32, 4, 9-22.

Robbins, D. K., & Pearce II, J.A. (1992). Turnaround: retrenchment and recovery. *Strategic Management Journal*, 13 (4), 287-309.

Robbins, S. P., & Banwell, N. (1998). *Organizational Theory, Concept and Cases.* Prentice Hall, Australia.

Rojas, C. (2003). Managing a successful turnaround even in tight capital markets. *Financial executive,* 19(6), 26-28

Rudolph C. M. (1999). Does financial structure affect new investment and sales growth of financially distressed Malaysian and Thai firms?. *Malaysian Journal of Economic Studies,* XXXVI (2), 17-41.

Rumelt, R. (1980). Corporate strategy. *The Journal of Business Strategy*, 63-65.

Rue, L. W., & Holland, P. G. (1986). *Strategic Management, Concepts and Experiences.* McGraw – Hill, USA.

Rue, L. W., & Holland, P. G. (1989). *Strategic Management, Concepts and Experiences.* Second edition, McGraw – Hill, USA.

Sasongko, N. (1999). Memahami *Gejolak Ekonomi Indonesia Dewasa ini*. Working paper. University of Indonesia, Jakarta.

Schendel, D. E., & Patton, G. R. (1976). Corporate stagnation and turnaround. *Journal of Economics and Business,* 28, 236-241.

Schendel, D. E., Patton, G. R., & Riggs, J. (1976). Corporate turnaround strategies. *Journal of General Management,* Spring, 3-11.

Scherrer, P. C. (1989). Starting over. *Business Credit,* (March), 24-58

Scherrer, P. C. (2003). Management turnarounds: causes of decline. *Business Credit,* (June), 32-33.

Scherrer, P. C. (2003). Management turnarounds: diagnosing business ailments. *Corporate Governance,* 3(4), 52-62.

Sekaran, U. (2000). *Research Method for Business,* New York. John Willey & Sons, Inc.

Setyorini., & Halim, A. (1999)). *Studi Potensi Kebangkrutan Perusahaan Public di Bursa Efek Jakarta tahun 1996-1998*. Simposium

Nasional Akuntansi II, IAI-KAPD, September 22-24, Universitas Brawijaya, Indonesia.

Shostack, G. L. (1988). A turnaround is a delicate operation. *The Journal of Business Strategy, March/April,* 59-61.

Silver, A. D. (1992). *The Turnaround Survival Guide, Strategies for the Company in Crisis.* Dearborn Financial Publishing, Inc, Chicago.

Slatter, S. (1984). *Corporate Recovery: Successful Turnaround Strategy and Their Implementation*. Singapore, Penguin.

Slatter, S. (1987). *Corporate Recovery: A Guide to Turnaround Management.* 2nd.ed. Penguin Books, London, UK.

Sim A. B. (1991). Turnaround for small business-a synthesis of determinants for action research, with reference to Malaysia, *Malaysian Management Review,* December, 15-22.

Simanjuntak, D. S. (2002). *Good Corporate Governance in Post-Crisis Indonesia: Initial Conditions, Windows of Opportunity and Reform Agenda*. Working progress. Prasetiya Mulya Business School, Jakarta, Indonesia. 27-66.

Singh, A. (2000). Indonesia: *The Challenge of Sustaining the Economic Recovery*, 50th Anniversary Conference-University of Indonesia, 4 October 2000, Jakarta, Indonesia.

Singh, K., & Yip, G. S. (2000). Strategic lessons from the Asian crisis. *Long Range Planning*, 33, 706-729.

Soesastro, H. (2000). *The Economic Crisis in Indonesia: Lessons and Challenges for Governance and Sustainable Development*. Economic working paper series. CSIS, Jakarta.

Somani, A. (2004). Turnarounds: an acquired taste. *European Venture Capital Journal,* June, 1-5.

Sudarsanam, S. & Lai, J. (2001). Corporate financial distress and turnaround strategy: an empirical analysis. *British Journal of Management*, 12, 183-199.

Tabulujan, B. S. (2002). Family capitalism and corporate governance of family controlled listed companies in Indonesia. *University of New South Wales Law Journal,* 25 (2), 1-39.

Tambunan, T. (1998). *Krisis Ekonomi dan Masa Depan Reformasi*. LP-FEUI, Jakarta.

Tan, H. H., & See, H. H. (2004). Strategic reorientation and responses to the Asian financial crisis: the case of the manufacturing industry in Singapore. *Asia Pacific Journal of Management,* 21, 189-211.

Teck, F. C., & Kai, C. Y. (1994). Organizational size and profitability: a longitudinal, multi-sectoral perspective. *Malaysian Management Review*, June, 29 (2), 1-13.

Teng, M. (2002). *Corporate Turnaround, Nursing A Sick Company Back to Health.* Prentice Hall, Singapore.

Theng, L. G., & Boon, J. L. W. (1992). An exploratory study of factors affecting the failure of local small and medium enterprises. *Asia Pacific Journal of Management*, 13, (2), 47-61.

Tvorik, S. J., Boissoneau, R., & Pearson, N. (1998). Performance parameters as indicators of success and predictors of failure in strategic management. *Journal of Professional Service Marketing,* 17(2), 41-67.

Urata, (2001). Pembiayaan Usaha Kecil Menengah, bermasalah sejak definisi, *Kompas*, 14 December 2001, 39.

Weihrich, H. (1982). The tows matrix–a tool for situational analysis. *The Long Range Planning,* 15(2), 54-66.

Weitzel, W., & Jonsson, E. (1989). Decline in organizations: a literature integration and extension. *Administrative Science Quarterly*, 34, 91-109.

Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5, 171-180.

Whetten, D. A. (1980). Organizational decline: a neglected topic in organizational science. *Academy of Management Review*, 5(4), 577-588.

White, S. (2004). Stakeholders, structure and the failure of corporate governance reform initiatives in post-crisis Thailand. *Asia Pacific Journal of Management,* 21, 103-122.

Whitney, J. O. (1987). Turnaround management every day. *Harvard Business Review*, 65 (5), 49-55.

Widianto, B., & Choesni, A. (1999). *Indonesia: The Impact of The Economic Crisis on Industry Performance*. Working paper. Badan Pusat Statistik, Indonesia.

Wigblad, R. (1995). Community turnarounds in declining company towns: a restructuring model. *Journal of Socio-Economics,* 24 (3), 463-475.

Wright, P., Kroll, M., & Parnell. (1998). *Strategic Management Concepts and Cases.* New Jersey, Prentice Hall.

Zimmerman, F. M. (1986). Turnaround a painful learning process. *Long Range Planning*, 19(4), 104-114.

Zimmerman, F. M. (1991). *The Turnaround Experience: Real World Lesson in Revitalizing Corporations*. McGraw-Hill, Inc.

Zahra, S. J., & Covin, J. G. (1993). Business strategy, technology policy, and firms performance. *Strategic Management Journal,* 14, 451-478.

Appendices : Questionnaire

Instructions:

The questionnaires is consist of four parts, they are: (I) General Information of the Respondent and his/her Organization, (II) The Effect of Economic Crisis (1997/1998) on the Organization, (III) Turnaround strategies, (IV) Firms performance

Please answer every item in this questionnaire by:

a. Choose only one answer from the choices given.
b. Where choices of answer are not given, please write your answers legibly in the space provided.
c. Fill in the scale into space given.

Part I
General Information of the Respondent and his/her Organization

Please cross (X) in the items below

1. Name of the company..
2. Your Management level in company ....
3. Your age :
   - [ ] 20 – 29 years old
   - [ ] 30 – 39 years old
   - [ ] 40 – 49 years old
   - [ ] 50 – 59 years old
   - [ ] ≥ 60 years old
4. Your sex:
   - [ ] Male
   - [ ] Female
5. Your Education Level:
   - [ ] School Cert.
   - [ ] Bachelor's Degree
   - [ ] Master's Degree
   - [ ] Doctoral Degree
6. You have been in this company for?
   - [ ] 1 – 5 years
   - [ ] 6 – 10 years
   - [ ] 11 – 15 years
   - [ ] 16 – 20 years
   - [ ] 21 – 25 years
   - [ ] 26 years and above
7. The company has been in operation for?

- [ ] 5 – 10 years
- [ ] 11 – 15 years
- [ ] 16 – 20 years
- [ ] 21 – 25 years
- [ ] 26 – 30 years
- [ ] ≥ 30 years

8. Industry classifications
   - [ ] Manufacture of food, beverages, and tobacco
   - [ ] Manufacture of textiles, clothing, and leather
   - [ ] Manufacture of wood and wood products, including furniture.
   - [ ] Manufacture of paper, printing and publishing.
   - [ ] Manufacture of chemical and chemical products
   - [ ] Manufacture of non-metallic mineral products.
   - [ ] Manufacture of rubber and rubber products
   - [ ] Manufacture of machinery and Electronic
   - [ ] Others

9. Number of employees:
   Permanent employees ....Persons
   Temporary employees ....Persons

10. Average sales in last 3 years (1999-2001)?
   - [ ] ≤25 billion rupiah
   - [ ] 26 – 50 billion rupiah
   - [ ] 51 – 75 billion rupiah
   - [ ] 76 – 100 billion rupiah
   - [ ] > 100 billion rupiah

11. Firm profit over sales during crisis 1997/1998?
   - [ ] Decrease > 10%
   - [ ] Decrease < 10%
   - [ ] Stable
   - [ ] Increase < 10%
   - [ ] Increase > 10%

Part II

The Effect of Economic Crisis (1997/1998)

on the Organization.

The following items are about the problems that occurred during the financial crisis (1997/1998). Please cross (X) the number that describes the situation faced in your organization. Use the criteria:

1 = Not serious at all
2 = Not serious
3 = Moderately serious
4 = Serious
5 = Very serious

Not serious at all	Not serious	Moderately serious	Serious	Very serious
1	**2**	**3**	**4**	**5**

No.	Problems	Scale (1 – 5)				
Economic Change						
1.	Devaluation of Rupiah.	①	②	③	④	⑤
2.	International monetary crisis.	①	②	③	④	⑤
3.	Inflation.	①	②	③	④	⑤
4.	Interest rate.	①	②	③	④	⑤
5.	Others, Please specify					
Competitive change						
6.	The emergence of foreign low-cost producers.	①	②	③	④	⑤
7.	The mergers of two or more competitor.	①	②	③	④	⑤
8.	Product competition.	①	②	③	④	⑤
9.	Price competition.	①	②	③	④	⑤
10.	The announcement of a competitor's new range of products.	①	②	③	④	⑤
11.	The appearance of entirely new company.	①	②	③	④	⑤
12.	Others, Please specify					
Management						
13.	Non participating board.	①	②	③	④	⑤
14.	One man rule.	①	②	③	④	⑤
15.	Unbalanced top team.	①	②	③	④	⑤
16.	Weak financial Management.	①	②	③	④	⑤
17.	Lack of management depth.	①	②	③	④	⑤
18.	Inadequate strategic understanding of the industry.	①	②	③	④	⑤
19.	A chief executive who believes he/ she can achieve fantastic success in any business or sector.	①	②	③	④	⑤
20.	Others, Please specify					
Financial Control						
21.	Budgetary control.	①	②	③	④	⑤
22.	Cash flow forecasts.	①	②	③	④	⑤
23.	Costing system.	①	②	③	④	⑤
24.	Others, Please specify					

Major Projects						
25	Underestimating capital requirements.	①	②	③	④	⑤
26	Start up difficulties.	①	②	③	④	⑤
27	Untimely implementation..	①	②	③	④	⑤
28	Others, Please specify					
Cost Structure						

29	High overheads.	①	②	③	④	⑤
30	Difficult accessibility to raw materials.	①	②	③	④	⑤
31	Difficult accessibility to suitable labor.	①	②	③	④	⑤
32	Difficult accessibility to production know-how.	①	②	③	④	⑤
33	Others, Please specify					
Acquisition						
34	Acquisition of losers.	①	②	③	④	⑤
35	Over paid acquisition.	①	②	③	④	⑤
36	Poor post acquisition management.	①	②	③	④	⑤
37	Others, Please specify					

Part III

Turnaround strategies

The following items describe the strategies that are used to overcome the crisis in 1997/1998. Please cross (X) on the suitable answer according to your company's strategy. Use the following scale:

1 = Not used at all
2 = Used to a little extent
3 = Moderately used
4 = Used to a large extent
5 = Used as the central strategy

Not used at all	Used to a little extent	Moderately used	Used to a large extent	Used as the central strategy
1	**2**	**3**	**4**	**5**

No.	Strategies	Scale (1 – 5)				
Management Strategies						
1.	New CEO from inside the company.	①	②	③	④	⑤
2.	New CEO from outside the company.	①	②	③	④	⑤
3.	New top management team.	①	②	③	④	⑤
4.	Morale building among employees.	①	②	③	④	⑤
5.	Others, Please specify					
Cutback strategies						
6.	Financial and expense control	①	②	③	④	⑤
7.	Debt restructuring.	①	②	③	④	⑤
8.	Cost cutting.	①	②	③	④	⑤
9.	Assets reduction.	①	②	③	④	⑤
10.	Others, Please specify					
Growth Strategies						

11.	Growth via acquisition.	①	②	③	④	⑤
12.	Entering new product area.	①	②	③	④	⑤
13.	Improved marketing.	①	②	③	④	⑤
14.	Others, Please specify					
Restructuring Strategies						
15.	New manufacturing methods.	①	②	③	④	⑤
16.	Change in organization's structure.	①	②	③	④	⑤
17.	Establish new distribution methods.	①	②	③	④	⑤
18.	Others, Please specify					

Part IV
Firm Performance

The question below is meant to record the firms' performance, for the last 7 years. Please fill up the appropriate number according to your performance.

1 = Decrease >10%
2 = Decrease > 5 - 10%
3 = Decrease > 0 - 5%
4 = Stable
5 = Increase > 0 - 5%
6 = Increase > 5 - 10%
7 = Increase > 10

1. The question to record the firms' performance, for the last 7 years (1995 – 2001):

Decrease >10%	Decrease > 5-10%	Decreae >0-5%	Stable		Increase >0-5%	Increase >5-10%	Increase >10%
1	**2**	**3**	**4**	**5**		**6**	**7**

Prestasi/Kinerja perusahaan	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
a. *Return of Investment*							
b. *Return on Sales*							
c. *Growth in Sales*							

2. The question below have meaning to see firms performance that have been achieved since recent 7 years it's of the performance measure to criteria.

Firms performance items	1995	1996	1997	1998	1999	2000	2001
a. Return of Investment							
b. Return on Sales							
c. Growth in Sales							

Thank you for spending your time to answer this questionnaire. If you interested to know the results, please leave your name, address and e-mail in the space below:

Name ______________________________

Address ______________________________

____

E-mail ______________________________

Sincerely,

Jullimursyida

CURRICULUM VITAE

GENERAL INFORMATION

Name	:	**Jullimursyida Ganto, Ph.D**
Gender	:	**Female**
Age	:	**32 years**
Position	:	**Lecturer**
Nationality	:	**Indonesian**
Status	:	**Married**
Place / Date of Birth	:	**Lhokseumawe, July 18th, 1976**
Address	:	**Jl. Kenari 83A Kuta Blang Lhokseumawe, Nanggroe Aceh Darussalam, Indonesia.**
Phone	:	**+62645630971**
Hand phone	:	**+62811679833**
E-mail	:	**julli_1876@yahoo.com, julliganto@gmail.com**
Passport Number	:	**N 374000**

FORMAL EDUCATION

2001 – 2005	Doctor of Philosophy in Strategic Management, **School of Management, Universiti Sains Malaysia (USM), Pulau Pinang, Malaysia.**
1999 – 2001	Master of Management (MM), **Syiah Kuala University**, Banda Aceh, Indonesia.
1994 -1998	Bachelor of Accounting (B.A) / Sarjana Ekonomi (SE), **Syiah Kuala University, Banda Aceh, Indonesia.**

PROFFESIONAL MEMBER

Year	**Position**	
1998 – Present	Professional Member	Ikatan Akuntan Indonesia (Indonesian Accountant Association)

PROFFESIONAL / WORKING EXPERIENCES

Year	Position	
2007 - Present	Economic Advisor	Parliament Lhokseumawe (DPRK Lhokseumawe), **Nanggroe Aceh Darussalam, Indonesia.**
2005 – Present	Vice Director (Part Time)	Lientas Indonesia (Local NGO), **North Aceh, Nanggroe Aceh Darussalam, Indonesia.**
2003 – Present	Lecturer	Economic Faculty, University of Malikussaleh, North Aceh, **Nanggroe Aceh Darussalam, Indonesia**
January 2000 – December 2000	Lecturer	Financial and Banking Academy, AKU-BANK (Akademi Keuangan dan Perbankan) **Nanggroe Aceh Darussalam, Indonesia**
June 1999 – December 1999	Training	Aceh Development Bank (PT. Bank BPD Aceh) **Nanggroe Aceh Darussalam, Indonesia**

PROJECT RECORD

Year	Position	
Current – December 2008	Researcher	The relationship of credit and employment in Lhokseumawe and North Aceh, **Bank of Indonesia, Lhokseumawe, Aceh, Indonesia**
July 2008 – September 2008	Researcher	The Phenomena of Inflation in Aceh, **Bank of Indonesia, Banda Aceh, Indonesia**
January 2006 –June 2006	A Short-Term Consultant	"Aceh Public Expenditures Analysis", **World Bank, Indonesia Office, Banda Aceh, Indonesia**
July 2003 – June 2004	Research Assistant	Tun Ismail Ali Fondation, **Universiti Sains Malaysia, Penang, Malaysia.**

PUBLICATIONS AND RESEARCH

Year	Type of Research	Title

2008	Personal Research	Turnaround Strategies during Performance Decline in Indonesian Manufacturing Firms. **The South East Asian Journal of Management, Vol. II, No. 1, April 2008.**
2008	Personal Research	Turnaround Strategies and Firm Performance in Indonesian Manufacturing Industry. **Jurnal Ekonomi, Media Ilmiah Indonusa, Vol. 13, No.1, Mei 2008, ISSN: 0853-8522.**
2008	Personal Research	Finance Performance of Manufacturing Company in Indonesia Stock Exchange, **Media Riset Akuntansi, Auditing & Informasi, Vol. 8 No. 1 April 2008.**
2007	Personal Research	Performance Decline and Turnaround in Indonesian Manufacturing Firms. **Executive, Journal of Business and Management, Vol. 4, Number 3, December 2007, ISSN: 1829-7501.**
2007	Personal Research	Review of Millenniums Development Goal (MDG'S) in North Acheh. **The Proceedings of 2nd International Conference on Development of Aceh, Lhokseumawe, Indonesia.**
2005	Personal Research	Causes of Decline and Turnaround Strategies in Indonesian Manufacturing Firms during the Asian Financial Crisis. **The Proceedings of 4th the GCBE, St. Hugh's College, Oxford University.**
2005	Research Assistant	Causes of Decline and Turnaround Strategies of Kuala Lumpur Stock Exchange Companies. **The Business Review, Cambridge, Vol.4, Num.1, Summer.**

SEMINAR

Year	Position	
2- 5 December	Presenter	Australia and New Zealand Academy of Management (ANZAM) Conference, School

2008		of Business, University of Auckland, New Zealand
2-3 June 2008	Presenter	Workshop Curriculum of Master Program (S2), Degree Strata One (S1) and Bachelor Degree (D-III), University of Malikussaleh, **Lhokseumawe, Nanggroe Aceh Darussalam, Indonesia.**
05 April 2008	Presenter	Poverty Mapping and Trickle Down Effect Theory in Provinsi Nanggroe Aceh Darussalam, **Lhokseumawe, Indonesia**
20 February 2008	Participant	Seminar of State University in West Indonesia Region, **Pontianak**, **West Kalimantan, Indonesia**
29-30 December 2007	Presenter	The 2nd International Conference on Development of Aceh "From a Bitter Past Toward a Better Prospect", **Lhokseumawe, Nanggroe Aceh Darussalam, Indonesia**
17 December 2007	Presenter	Method of looking for basic idea (title) and how write thesis for Majors Business, Economic Faculty, Unimal, **Lhokseumawe, Nanggroe Aceh Darussalm, Indonesia.**
12 December 2007	Presenter	Training of System Monitoring and Evaluation Rehabilitation and Reconstruction Sub-Province North Aceh, **Lhokseumawe, Nanggroe Aceh Darussalam, Indonesia**
5 December 2007	Presenter	Seminar of Development of Social, Healthy and Economics Family of North Acheh Sub Province, **Lhokseumawe, Nanggroe Aceh Darussalam, Indonesia**.
4 December 2007	Presenter	Seminar of Development of Town, **Lhokseumawe, Nanggroe Aceh Darussalam, Indonesia**
17 - 18 November 2007	Presenter	Training of Archives and Finance to Official Member, **Lhokseumawe, Nanggroe Aceh Darussalam, Indonesia**.

24 October 2007	Presenter	Upgrading of Teacher, Supervisor, School Committee and Headmaster, **Great Aceh, Nanggroe Aceh Darussalam, Indonesia.**
15-16 August, 2007	Presenter	The 2nd International Conference on Business and Management Research "Busines Lanscape Shifting in the Asia Pacific Region". **Jakarta, Indonesia.**
11 November 2006	Participant	Seminar "Information technology : Challenge and Future", **Lhokseumawe, Nanggroe Aceh Darussalam, Indonesia.**
August 28 – Sep 22, 2006	Participant	The 42nd Global Women in Management Workshop, CEDPA, **Washington DC, USA.**
July 28–30, 2005	Presenter	The 2nd International Conference of the Asian Academy of Applied (AAAB), Universitas of Andalas, **West Sumatra, Indonesia.**
June 26–28, 2005	Presenter	4th Global Conference on Business and Economic (GCBE), **St. Hugh's College, Oxford University, United Kingdom.**
Sep 27 – Oct 2, 2003	Participant	2nd International Training Workshop on Self-Learning Material Development, **Universiti Sains Malaysia, Penang, Malaysia.**
13 – 14 Oct, 2003	Participant	International Seminar "Sustainable Economic, Business and Social Development in an Area of Globalization, **Hotel Equatorial Bangi, Selangor Darul Ehsan, Malaysia**

QUALIFICATIONS

- Good understanding in shaping an adaptive organization, and time scheduling
- Good understanding in management system, such as a democratic style.
- Good understanding in research method and data analysis
- Fluently to communicate in English and Indonesian language
- Able to think logically, to adaptive and to learn something fast, and with excellent problem solving skills
- Self motivated, energetic, considered detail-oriented, able to work either in a team or independently

- Good understanding on humanity related issues and job environment

COMPUTER SKILLS

Microsoft Office Suite	Microsoft Office Group (MS Word, Excel, PowerPoint,)
SPSS	Parametric and Non-Parametric Analysis

Hereby I declare that all the information written above is true.
Lhokseumawe, 12 December 2008

Jullimursyida Ganto, Ph.D

Research on Turnaround Strategy

This research is expected to contribute towards a better understanding of turnaround strategies as a whole and those that have been undertaken by the Indonesian manufacturing firms. There are two important reasons for studying declining industries. *First,* due to the nature and magnitude of the changes in the global economy during the last two decades, an ever-greater number of sectors are going through rapid growth or rapid decline, while the literature on business strategy addressed some questions specific to declining industries, empirical studies on corporate strategy focusing on declining industries are rare. *Second,* there will be greater divergence between the interest of managers and shareholders in declining industries than the general population.

There has been no study of turnaround strategy and their effects in Indonesia since the financial crisis of 1997. Ahlstrom and Bruton (2004) support the belief that businesses in Asia differ significantly from those in the West, particularly in how strategies such as turnaround are undertaken. This study is a modest attempt to fill in the gap between the theory and practice of turnaround strategy. The gaps exist between theory and empirical findings for two reasons. *First,* the research designs employed in past large-sample studies did not adequately control for the contingency, identified by early turnaround theorists, that firms must have weak strategic postures for strategic change to be essential to turnaround. *Second,* the methodologies used in most large-sample studies of turnarounds did not reliably measure the extent of strategic change undertaken in a turnaround attempt. Therefore, past empirical studies provided only weak tests of the value of strategic change to turnaround attempt success.

ISBN 602464023-4

9 786024 640231 >