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Short Communication

Role of strategic change in corporate turnaround

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This paper constitutes a theoretical and empirical review of existing literature relevant to the subject. The emerging literature on corporate turnaround indicates that the strategic change has a direct relationship with corporate turnaround. Further strategic change is dependent on the strategic leadership in driving a successful corporate turnaround, strategic leadership must be transformational to facilitate a quick recovery of an ailing firm and return it to profitability.

Key words: Strategic, change and turnaround.

INTRODUCTION

A turnaround specialist enters a company with a fresh eye and complete objectivity. This professional can spot problems that may not be visible to company insiders and implement solutions. Turnaround managers have no political agenda or other obligations to bias the decision-making process, allowing them to take sometimes unpopular, yet necessary, steps required for a company's survival. A turnaround manager's experience within a particular industry is less important than experience in crisis situations when a company is facing bankruptcy or the loss of millions of dollars in revenue. Like an emergency room doctor, a turnaround professional must make critical decisions quickly to staunch the financial bleeding and give a patient the best chance for recovery. Operating in the eye of the storm, a turnaround specialist must deal equitably with angry creditors, frightened employees, wary customers, and a nervous board of directors. Clearly this is no assignment for the faint-hearted.

STRATEGIC CHANGE AND CORPORATE TURNAROUND

The concept and terminology of transforming leadership were first described alongside a transactional leadership style, by James McGregor Burns in 1960s (Bass, 1985). The term transforming later became popularly called transformational after the work of Bernard Bass, who developed the transformational idea to suggesting four essential leadership actions for effective transformational leadership: building trust; motivating inspirationally; enabling creativity; and supporting individual growth. Bernard Bass, expanded upon Burns's original ideas to develop what is today referred to as Transformational Leadership Theory (Adair, 2008). According to Bass and Riggio (2005), transformational leadership can be defined based on the impact that it has on followers, transformational leaders garner trust, respect and admiration from their followers. According to Burnes, (2004) this theory portrays leaders as charismatic or visionary individuals who seek to overturn the status quo and bring about radical change; they use the force of their personality to motivate followers to identify with the leader's vision and to sacrifice their self interest in favour of that of the group or organization.

The relevancy to the proposed research study is that the environment in which organizations operate is changing and will continue to change rapidly, radically and unpredictably. In order to survive, organizations must develop the ability to change fundamentally in a rapidly and in a radical way; this is only possible under the strategic leadership of a transformational leader. In high velocity industries with short product cycles and rapidly shifting competitive landscape, the ability to engage in rapid and relentless continuous change is a crucial capability for survival (Arend, 2008).

According to Hopkins (2008) the main cause of decline in corporate performance and eventual failure has been attributed to the firms' inability to predict changes in their

external environment and formulate rapid and radical strategies to take advantage of the opportunities, while minimizing the risks arising from the changes. Successful turnaround efforts require quick response in identifying causes of decline and prescribing radical strategic corrective moves (Lohrke, Bedeian and Palmer, 2004). It is only by continuous transformation will organizations be able to keep aligned with their environment and thus survive (Wu, He, Duan, and O'Regan, 2012).

According to Hart and Dowell (2011) sustainable change of a firm's strategies and operations will translate into long term economic viability and sustained competitive advantage. The ever changing and highly dynamic market environment demands that firms be more efficient and effective in meeting existing and future customer needs and expectations (O'Regan, 2012). He further argued that the creation of new knowledge and technology advancement has increased differentiation for firms, hence the need to explore ways to achieve or regain competitive advantage. William (2005) posits that enterprise transformation concerns fundamental change that substantially alters an organization's relationship with its key constituencies, involves new value propositions in terms of product and services, and redefines how the enterprise is organised.

According to Stacey (2003) organizations are complex systems which to survive, need to operate at the edge of chaos and have to respond continuously to changes in their environments through just such process of spontaneous self organizing change. Dawson (2003) see change as a complex ongoing dynamic in which the politics, substance, and context of change all interlock and overlap, and in which our understanding of the present and expectations of the future can influence our interpretation of past events, which may in turn shape our experience of change. Burnes (2004) identifies structure, culture, organizational learning, managerial behaviour, and power and politics as the key attributes that promote or obstruct successful change. Leading change requires the creation of a positive climate for change, the identification of future directions and the linking together of action by people at all levels in the organization (Kotter, 2010).

Planned change according to Burnes (2004) is the dominant approach to change management; it regards change as a conscious process of moving part of organizations from one relatively stable state to another. It is an approach that seeks to improve organizational effectiveness by changing individual and group beliefs and behaviour through a process of participation and learning. Emergent approach to change conceives of organizations as operating in a continuous state of flux and turbulence, it tends to be characterized by as a bottom-up, predictable, messy and politically driven process; the role of leadership is to develop a climate in which everyone in the organization has a responsibility for identifying the need for and implementing change, to achieve a fixed outcome but continuously to align and realign the organization with the changing needs of an unpredictable environment (Weick, 2000). Yukl (2007) argue that despite the support for these two approaches, neither the planned change nor the emergent approach provide a comprehensive picture of organizational change, the suitability of any one approach is determined by a range of factors, especially the stability or otherwise of an organization's environment. A key role of strategic leadership is to make sense of the complexity of their organization's situation and choose an approach of change which best aligns with it (Waclawski, 2002). He further argued that though constraints such as the nature of the environment in which an organization operate place limitations on strategic leaders' freedom of choice, they can often, but not always influence, moderate, or alter the constraints to make them better suited to their organizations' preferences and needs.

According to Kotter (2010) change by definition, requires creating a new system, which in turn always demands leadership; its basic goal is to make fundamental changes in how business is conducted in order to help cope with a new, more challenging market environment. He further argued that successful change process goes through a series of phases and skipping steps never produces a satisfying results; he identified eight steps to transforming organization: establishing a sense of urgency, forming a powerful guiding coalition, creating a vision, communicating the vision, empowering others to act on the vision, planning for and creating short-term wins, consolidating improvements and producing still more change, and institutionalizing new approaches. However, critical mistakes in any of the phases can have devastating impact, slowing momentum and negating hard-won gains; they include; not establishing a great enough sense of urgency, not creating a powerful enough guiding coalition, lacking a vision, under communicating the vision, not removing obstacles to the new vision, not systematically planning for and creating short-term wins, declaring victory too soon, and not anchoring changes in the organization's culture (Yukl, 2007).

Successful change effort are messy and full of surprises, but just as a relatively simple vision is needed to guide people through a major change, a vision of the change process can reduce the error, and few errors can spell the difference between success and failure in a turnaround process (Kotter, 2010). The study hypothesis is that effective change management has a positive relationship with successful corporate turnaround.

CONCLUSION

Management change can begin only when company leaders have decided that changes are necessary. As most Chief Executive Officers or Company Presidents do

not relinquish power easily, the motivation for management change must often come from the board of directors. Even if incumbent mangers are willing to implement changes in an effort to turn a company around, they often lack the credibility or objectivity to do so because they are viewed as having caused or contributed to the problems in the first place. Before a turnaround specialist makes any major changes, the individual must determine the chances of the business's survival, identify appropriate strategies, and develop a preliminary action plan. When the condition of the company is critical, the plan is simple but drastic. Emergency surgery is performed to stop the bleeding and enable the organization to survive. At this time emotions run high, employees are laid off, and entire departments may be eliminated. Having sized up the situation objectively, an experienced turnaround leader makes these cuts swiftly. Once the bleeding has stopped, losing divisions have been sold, and administrative costs have been cut, turnaround efforts are directed toward making the remaining business operations effective and efficient. The company must be restructured to increase profitability and its return on assets and equity. In the final step of a turnaround, a company slowly returns to profitability. While earlier steps concentrated on correcting problems, the final stage focuses on institutionalizing an emphasis on profitability and return on equity, and enhancing economic value-added.

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