2 Turnaround Management – State of the Art

2.1 Abstract

Given the increasing cases of corporate distress and bankruptcy, there is a high need for empirical research efforts with a sound theoretical basis in the context of turnaround management. While the causes of crises have been investigated to a certain degree already, there is an enormous lack of empirically tested turnaround models that could serve as a guide for management in turnaround situations. Concomitant with this, the factors behind turnaround success have insufficiently been identified. To encourage such studies, I provide a guide to the current state of the art concerning the research field of turnaround management. Based on this review, I identify research gaps and recommendations for further research. I conclude by categorizing open research questions and issues to be considered in future research efforts.

2.2 Introduction

In the scholarly literature, there have been few efforts to provide empirically tested turnaround models that could help rescue distressed companies. According to Wild (2010), for example, the research community has not made noteworthy progress in the identification of success factors for turnarounds in recent decades. This lack of well-founded research is particularly surprising in light of the increasing number of bankruptcies in western economies such as Germany and the US. In 2010, bankruptcies have set new records (Creditreform, 2010; American Bankruptcy Institute, 2010; United States Courts, 2010), and in 2011, bankruptcy rates have been stagnating (Euler Hermes, 2011).

The latest and most important wave of empirical examinations of turnarounds took place in the late 1980s and 1990s. This was a reaction to the far-reaching changes in the US corporate world during the 1980s, which resulted in many comprehensive strategic, organizational and financial restructurings (Jensen, 1991; Hoskisson & Johnson, 1992; Bethel & Porter Liebeskind, 1993; Hoskisson, Johnson & Moesel, 1994; Johnson, 1996). For example, in the summer 1993
special issue of the Strategic Management Journal, Schendel (1993) refers to the high number and diversity of restructurings in the 1980s and the resulting need for research. John, Lang and Netter (1992) even describe this restructuring wave as an unprecedented opportunity for scholars to investigate different aspects of corporate and managerial behavior. Hence, it is conjecturable that the current, not yet survived economic crisis will be followed soon by a refocusing of the research community on topics related to turnarounds.

In practice, turnaround management aims to prevent a company from filing bankruptcy or, once involved in the bankruptcy reorganization process, preventing its liquidation. Thus, this study defines turnaround management as a reaction to a company’s crisis situation, meaning that the focus lies on coping with a company crisis, not preventing or predicting it (cf. Altman, 1968; Altman, Haldeman & Narayanan, 1977; Altman, 1984; Baetge, Dossmann & Kruse, 2000; Baetge & Jerschensky, 1999).

Given the lack of well-founded theoretical and empirical research on turnarounds (Pearce & Robbins, 1993) and the practical relevance, this topic deserves more attention – not only in light of the recently abating economic crisis. Rather, unlike back in the 1980s, turnarounds and restructurings are part of daily management today even during upturn phases. Hence, this study aims to provide a systematic and comprehensive literature review and research agenda to encourage other scholars to investigate topics related to turnaround management. This literature review focuses on the most important articles published in scholarly journals ranked as A and A+ (based on the German VHB-JOURQUAL Ranking in 2003, cf. Hennig-Thurau et al., 2003).

This study is organized as follows. In Chapter 2.3, I define the term “crisis” including its characteristics and causes. Understanding the causes of crisis is crucial, as the specific cause determines the choice of an adequate turnaround strategy (Schendel, Patton & Riggs, 1976; Schendel & Patton, 1976; Ashta, Diaz-Bretones & Tolle, 2005). Depending on the specific cause of the crisis, different actions might be needed to achieve the turnaround. In Chapter 2.4, I present different existing models of turnaround management. Chapter 2.5 derives success factors based on existing theoretical and empirical research. Drawing upon the literature analyzed and calls by researchers, I conclude with a set of future research directions and questions in Chapter 2.6.