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ABSTRACT

The present paper proposes a concrete framework to successful organizational turnaround. Here, we propose the DARE Model (conceptual framework) for Organizational Turnaround together with R5 Model (pragmatic framework) of organizational turnaround and the correlation between them. DARE model provides a conceptual understanding of why, when and to what level each stage of R5 model of turnaround must be implemented. Moreover, R5 model provides a practical framework for how to achieve the organizational turnaround with necessary inter-relation of independent, dependent and multiple dependent issues of organizational turnaround. The DARE model and R5 model exhibits a symbiotic relationship among themselves where in DARE model defines the PATH of turnaround and R5 model defines the PROCESS of turnaround. The present work also includes proposed H-Score (human performance processes score) and O-Score (Operational performance score) along with Z-Score (Altman's Bankruptcy Predictor Formula/ Financial Performance Score) defined by Edward I. Altman, to be used as touchstones for re-evaluation stage of R5 model. The scope of implications of the study and interventions is not limited to

evolving a turnaround strategy but also has wider consequences in terms of crafting out the organizational strategy taking into consideration every aspect of management be it human resource, marketing, production, finance and so forth.

Introduction

There is no single universally accepted model of organizational turnaround and the empirical studies contain many contradictory models and results. Nevertheless, the broad pattern of the evidence is consistent with a "3R model" of turnaround. This has suggested that firms are more likely to recover from failure if they follow at least one of the following strategies: retrenchment, repositioning and reorganization (Boyne, Martin & Reid, 2004). But the process of organizational turnaround is more complex and comprehensive to be dealt with by following at least one of the strategies of retrenchment, repositioning and/or reorganization. 3R model has neglected critical aspect of *re-evaluation* of current strategies of organizations and future business prospects. Implementation of retrenchment, repositioning and/or reorganization mere cannot optimize

performance but are to be integrated with each other and overall business plan & strategies for *re-enforcement* to achieve sustainable turnaround. Moreover, according to us these turnaround strategies follow a defined sequence leading one to another. The two important stages of Re-Evaluation and Re-Enforcement in turnaround strategies have not been acknowledged as a part of turnaround process and thus we propose *R5 model - a pragmatic framework* of organizational turnaround including re-evaluation, retrenchment, repositioning, re-organization and re-enforcement in the sequence mentioned.

The DARE model - a conceptual framework of turnaround refers to four stages and the first stage indicates DESCEND of performance along the graph of DESCEND inertia and time duration. But this model insists on identifying organizational descend under *pro-action points* (beginning of reduction in performance ratio) or *decline points* (a stage representing a substantial reduction in performance ratio) or *nadir* (a lowest performance ratio) thereby indicating the need and extent for corrective responses. *DESCEND inertia* of the organization refers to relationship between three touchstones which oppose to the ACTION at a given point of time. These three touchstones are as under:

- Z-Score (Altman's Bankruptcy Predictor formula/Financial performance score) (Chandra, Financial Management of Sick units)
- H-Score (Human performance processes score)
- O-Score (Operational performance score)

Greater the *DESCEND inertia* more the difficult and complex will be the turnaround process for the organization at a given point of time.

The second stage refers to ACTION

involving two situations *pro-action and re-action* for eliminating gap between the equilibrium performance ratio and current deviated performance ratio. This depends on the corrective action being taken from pro-action point, decline point or nadir.

The third stage refers to REALIZATION. This stage is the most intricate of all the stages. Complex integration between structure, management control systems and culture are evident in this stage. This in turn will decide the extent of interventions needed in human resource and its performance processes, control systems, organizational development, resource mobilization, work re-design along with organizational structure & culture.

The fourth stage refers to EFFECT involving *resurge, up-slide and failure*. The responses initiated from the pro-action points are bound to resurge for optimum time duration. Decline stage responses have higher possibility of up-slide (gradual progressive equilibrium performance ratio) and with low possibility of resurge (optimal progressive equilibrium performance ratio) for optimum time duration. Failure (unsuccessful turnaround) is also a possibility if the firm fumbles in realization stage. Response initiated from nadir is more prone to failure and low possibility of up-slide or resurge as the extent of interplay of investments and interventions in strategies and policies are complex to realize. (Sheppard and Chowdhury, Riding the wrong wave)

Correlation Between The MODELS

The *DARE model* and *R5 model* exhibits a symbiotic relationship among themselves where in *DARE model* defines the PATH of turnaround and *R5 model* defines the PROCESS of turnaround. *DARE model* identifies specific points for exploring path of turnaround during descend, action, realization and effect stage of turnaround through benchmarking dimensions of time

duration and corresponding descend inertia (Inter-relationship between Z-Score, H-Score and O-Score). R5 model identifies specific processes for facilitating exploration of path of turnaround through re-evaluation during descend stage, retrenchment & repositioning during action stage, reorganization during realization stage and re-enforcement during effect stage with corresponding issues of organizational turnaround for each stage of R5 model. Thus here we also try to highlight that it is critical to understand why, when and to what extent the strategies of re-evaluation; retrenchment, repositioning, reorganizing and re-enforcement should be implemented. Process of turnaround facilitates the achievement of path of turnaround by countering the descend inertia for a given time duration representing the *TURNAROUND MOMENTUM* for the organization.

Both the models can be interrelated in the following approach:

Turnaround Stage	DARE model (A conceptual framework of turnaround) PATH	R5 model (A pragmatic framework of turnaround) PROCESS
Stage 1	Descend	Re-evaluation
Stage 2	Action	Retrenchment, Repositioning
Stage 3	Realization	Reorganization
Stage 4	Effect	Re-enforcement

The stage of DESEND in DARE model corresponds to the process of Re-evaluation in R5 model. In this stage there is the need for identifying the extrinsic and intrinsic reasons for the descend both affected from the internal organizational issues and external environmental issues. The stage of ACTION in DARE model corresponds to the process of Retrenchment and Repositioning in the R5 model. Generally the descended

organizations retort to retrenchment and/or repositioning as first step towards handling turnaround. The next stage in the DARE model represents REALIZATION that corresponds to the activities of Reorganizing in the R5 model. The endeavor here is to re-organize the organizational structure, management control systems and organizational culture & climate in order to support and integrate the overall strategies formulated for turnaround. The last stage of the DARE model represents EFFECT that corresponds to the Re-enforcement in the R5 model. The idea is not just to achieve the expected equilibrium but also to formulate activities in other stages of the R5 model so that organization can reinforce and capitalize on achieving sustainable competitive advantage for the future.

The successful completion of each stage of turnaround under R5 model and DARE model of turnaround is requisite for moving towards the next stage in the proposed

sequence and thereby undertaking all measures to achieve integration of financial, marketing, human resource and operational turnaround with sustainable business strategy to observe *successful organizational turnaround*.

DARE MODEL - A Conceptual Framework

Of Turnaround

Turnarounds occur when firms persevere through an existence-threatening performance decline and end the threat with a combination of strategies involving knowledge, skills, abilities, personality traits and attitudes to achieve sustainable performance recovery. Turnaround is a term meaning a sustainable recovery from simultaneous and comprehensive changes

in a firm's structure, strategy, control systems, technology and individual behavior. (Chebolu, Resourceful thinking as a Turnaround Strategy, HRM Review)

The most critical aspect here is to understand the process of organizational downfall. The key is to identify that what corrective actions are needed and when to implement. The DARE Model- a Conceptual Framework of Turnaround refers to four stages and the first stage indicates DESCEND of performance. The results of misalignment of organizational strategies and environmental challenges create a downside that initiates from firm or industry equilibrium and drops until it reaches a nadir. But this model insists on identifying pro-action points along the curve of downside between descend inertia and time duration. Every pro-action point represents deviation of equilibrium performance ratio to time duration thus depicting the severity of downside much before decline (a stage representing a substantial reduction in performance ratio) or nadir (a lowest performance ratio) thus indicating the need and extent for corrective responses. These pro-action points guide the management for evaluation and re-evaluation of implemented strategies and policies. The basis of these pro-action points is to guide the management to analyze and evaluate the right time for necessary response well before the decline and nadir points. More accurate the pro-action points greater are the chances for the firm to avoid decline or nadir.

DESCEND INERTIA of the organization refers to relationship between three domains, which oppose to the action at a given point of time. These three domains are Z-Score (Altman's Bankruptcy predictor formula/Financial performance ratio), H-Score (Human performance processes score), and O-Score (Operational performance score). Greater the DESCEND inertia more difficult and

complex will be the turnaround process for the organization at a given point of time. The characteristics of Descend Inertia are as follows:

- DESCEND inertia is inversely related to Z-Score as lower the financial performance higher the descend inertia with depleting profits and liquidity.
- DESCEND inertia is also inversely related to H-Score as higher H-Score reveals greater adaptability and control of system and human resource.
- DESCEND inertia is also inversely related to O-Score as depleting operational performance will pinch cost control and operation quality control policies of the organization making it higher DESCEND inertia.

But Z-Score, H-Score and O-Score are directly related to each other. Because of this reason the true measure of DESCEND inertia is critical from turnaround perspective. DESCEND inertia can be optimized only when relationship among Z-Score, H-Score and O-Score are optimized. Turnaround complexity and process time is directly dependent on which domain is the DESCEND inertia high.

The second stage refers to ACTION involving two situations *pro-action and re-action* for eliminating the equilibrium performance ratio and current deviated performance ratio. This depends on the corrective action being taken from pro-action point, decline point or nadir. The corrective action initiated from pro-action points will be referred to pro-action involving strategy and policy changes with less DESCEND inertia of the organization. The re-actions are initiated after the firm has passed decline or nadir points involving drastic strategic and policy changes, as the DESCEND inertia of such organization is higher.

The third stage refers to REALIZATION.

This stage is the most intricate of all the stages. Complex integration between *structure, management control systems and culture* are evident in this stage. The possibility of success of realization largely depends on the responses initiated from second stage and performance ratio improvements with reduction in DESCEND inertia. This in turn will decide the extent of interventions needed in human resource and its performance processes, control systems, organizational development, resource mobilization, work re-design along with organizational structure & culture.

The fourth stage refers to EFFECT involving *resurge, up-slide and failure*. The responses initiated from the pro-action points are bound to resurge. Decline stage responses have higher possibility of up-slide (gradual progressive equilibrium performance ratio) and with low possibility of resurge (optimal progressive equilibrium performance ratio). Failure (unsuccessful turnaround) is also a possibility if the firm stumbles in realization stage. Response initiation from nadir is more prone to failure and low possibility of up-slide as the extent of interplay of investments and interventions in strategies and policies are complex to realize. The probability for resurgence is minimal, as the firm would require to turnaround with minimal resources and maximum deficit (performance deficit as compared to equilibrium performance). The EFFECT is also dependent on the ability of the organization to reduce the DESCEND inertia along with improving the performance. Improvement in performance ratio without necessary reduction in DESCEND inertia often leads to failure/ineffective/incomplete turnaround efforts.

The model represents two dimension-the descend inertia and corresponding time for determining the relative position of the firm

in the organizational turnaround/failure process. The financial ratio (Performance ratio) used is Z-Score of bankruptcy proposed by the Edward I. Altman in 1968 after his extensive research. (Bharatiya, A hard look at the bankruptcy profile in India Inc., Intelligent Investor)

The model has three critical necessary dependent issues, independent issues and multi dependent issues. An issue that is dependent on only one issue in one or more stages of the model is a dependent issue. An issue that is dependent on only more than one issue in one or more stages of the model is referred as multiple dependent issues. An issue that is independent and affects other issue/s in one or more stages of the model is referred as independent issue. This identification of various issues facilitates in relating and integrating the issues in various stages of R5 turnaround model. (Sheppard and Chowdhury, Riding the wrong wave)

R5 Model Of Organizational Turnaround

We propose this model with two important stages of re-evaluation and re-enforcement in turnaround strategies together with already introduced 3 stages of R3 Model.

Re-evaluation: The stage of DESEND in DARE model corresponds to the process of Re-evaluation in R5 model. In this stage there is the need for identifying the extrinsic and intrinsic reasons for the descend both affected from the internal organizational issues and external environmental issues. This is the most critical aspect of turnaround as it helps to identify actual reasons for descend, to what extent overall performance has descended and to what extent turnaround is needed in a specific time durations. But due to lack of proper evaluating tool for determining the extent of turnaround, it has often done improperly or has been neglected.

This is a response that we have presented

as the first stage of R5 model-a pragmatic framework for turnaround. The DARE model should exhibit re-evaluation during the stage of DESCEND. The touchstone of Z-Score (Financial performance score) proposed by Edward I. Altman should be used to locate proaction points, decline points and nadir. We propose evaluation of H-Score (Human performance processes score) (French and Bell, Jr., Organization Development) and O-Score (Operational performance score) for corresponding Z-Score for a given time period.

According to the DARE model and R5 model that we have proposed, organizational turnaround requires evaluation of following:

- Financial performance, human resource performance, operational performance, marketing performance and strategic management.
- Inter-dependency and integration of all dimensions with the business model of the organization.

The endeavor should be to accurately locate proaction points, decline points and nadir, so that adequate strategies and plans can be formulated in advance to prevent them from descend. If the organization has undergone re-evaluation accurately it can understand true DESCEND inertia of the organization.

Retrenchment: The stage of ACTION in DARE model corresponds to the process of Retrenchment and Repositioning in the R5 model. Generally the descended organizations undergo retrenchment and/or repositioning as first step towards handling turnaround. Retrenchment consists of reductions/eliminating the scope or size of activities of an organization. This usually refers to divesting or reducing the activities under businesses that are increasing the descend

inertia of the organization. This in turn can help in liberalizing resources for investment in areas that the firm has core competencies in. The organizations use retrenchment by moving out of target markets/target segments/industry that are causing the descend and based on the stage of location at proaction points, decline points and nadir can exit from market partially or completely by selling assets or reducing the scale of operations and thereby increasing efficiency.

The impact of retrenchment on turnaround has been analyzed in thirteen empirical studies related to private sector. Seven of these studies find that divestment of assets and/or reduction in costs by retrenchment is positively associated with turnaround. O'Neill's (1986a) had analyzed U.S banking industry and positively related retrenchment with turnaround. Similarly, Chowdhury and Lang (1996) find that turnaround in a sample of 153 firms in four U.S industries was assisted by retrenchment. Similar conclusions on the positive impact of retrenchment are drawn by Barr et al. (1992), Robbins and Pearce (1992), Pearce and Robbins (1994), Stopford and Baden-Fuller (1990) and Thietart (1988). (Ref: George Boyne, Steve Martin and Stuart Reid, Learning from the experience of recovery policy paper: 3, February 2004, Center for local & regional government research, Cardiff University).

Some of the studies have unable to establish any positive link between retrenchment and turnaround like Barker and Mone (1994), Hambrick and Schecter (1983), O'Neill (1986b) and Sudarsanam and Lai (2001). However, no study has suggested that this strategy has a negative impact in the overall process of organizational turnaround. (Ref: George Boyne, Steve Martin and Stuart Reid, Learning from the experience of recovery policy paper: 3, February 2004, Center for

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Some of the studies have unable to establish any positive link between retrenchment and turnaround like Barker and Mone (1994), Hambrick and Schechter (1983), O'Neill (1986b) and Sudarsanam and Lai (2001). However, no study has suggested that this strategy has a negative impact in the overall process of organizational turnaround. (Boyne, Martin & Reid, 2004).

According to our observations retrenchment is often first strategy to be implemented by firms either in form of reducing the scale and scope of activities in business or exit from it. This directly helps in releasing investments and assets for concentration on core competencies.

Repositioning: This strategic response to organizational turnaround is implemented immediately/first after DESCEND stage during ACTION stage along /after retrenchment according to DARE model-a conceptual framework of turnaround. Retrenchment consists of reductions/eliminating the scope or size of activities of an organization. The firms for repositioning use the investments and assets that are released by retrenchment in one-way or the other. Resource relocation under repositioning can be formulated by resource audit that identifies core activities for turnaround, by market penetration strategy in existing market or by related diversification into new products/services/markets or undergoes unrelated diversification.

The impact of repositioning on turnaround has been investigated in eleven empirical studies. Only two (Pant, 1991; Sudarsana and Lai, 2001) of these find that repositioning makes no difference to the turnaround and financial recovery. Of the remaining nine studies, seven conclude that repositioning has a positive impact on

firm performance (Pearce and Robbins, 1994; Barker et al., 1998, Barr et al., 1992; Hambrick and Schechter, 1983; Harker and Sharma, 1999; Thietart, 1998; Stopford and Baden-Fuller, 1990). By contrast, two studies find that repositioning has a negative impact on turnaround (O'Neill, 1986b; Schendell and Paton, 1976). (Boyne, Martin & Reid, 2004). (Boyne, Martin and Reid, Learning from the experience of recovery policy paper: 3, Cardiff University).

But our observation reveals that repositioning like retrenchment is inevitable in the process of organizational turnaround to smaller or larger extent. The repositioning is necessary for reviving current products/services or introducing new products/services to capture lost share in the market. The funds and resources released by retrenchment are optimally utilized in repositioning so that adequate margins can be generated. Thus, retrenchment and repositioning of R5 model are two conceptual stages in ACTION stage of DARE model

Reorganization: The next stage in the DARE model represents REALIZATION that corresponds to the activities of Reorganizing in the R5 model. The endeavor here is to re-organize the organizational structure, management control systems and organizational culture & climate in order to support and integrate the overall strategies formulated for turnaround. This broadly deals with the internal architecture of an organization for facilitating turnaround strategies. The purpose is to support retrenchment and repositioning implemented in ACTION stage of DARE model. Complex integration between structure, management control systems organizational & human resource development and organization climate & culture are evident in this stage. Reorganization facilitates in REALIZATION of broader changes required in organization

to support retrenchment and repositioning after re-evaluation.

Eight empirical studies have examined the impact of reorganization on turnaround and six of these studies find that it is positively related. O'Neill (1986b), Mueller and Barker (1997), Harker and Sharma (1999), Pearce and Robbins (1994) and Stopford & Baden-Fuller (1990) have supported reorganizations. Sudarsanam and Lai, 2001 has concluded that reorganization makes no difference in turnaround and Barr et al., 1992 concludes that it has a negative impact on turnaround (Boyne, Martin & Reid, 2004). (Boyne, Martin and Reid, Learning from the experience of recovery policy paper: 3, Cardiff University).

Reorganization lays foundations for the firm to achieve desired EFFECT in the next stage of DARE model by facilitating re-enforcement under R5 model.

Re-enforcement: The last stage of the DARE model represents EFFECT that corresponds to the Reinforcement in the R5 model. The idea is not just to achieve the expected equilibrium but also to formulate activities in other four stage of the R5 model so that organization can reinforce and capitalize on achieving sustainable competitive advantage for the future. This stage of Reinforcement refers to how well the management of the organization can optimize the results of the activities performed in all turnaround stages of DARE model and R5 model.

We propose the last stage of R5 model as stage of integration. This is the stage during which measures undertaken in re-evaluation, retrenchment, repositioning and reorganization are visible in term of financial turnaround, human resource turnaround, operational turnaround, marketing turnaround and sustainable competitive advantage. The key efforts to be exhibited by the organization and its stakeholders are to facilitate integration of

each functional turnaround to organizational turnaround. (Anthony and Govindarajan, Management control system). This is where most of the organization make mistake thus failing to capitalize on the efforts done in prior stage of R5 model. Hence, if re-enforcement is well managed by the management then organization will successfully turnaround or under go failure. The ability of the organization to over come DESCEND inertia with minimum time duration under organizational turnaround process is referred as turnaround momentum for the organization. Thereby, we propose H-score (Human resource and system score) and O-score (Operational score) along with Edward I. Altman's Z-score (performance ratio) for comprehensive and extensive evaluation before, during and after the implementation of DARE model and R5 model to ensure successful organizational turnaround.

Conclusion

On the basis of our research we conclude that the process of organizational turnaround involves all the five R's of R5 model for a successful turnaround. Each stage of re-evaluation, retrenchment, repositioning, reorganization and re-enforcement play a critical role in turnaround process. The same sequence of stages in R5 model is necessary to be followed for achieving sustainable successful organizational turnaround. Organizational turnaround is not possible with any one or few of the strategies in R5 model. All stages are complementary to one another and thus no stage can be neglected. The scope and extent of activities under each stage varies as per the DESCEND inertia of the organization and extent of turnaround needed by the firm for a given time duration after comprehensive re-evaluation.

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