Routines in a turnaround – What are they good for?

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1. Introduction

Overcoming a corporate crisis, an unwanted event that seriously threatens the survival of the firm, is truly a managerial challenge. Despite the urgency of the situation, it calls for thoroughly planned and well executed turnaround management. Examples abound, and many well-known firms (such as Delta Airlines, Chrysler, Gontard&Metallbank, Metrologie and KarstadtQuelle) have struggled to return to solid economic performance following an existence-threatening decline. Empirical research shows that the likelihood of successful recovery from a corporate crisis is rather low.² Interestingly, although research into turnaround management has been going on for more than three decades, our understanding is still incomplete. Key questions remain unanswered: What action should be taken in a turnaround situation? How should actions be effected? And why do some firms recover while many others fail? (Arogyaswamy/ Barker et al (1995); Pandit (2000), Buschmann (2006)).

To date, however, routines have not been seriously incorporated in turnaround management research. Turnaround authors such as Bibeault (1982) Müller (1982), Arogyaswamy/ Barker et al (1995), Barker/ Duhaime (1997), Slatter/ Lovett (1999), Schreyögg (2004) and Krystek/ Moldenhauer (2006) do at least mention routines in their work. But they do so rarely and without devoting substantial attention to them. Up to now, literature has been unable to systematize the effects of routines in the perspective of turnaround management. Researchers and practitioners alike seem to underestimate the importance of routines and avoid tackling this issue directly.

It is well known that routines are needed if one is to properly understand a company. Routines play a part in employing a company's resources and shaping the strategy, structure, culture, processes and

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² Approximately two-thirds of distressed companies are unable to recover (Bibeault (1982); Hambrick/Schecter (1983); Chowdhury/Lang (1996); Buschmann (2006)).
development. They thus form a vital building block of a firm and are crucial to any understanding of organizational change (Cyert/ March (1963), Nelson/ Winter (1982), Feldman (2000), Feldman/ Pentland (2003), Rüegg-Stürm (2002), Rüegg-Stürm (2003), Becker (2004), Becker/ Lazaric et al (2005)). As such, routines can provide valuable insights for turnaround research. They can help us to understand why turnarounds often fail and are hard to realize. Ultimately, therefore, routines facilitate turnaround management and should never be left out.

This paper postulates hypotheses regarding the impact of routines on turnaround management. These hypotheses are deduced from theoretical analysis in combination with close observation of two actual turnaround cases. Based on the research findings, it is argued that appropriate management of routines enhances the probability of corporate recovery. It is shown that routines must themselves be an object of change, and that they can either disable or enable corporate turnarounds. Negative turnaround effects such as stress, uncertainty, demotivation, blind spots, implementation barriers and fallback effects can all be ascribed to routines. However, routines can also serve as an anchor, a key asset and a mitigation of uncertainty. The significant influence of routines on the success of turnarounds and the different effects routines can trigger make it imperative to manage them carefully and from the outset. Turnaround management should therefore always include a rough inventory of routines and a rating-selection system. Different routine management strategies must be implemented for distinct routine clusters.

2. Turnaround management at a glance – Managing the survival of a corporate crisis

More than three decades of research have failed to produce a well accepted definition of corporate turnarounds in academic literature. Numerous authors use the term generally for a firm's recovery from a minimum performance level. For them, a turnaround is a substantial positive change in the performance level of a company (Bibeault (1982), Pant (1991), Robbins/ Pearce (1992), Böckenförde (1996), Gless (1996), Krystek/ Moldenhauer (2006)). Other researchers have a more specific understanding of what turnaround means. They link it to an existence-threatening crisis and regard turnaround as recovery from such a situation (Müller (1985), Arogyaswamy/ Barker et al (1995), Barker/ Duhaime (1997), Pandit (2000), Buschmann (2006), Slatter/ Lovett et al (2006)). If

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3 The St. Gallen company model considers a company as a combination of resources, strategy, culture, structure and processes which develops over time through renewal and optimization. The company is embedded in a certain environment and interacts with its stakeholders (Rüegg-Stürm (2000), Rüegg-Stürm (2002)).

4 Interviews are not yet terminated. Data evaluation is still going on and will be finalized in June/July 2007.
one accepts the first definition, a company is almost permanently in a turnaround situation. Turnarounds would than be regular management tasks – which they are surely not (Müller (1982), Müller (1985), Buschmann (2006)). In a genuine turnaround situation, therefore, the very existence of a company is at risk unless radical actions are taken. Turnaround management aims to free companies from crisis situations, put an end to declining performance and achieve sustainable profitability. Hence, during turnaround management, strategic, operational and financial actions have been taken to facilitate recovery (Schendel/ Patton et al (1976), Hofer (1980), Bibeault (1982), Müller (1985), Grinyer/ Mayes et al (1988), Sudarsanam/ Lai (2001), Buschmann (2006), Slatter/ Lovett et al (2006)).

Given the time-based nature of turnaround management, it seems natural that researchers try to identify variables in the context of crisis management that significantly influence the outcome of turnarounds (Pettigrew (1988), Pant (1991), Böckenförde (1996), Pandit (2000), Greenwood/ Hinings (2006)).

2.1 The context of turnaround management
Research into the turnaround context aims to identify internal and external variables that influence the success of turnaround management. The genuine impact of turnaround action can only be evaluated by looking at the prevailing context factors (Schendel/ Patton et al (1976), Pettigrew (1988), Pant (1991), Robbins/ Pearce (1992), Gles (1996), Slatter/ Lovett (1999)). The causes of

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5 The context includes conditions of turnaround management and answers the question: "Why does it work?"

6 The content includes actions for turnaround management and answers the question: "What should be done?"
decline are one of the most obvious context variables and must always be addressed in a turnaround situation (Schendel/ Patton et al (1976), Müller (1982)). Additionally, turnaround research has, for example, also identified the severity of a turnaround situation as a relevant context factor that enables crises to be "typified" (Zimmermann (1989), Robbins/ Pearce (1992), Buschmann (2006)). There are also general context factors that exercise a considerable influence. Buschmann (2006) singles out ten key factors: economic and market development, competitive situation, reserves/efficiency slack, historical performance, speed of decline, size of the enterprise, fixed cost structure, managerial problems and the stakeholder relationship. Up to now, routines have never been clearly identified as context factors. Yet routines can yield valuable insights that help us understanding a turnaround context. Some authors, such as Schendel/ Patton (1976), Bibeault (1982), Müller (1982), Gomez/ Müller-Stewens (1994) and Arogyaswamy/ Barker et al (1995), mention routines as possible causes of crisis or as general context factors. They do so in a very selective manner, however, often indirectly and without going into much detail. Routines also affect the required force of the trigger for change and the amount of resources needed by a turnaround.

2.2 The content of turnaround management

The content element of turnaround management includes research into the measures that can be taken to overcome corporate crisis. Strategic realignment, repositioning, process optimization, cost reductions, recapitalization, product development, organizational changes and improvements in working capital are all possible ways to tackle a turnaround. In the relevant literature, the variety of possible actions is usually categorized into strategic, operational and financial items (Hofer (1980), Robbins/ Pearce (1992), Böckenförde (1996), Lafrenz (2004), Krystek/ Moldenhauer (2006)). Routines, however, have been all but neglected as turnaround actions until now. There are some references in which routines are mentioned as the object of alterations. Yet neither Bibeault (1982), Armenakisi/ Fredenberger (1995), Arogyaswamy/ Barker et al (1995), Barker/ Duhaime (1997), Bergauer (2003) nor Schreyögg (2004) forge any substantial link between variations in corporate routines and turnaround content. What is missing is a broad-based analysis that gives due consideration to the importance of routines for an organization. A broad understanding of routines nevertheless makes it possible to improve the selection of turnaround actions and resolve the causes of decline at the root. Such pivotal issues as learning, problem solving, reduction of uncertainty, creation of stability and establishment of change can all be steered by routines. Routines present one
highly effective way to change a company's resource usage, strategy, structures, culture and processes.

2.3 The process of turnaround management

Research into the process of turnaround management concerned itself with the organization of the turnaround workflow. The figure below outlines a model milestone roadmap. The individual steps are logically ordered; the order can be adjusted to meet the needs of specific turnaround situations. In a turnaround, the various phases are often not clearly defined and frequently overlap. It is possible to jump forth and back between steps.

Figure 2: Turnaround management process

Bibeault (1982), Müller (1982), Gomez/ Müller-Stewens (1994), Arogyaswamy/ Barker et al (1995), Armenakisi/ Fredenberger (1995), Barker/ Duhaime (1997), Bergauer (2003), James (2002), Schreyögg (2004) and Krystek/ Moldenauer (2006) all mention the influence of routines but fail to analyze their impact in any real depth. Routines unfold their full effects especially during the actual turnaround process. Typical phenomena in turnaround processes – such as limited search processes for information and actions, the impracticability of certain turnaround actions, growing uncertainty, the erosion of efficient coordination capabilities, barriers to change and, simply, inertia – can all be ascribed to routines. Accordingly, the routine perspective sheds light on the turnaround process. It uncovers reasons why the process is so difficult and often ends unsuccessfully.
3. Routines – A vital corporate building block

Recent research has summarized the different perspectives on how to define routines and has drawn the conclusion that routines are a recurrent interaction pattern that is collective (multi-personal) in nature (Feldman/ Pentland (2003), Becker (2004), Becker (2005a), Becker (2005b)). However, this definition excludes what psychological research calls "the center of human behavior" – routinized actions on an individual level – that can be found everywhere in an organization. Routines influence the problem solving process on an individual and organizational level. These are exactly the influences that should be included in turnaround research in order to better understand what really happens during turnaround management. As Krystek/ Moldenhauer (2006) recently mentioned, it is individuals who makes the difference by what they add to a turnaround (March/ Simon (1958), Cyert/ March (1963), Nelson/ Winter (1982), Betsch (1995), Betsch/ Haberstroh et al (2002), Rüegg-Stürm (2002), Feldman (2003), Rüegg-Stürm (2003), Betsch (2005), Betsch/ Haberstroh (2005), Kesting (2006)). In arrive at this more individual understanding, the multi-personal element is excluded from the routine definition. An activity is then considered to be a routine if it is a recurrent action that has been developed through a learning process and creates a certain pattern in a nearly stable context following the same intention.

As mentioned above, routines are learned behavior that themselves include learning mechanisms. In a regular problem solving process, a routine is created by using the first solution at least one more time. Repeat usage then teaches new insights that can improve the action. The learning process stops when the agents involved are satisfied with the outcomes (satisficing principle, Winter (2000)). After this point, the routine is executed with less deliberation effort. According to Giddens (1984), routines are executed using practical consciousness in the end. Therefore, routines can be both cognitive and mindless activities. Continual appliance of routines establishes them in the performantive part of an organization. Additional routines structure future actions and create the ostensive part of an organization (Cyert/ March (1963), Nelson/ Winter (1982), Weiss/ Ilgen (1985), Levitt/ March (1988), Gersick/ Hackman (1990), Cohen (1991), Pentland/ Reuter (1994), Betsch (1995), Winter (2000), Feldman (2000), Rüegg-Stürm (2003), Feldman (2003), Becker (2004), Betsch (2005), Pentland/ Feldman (2005), Kesting (2006)).

As comprehensively described by Becker (2004), routines are not only context-dependent phenomena: They are processual in nature as well as path and context dependent phenomena. Routines are specific acts that must be repeated at least once in order to become patterns. During recurrences, agents have access to the experience gained during earlier occurrences. This possibility
of access modifies the problem solving process. In other words routines, under certain conditions, are triggered solutions to known problems (Betsch/ Haberstroh et al (2002)). Additional routines create certain effects in an organization. Routines economize on cognitive resources and increase the efficiency of actions. Furthermore, they reduce uncertainty, store knowledge, enable efficient coordination, lend structure to the organization and influence the organization's stability and flexibility (Nelson/ Winter (1982), Giddens (1984), Weiss/ Ilgen (1985), Feldman (2000) Gersick/ Hackman (1990), Rüegg-Stürm (2003), Becker (2004), Betsch (2005), Pentland/ Feldman (2005), Kesting (2006)).

Not only the characteristics and effects of routines make them a vital building block of an organization. Routines actually shape the inner workings of an enterprise in many ways, by influencing strategy, structures, culture, resources, processes and development modes (Rüegg-Stürm (2000), Rüegg-Stürm (2002)). Routines can become organizational capabilities and therefore steer resources in an organization (Barney (1991), Teece/ Pisano (1994), Winter (2003), Feldman (2004), Grant (2005)). In line with the resource-based view, routines determine the strategy of an organization (Barney (1991)). According to the market-based view, routines must be created in order to execute a strategy (Porter (1999)). Not only the strategy but also the structure and culture of a company are influenced by routines, because routinization is what forms them (Giddens (1984), Rüegg-Stürm (2002), Feldman/ Pentland (2003), Rüegg-Stürm (2003), Pentland/ Feldman (2005)).

4. Routine impact mechanisms in turnaround management

Routines influence turnaround management via the agency of nine principal mechanisms. Research has shown that routines can disrupt turnaround management mainly through four impact mechanisms. On the other hand, routines can also positively influence turnaround management. Whereas the five positive impact mechanisms identified below must be consciously accelerated, negative mechanisms evolve almost automatically and must be consciously diminished or avoided. Figure 3 summarizes the mechanisms by which routines impact turnaround management:

![Figure 3: Routine impact mechanisms in turnaround management](image)

4.1 Negative impact mechanisms

Unfortunately, routines can have a negative influence on corporate turnarounds. Routines affect the problem solving process on every phase, starting with observation and ending with the realization of the selected action.

**Limit observation**

Routines limit observation. This phenomenon can affect both agents who are involved in a certain routine and agents who use routines for observation purposes. Routines that are executed automatically become almost invisible and, hence, difficult to think about. Routines are relegated to the subconscious. Moreover, they limit the spectrum of what we recognize and the way we interpret what we perceive. Routines can guide search and interpretation processes in a specific direction.
They thus create blind spots in the process of observation and thereby influence the initial phases of problem solving processes – the gathering and interpretation of information. We saw this limitation mechanism happening in both companies. Agents scanned the environment and interpreted information in familiar ways. By doing so, they still relied on inherited patterns of action even when they knew that the company's very survival was at stake. While this conserved cognitive resources, it also imposed limitations on the planning process from the very beginning (Ashforth/ Fried (1988), Betsch (2005), Kesting (2006)).

**Influence planning**

Recurrent patterns of action likewise influence the very heart of the planning process. Where mere repetition takes place, planning is absent. It can be restored as an element of the routine if considerable conscious awareness is devoted to the routine and the learning process is deliberately reactivated. The more dominant the execution aspects of a routine, the less important are observation and planning. Furthermore, routines determine how planning processes are performed. Planning routines that have proven themselves useful in the past are used again and again. Yet they too predetermine the outcomes in a familiar way. During turnaround management, however, it is "out-of-the-box thinking" and not routinized planning that makes the difference. Fresh ideas usually derive from outside the daily routine. Accordingly, the planning processes too must differ from those used in regular business situations (Ashforth/ Fried (1988), Betsch (2005), Kesting (2006)).

**Influence decision making**

Routines do not only impact the observation and planning, the early phases of the problem solving process. They also influence the logic of decision making. The attraction of breaking out of an established routine is determined not only by expected gains in effectiveness or efficiency. It is equally important to factor in the cost of adjusting routines. These are mainly opportunity costs plus the cost of resources needed to develop new actions. Costs are caused by countless factors, such as the devaluation of knowledge, disruptions to the efficiency of coordination, greater uncertainty about outcomes, lost learning curve effects, the cognitive resources invested in the planning process, and the need to eliminate inefficiencies in newly planned actions. As a result, there are often good economic reasons for maintaining established routines even if they are ineffective or inefficient (Ashforth/ Fried (1988), Kesting (2006)).
As psychological research has shown, routines manipulate the evaluation process of their own. Especially under stress – which is typical of a turnaround situation – agents tend to resort to old routines even though they know that these will probably not work. Worse still, they sometimes detract from the information against their usage (Ashforth/ Fried (1988), Betsch (1995), Betsch (2005)).

Our observations found that, in many cases, not all disruption costs are factored into evaluation of turnaround actions. Especially in company A, negative impacts arising from alterations working routines led to unplanned effects such as overtime, missed deadlines and delays to whole turnaround actions. Since too many working routines were changed too quickly, the stability of the organization came close to its limits more than once. Some turnaround researchers have indeed pointed out that changing routines is costly, creates uncertainty and destroys knowledge. If the amount of alteration costs is evaluated incorrectly or even ignored and no buffer is kept in reserve to cover these costs, than a turnaround may be doomed to failure (Armenakisi/ Fredenberger (1995), Arogyaswamy/ Barker et al (1995), Barker/ Duhaime (1997), Bergauer (2003)).

**Hinder implementation**

During implementation, turnaround managers naturally have to cope with resistance to change. This is one of the major difficulties in turnaround management (Müller (1982), Robbins/ Pearce (1992), Barker/ Duhaime (1997), Kall (1999), Rüegg-Stürm (2003), Garvin/ Roberto (2005), Greenwood/ Hinings (2006), Krystek/ Moldenhauer (2006)). Routines can be one reason for such conflicts. Routines hinder implementation by building obstacles and facilitating relapses. Psychological research has shown that routines have an inherent mechanism that allows people to sidestep planned actions, causing them to relapse into familiar but inadequate routines. Even where agents fully intend to depart from old routines, inadequate patterns of recurrent action can still be triggered and executed. This happens especially in the phases of heavy stress that are typical during management of a turnaround. In many cases, this is exactly what we observed in both turnaround firms. The uptrading price strategy provides a fine example. Even though the new strategy had been approved by senior management, the rebate price discussion cropped up again and again at sales meetings in company B. The incumbent sales managers needed to be reminded by others that a short-term rebate campaign was an inappropriate solution.

Routines can also block change because they nourish rational objections and emotional rejections. If a routine is changed by pressure form the outside, agents who are involved in a routine may seek to
hinder change on both rational and emotional grounds. If they do not perceive the ineffectiveness or inefficiency of a routine, the agents on the inside do not see any reason for change. Furthermore, giving up an old routine means giving up all its advantages, starting over from the beginning of the learning curve and investing scarce resources to develop a new solution. Nor is there any guarantee that this solution will deliver the intended results. Agents may therefore object to change because, for them, it perfect sense to stick to the old routine. Even if they are forced to deviate from their old, "rational" routine, they could well fall back into their old ways when outside pressure eases. Emotional blocks arise too alongside the more rational forms of resistance. Giving up a routine implies stress, creates anxiety, depresses the corporate and can leave agents in the organization feeling inferior. These forces drive emotional resistance and hence make people less willing or able to change (Beyeler (2003)).

Further barriers to change can be created by reasons that have are not determined by the routines themselves. Routines take shape under certain contextual conditions and for certain purposes. If neither the context nor the intention changes, agents see no reason to break the mold of established routines. It is only logical that they will then reject changes imposed from the outside on both a rational and an emotional level. They quite simply see no need for change.

In the two turnaround cases we studied, rational and emotional resistance both presented major problems during the turnaround. Working routines were changed in both cases, but more extensively so in company A. And it was in company A that we encountered strong resistance to change. It is therefore fair to conclude that the extent to which working routines are changed correlates to the level of resistance. In the interviews conducted, agents admitted that the disruption of their usual working patterns frightened them and caused them considerable stress. They also explained that the general mood at work had deteriorated, and that a feeling of uselessness had spread while routines were being altered. While it cannot be concluded that the disruption of routines is the only reason for rational and, in particular, emotional barriers, we believe that they certainly play an important role.

4.2 Positive impact mechanisms

Routines nevertheless also have various advantages that can be leveraged by accelerating positive impact mechanisms. These mechanisms are all rooted in the learning process that is inherent in routines per se. They begin with the act of learning itself and end when a satisficing solution has been found to a specific problem that can be described by intentions and conditions in the given context.
Promote learning

Routines can help to promote learning in turnaround management situations. The learning mechanisms inherent in routines can help turnaround agents to discover new capabilities, develop new core competencies and thereby create new ways to employ resources. Agents can learn how to handle new processes or deal with new people, for example. They thus acquire new knowledge through routinization – but only if the process is carefully managed (Argyri (1976), Levitt/ March (1988), Winter (2000), Cohen (1991), Cohen/ Bacdayan (1994), Cohen/ Burkhart et al (1996), Narduzzo/ Erocco et al (2000), Edmondson/ Bohmer et al (2001)).

Learning by replication was commonplace on every level in company A and B during their respective turnarounds. Old routines – such as the ways in which company A created catalogs and sold products online – were optimized. Based on feedback regarding prior performance, these routines were altered step by step. However, it is only fair to note that this learning process was the result rather of chance than of conscious management design.

Limit uncertainty

The recurrent process-based nature of routines stabilizes expectations and creates organizational truth. Operating routines therefore reduces uncertainty. A sense of familiarity and continuity is cultivated. The organization becomes stable because agents begin to develop an idea of what they can expect from execution, from the output of the routine and from other members of the organization. Organizational conflicts are resolved and tasks are accomplished smoothly. Especially in a turnaround, such stabilizing mechanisms are of great importance. The actions taken at such times are often radical. They disrupt existing structures. A pervasive sense of insecurity is equally typical of turnaround situations (Müller (1982), Pandit (2000), Nothardt (2001), Krystek/ Moldenhauer (2006); Nelson/ Winter (1982), Rüegg-Stürm (2003), Becker (2004), Becker/ Knudsen (2005)).

In both company A and company B, the level of uncertainty throughout the organization during the turnaround natural exceeded normal levels. The outcomes of altered business routines were unclear, and people sometimes did not know what tasks to perform or when. As new business processes themselves gradually evolved into routines, the uncertainty level naturally decreased. However, the uncertainties that prevail during turnaround management are also triggered by a large number of other factors.
Anchor change

The third mechanism by which routines impact turnaround is known as anchoring. Repetition establishes or "anchors" typical ways of doing things. Agents thus become familiar and comfortable with new techniques. Routinization also helps to anchor structural or cultural changes. The performance side of the organization thus shapes its ostensive side (Giddens (1984), Edmondson/Bohmer et al (2001), Rüegg-Stürm (2002), Rüegg-Stürm (2003) Feldman (2003), Pentland/ Feldman (2005)).

In the companies we examined, this mechanism was not consciously planned or directed by the turnaround managers. However, it developed automatically within the organization. In company B, discount pricing was an established routine to halt sales declines. During the turnaround, this routine was replaced by a new pricing strategy. The old mindset began to disappear, but not before the new uptrading price strategy was repeated several times. At the beginning of the relearning process, managers were often seen to revive the practice of discount price campaigns. Over time, however, the new culture (without discounts) was established by routinization.

Dispose resources

The process of routinization frees up resources. Routines do not just economize on cognitive resources by allowing activities to be performed without thinking as a result of repetition. They also help companies to save financial, human and other resources. A new action that is yet to become a routine through repetition in a more or less stable context and with the same intention is usually rather inefficient. Learning curve effects materialize as routinization takes place. The quantity of input resources needed for a routine decreases at the same time as the quality of the outcomes increases and resources initially set aside to cover the risk of a malfunction are set free (Levitt/March (1988), Cohen (1991), Feldman/ Pentland (2003), Rüegg-Stürm (2003), Becker (2004), Becker (2005b) Kesting (2006)).

In both of the turnaround cases we studied, the resource scheduling mechanisms inherent in routines were not consciously applied by management either. Here again, typical learning curve effects developed automatically. In both cases it was possible to observe a change in the scheduling of resources. Over time, the agents involved in routines were able to reduce not only their level of deliberation effort, but also the time it took to complete altered routines.
Solve problems


In both of the turnaround companies we observed, it was common for employees to use old routines to solve problems. Benchmarking within the companies often showed where best practices were in operation. These routines thus served as vehicles for knowledge transfer. Using old routines is only effective if the intention and context factors are comparable, however. We also observed how routines from outside the company were copied in order to improve internal performance. Even though this is a complex challenge in itself, it can be more successful than planning new actions from scratch.

5. Impact of routines in turnaround management

Having discussed the impact mechanisms of routines, it is now possible to analyze each element of turnaround management in order to deduce hypotheses regarding the impact that routines have on turnaround success.

5.1 Routines in the context of turnarounds

In the past, turnaround literature has not clearly mentioned routines as context variables. Analysis of a company model8 and observation of the two turnaround cases nevertheless showed that routines are indeed relevant context factors for crisis management. It is not just that routines largely determine how things are done in an organization. They also set in motion certain impact mechanisms that affect the success of turnarounds.

The more routinized a company is, the more powerful the change trigger must be and the more resources are needed for the turnaround. Besides the forces and resources to overcome the unawareness of the present routines ("wake up call"), the high opportunity costs of altering established patterns of behavior are an important driver of these effects. Clearly, the amount of opportunity costs has a bearing on the needed level of inefficiency and/or ineffectiveness to

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8 The St. Gallen company model (Rüegg-Stürm (2000), Rüegg-Stürm (2002)).
overcompensate the advantages of the present routine. The trigger for change has to be strong and the resources invested high enough to overcome routine-based inertia. But unfortunately, it is typical of turnaround situations to find that resources are very scarce. As the corporate crisis worsens, so the availability of resources even decreases. It follows that the level of routinization in combination with the level of available resources will together determine the extent to which change is possible. (Bibeault (1982), Gersick/ Hackman (1990), Tyre/ Orlikowski (1996), Narduzzo/ Erocco et al (2000), Beyeler (2003), Hendry/ Seidl (2003), Becker (2004), Betsch (2005)). Routines do not only influence the logic of decision making, however. As we saw earlier, observation, planning and implementation too can all be influenced by routines. The following hypotheses can therefore be postulated:

**HP 1.1.** The more routinized a company, the stronger the trigger for change and the greater the level of available resources must be in order to increase the probability that the turnaround will succeed (negative routine impact).

**HP 1.2.** Factoring routines as context variables into the analysis will increase the efficiency and effectiveness of turnaround management (positive routine impact).

Routines can also play a part in a company's decline. Turnaround literature frequently identifies managerial mistakes, insufficient financial controlling and inefficient cost structures as major causes of crisis, alongside dwindling demand and changes in the competitive environment. And it is often said that management mistakes are the main reason for declines that threaten a company's survival (Bibeault (1982), Müller (1982) Slatter/ Lovett (1999), Buschmann (2006), Krystek/ Moldenhauer (2006)). We can, however, gain a deeper understanding of each of these five causes if we examine them from the perspective of routines. Managerial mistakes can be triggered by the execution of malfunctioning or inappropriate routines (Bibeault (1982)). In addition, gaps in monitoring and controlling can also be linked to malfunctioning routines, because they can impact observation and planning processes. Even inefficient cost structures can, to some extent, be considered a consequence of inefficient routines. It is thus possible to regard these three internal factors as symptoms of malfunctioning routines. However, a correlation can be established between recurrent patterns and external factors too. As shown above, routines can create inertia and impair a company's flexibility. In such cases, neither intensified competition nor eroding demand is the real cause for decline, but rather the inability to adopt to external changes. Bearing these effects in mind, it is possible to formulate the following hypotheses:
HP 1.3. Routines can be one reason for decline and often are indeed the genuine cause of decline (negative routine impact).

HP 1.4. If routines are identified as reasons for decline, they must be directly tackled by appropriate turnaround actions. This improves the probability that turnaround management will succeed (positive routine impact).

5.2 Routines in the content of turnarounds

During turnaround management, it is vital to address routines. Their importance to the organization, the simple fact of their existence and the mechanisms by which they impact turnaround management make this an unavoidable necessity. Working backward from the impact mechanisms, it is possible to deduce four main reasons why routines must themselves be an object of change and be addressed by turnaround actions. Two of these reasons are absolute imperatives. If a routine or a bundle of routines are identified as causes of decline, they must be addressed directly in the process of turnaround management. Otherwise, turnaround management will not succeed (Müller (1982)). Second, where a change in routines is the precondition for the successful implementation of certain turnaround actions, routines must be corrected indirectly and be subsumed under the actions in question. Besides these two compelling needs for change, routines can also be altered for two other reasons. Recurrent patterns of action should always be adjusted directly where potential for improvement can be realized by doing so. Moreover, it is also possible to use a routine to facilitate certain other turnaround actions. Here again, the routine itself is indirectly subsumed under the intended actions. It is therefore possible to construct the following matrix to summarize the reasons why routines can or must be addressed in a turnaround situation:

<table>
<thead>
<tr>
<th>Pressure for change</th>
<th>As potential for improvement</th>
<th>As causes of crisis</th>
<th>As precondition for change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>As facilitator of change</td>
<td>Imperative</td>
<td>Optional</td>
</tr>
<tr>
<td>Optional</td>
<td>Focus on routines</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 4:** Reasons to change routines in a turnaround
Where routines become objects of change, four basic and two combined strategies exist to alter them. Actions can affect a routine directly or indirectly; and the routine may or may not be replicated. Figure 5 outlines the possible scenarios:

![Figure 5: Basic options for altering routines in a turnaround situation](image)

The multiplication and optimizing options allow old routines to be replicated. Multiplying a routine means expanding its usage, whereas optimizing a routine means reactivating its inherent learning mechanisms. Learning leads to incremental change within the existing logic of an established routine. But it is also possible to abandon old routines, which inevitably involves leaving the logic of existing routines behind. This can be accomplished either by terminating old routines and/or by creating new ones. In addition, two combined strategies can be applied: Routines can be leveraged or renewed.

Not all alteration strategies are appropriate, however. Selecting a routine alteration strategy depends not only on the reasons for change (see figure 4), but is also a function of changing costs. As discussed in section 4, routines influence the decisions made in the context of turnaround management. Changing them is not for free. The costs must be anticipated and factored into the planning and selection of alteration strategies otherwise the selected turnaround actions may be uneconomic. Therefore it can be in some cases more advantageous to accept a certain amount of ineffectiveness and/or inefficiency in a certain process or structure. In other cases it could be more economical to alter existing routines by just optimizing instead of renewing them. The net benefit of such an incremental change might be higher than going through the whole process of unlearning and developing a new routine. The costs of change include a loss of routine efficiency, an increase in
uncertainty, a loss of structural and cultural elements, a loss of capabilities and knowledge, social costs (caused by anxiety, stress, etc.) and the costs of the learning process, for example. These costs differ from option to option, as shown in figure 6:

**Figure 6:** Basic options for altering routines in a turnaround situation, including costs of change

To summarize, we can conclude that routines have the following effects on turnaround performance as a function of their impact mechanisms:

*HP 2.1.* Routines must be addressed as objects of change. Incorporating these forms of human behavior make turnaround actions more likely to succeed (positive routine impact).

*HP 2.2.* The cost of altering routines varies depending on the alteration strategy. It must be factored into the planning and costing of turnaround actions. Routines therefore influence the selection of turnaround actions and increase the cost of a turnaround (negative routine impact).

*HP 2.3.* Due to the cost of changing routines, it is advisable to maintain the logic that underpins the existing routine (and alter it merely by multiplying, optimizing and leveraging it). This is especially the case if the crisis is severe and the level of routinization is high. The turnaround will then tend to follow a resource-based strategy. Routines thus limit the options available for turnaround actions (negative routine impact).
5.3 Routines in the turnaround process

Each phase of the turnaround process has a certain emphasis and calls for certain tasks to be performed. Routines affect every phase in a different manner.

Step 1 – Crisis recognition

The first milestone in turnaround management is simply to recognize a latent crisis. Turnaround management will never begin until the crisis is recognized and acknowledged (Bibeault (1982), Müller (1982)). As discussed in section 4, routines can influence observation. The impact mechanism that limits observation reduces the effectiveness of perception and interpretation. As a result, routines can delay the recognition of crisis situations (Ashforth/ Fried (1988), Arogyaswamy/ Barker et al (1995), Krystek/ Moldenhauer (2006)).

Step 2 – Initiation and Set up

Literature on the subject acknowledges that initiating a turnaround process is a decision process. However, existing routines may mean that this decision process does not work properly. In other words, existing routines can hinder management's ability to identify a crisis. Alternatively, where a crisis is identified, routines can affect the way in which the crisis is evaluated. Existing routines can also change the rationale on which the decision is based because of the cost of alteration. Routines therefore erect rational, emotional and capability barriers to the initiation of crisis management (Bibeault (1982), Starbuck (1983), Ashforth/ Fried (1988)).

Once a crisis has been recognized, the next step is to organize crisis management. According to Müller (1982), the tasks of crisis management differ from the routine management tasks encountered in regular business. On the one hand, crisis management therefore needs a new temporary project organization that can cope with this non-routine situation. On the other hand, more resources (especially human resources) are needed in order to handle the resource pull. The routine perspective thus substantiates the state of the art in turnaround management: the need to establish a project organization and assign additional capacity. With regard to managerial changes, however, turnaround research has yet to reach full consensus. The routine perspective clearly points to the value of a mix of new and old managers. During crisis management, experts are needed who know the company (i.e. who are well versed in internal working routines) alongside experts who know how to handle turnaround management (i.e. who are well versed in turnaround routines and are not "blinded" by internal allegiances and established routines).
Step 3 and 5 – Rough and detailed analysis

During the rough and detailed analysis phases, information is gathered and prepared in order to select both immediate actions and strategic, operational and financial turnaround actions. Via the agency of two impact mechanisms ("limiting observation" and "influencing planning"), however, routines disrupt the information gathering process. Additionally, the tendency to fall back into old routines and fears of the consequences of resistance to change (the mechanism that we called "hindering implementation") may prevent certain information from being collected and properly interpreted (Ashforth/ Fried (1988)). On the other hand, the routine perspective offers an interesting viewpoint on the resources, strategy, structure, culture and processes of an organization and facilitates an understanding of how the company works. It follows that the organization can be scrutinized in more detail by including routines in the analysis.

Step 4, 6 and 7 – Immediate Actions, Conceptual design and Action management

During the immediate action and conceptual design phase, routines both hinder the planning of actions and influence the way in which they are evaluated (due to the mechanisms that "influence planning" and "influence decision making"). At the same time, they also guide the search for information that can lead to alternative courses of action. As such, routines can influence the range of actions that may be discovered during turnaround management. Schreyögg (2004) mentions the importance of finding new ways how to turn the company around, citing the departure from old routines as one example. However, management often has a tendency to apply old routines in an attempt to solve crisis problems (Stubbart (1987), Ashforth/ Fried (1988), Betsch (2005)). Furthermore, existing routines deliver significant advantages that would be costly to abandon. At first glance, a turnaround action may appear to have a positive impact. On closer inspection, however, it becomes apparent that it will actually have a negative impact on turnaround performance if all the costs of changing routines are factored into the equation. Effects such as a flatter learning curve, destabilization of the organization and resource pull must all be taken into account in the business planning phase. Ultimately, available buffer resources – human as well as financial – will determine whether a turnaround can be pulled off or not. Accordingly, the way things are done in an organization – how routinized agents go about their work – has a significant influence on the process of selecting turnaround actions and the probability that a company will be turned around successfully. Not only the negative mechanism unfold their impact, however. If routines are tackled as objects of change, the positive impact mechanisms too can be applied selectively, and can thereby facilitate the
turnaround. The processes of learning, transferring knowledge and stabilizing new processes and structures can be accelerated by applying routines. Furthermore, routines as objects of change offer a concrete toehold for turnaround actions. Tackling routines therefore allows organizational change to be initiated at the root. Routines enable turnaround managers to drill down into the subsurface structures of an organization (Bibeault (1982)).

While immediate actions are being effected and the longer-range turnaround concept is being fleshed out, resistance to change can emerge. Such resistance may block change and prevent new insights from becoming anchored in the organization. The fact that routines can breed inertia (resistance to change) is well documented in the relevant literature. Even in turnaround literature, these effects are pointed out, for example by Stubbart (1987), Armenakisi/ Fredenberger (1995) and Barker/ Duhaime (1997). Our analysis shows that inertia consists of more than just barriers to implementation, however. The blocking mechanism inherent in routines fosters resistance to the changing of established routines. This is one of the five mechanisms that lead to routine-induced inertia. In the implementation phase, considerable attention must therefore be focused on diminishing such obstructive forces. As early as the conceptual design stage, such blocking effects must be anticipated and factored into the evaluation of turnaround actions. Careful management of the potential for relapse errors is very important during implementation. This psychological barrier is closely linked to the reactivation of old routines. Particularly in stress situations – which are typical of the turnaround phase – this can and does happen.

**Turnaround management process en bloc**

Routines impact turnaround management on another level too. Besides the need for a turnaround team and turnaround managers who are well versed in the "routines" of turning companies around, the turnaround process itself must likewise be routinized. The advantages of such a routinized process are self-evident – and are exactly what such a situation calls for. Building on an efficient process, the agents involved gather capabilities and knowledge about the turnaround process and act in a coordinated, structured and confident manner. Drawing on past experience of turnarounds, they know how to cope with such managerial challenges. This confidence can engender trust, reduce anxiety and alleviate stress within the organization. Unfortunately, however, the five positive impact mechanisms are not the only forces at work in such situations. The negative impact mechanisms too can create disadvantageous effects, such as blind spots, reliance on past successful turnaround routines and relapse errors. Having said that, given the time pressure and shortage of resources, these
negative effects of routines on turnaround management are generally of only minor significance. A routinized turnaround management process is therefore still advisable, despite these potential shortcomings.

In light of the above, we can conclude that routines have the following effects on the process of turnaround:

**HP 3.1.** Routines can delay or even prevent internal recognition of a latent crisis and can raise barriers to the initiation of crisis management (negative routine impact).

**HP 3.2.** Because of the need to abandon existing routines, a resource pull effect emerges during turnaround management. This is the case especially for human resources and increases the cost of a turnaround (negative routine impact).

**HP 3.3.** The existence of routines in an organization is one more reason for ensuring that the team appointed to manage the turnaround combines internal company experts and external turnaround experts. This too will increase the cost of turnaround management (negative routine impact).

**HP 3.4.** Routines provide guidance for both the rough and detailed analysis phases of the turnaround process. They can impair the recognition, interpretation as well as hinder planning and diminish the value of these analyses by creating blind spots (negative routine impact).

**HP 3.5.** Where routines too are considered into analyses, this facilitates a deeper understanding of the company and can provide an additional point of departure for turnaround actions (positive routine impact).

**HP 3.6.** Routines limit the development of immediate turnaround actions, formulation of the turnaround strategy and itemization of the identified turnaround actions. By imposing constraints on the information search, planning and decision processes, routines limit the diversity of turnaround actions. In addition, the alteration of routines causes costs that must be factored into the evaluation of actions (negative routine impact).

**HP 3.7.** During implementation, routines foster resistance and can delay or even prevent the completion of actions. Routines can raise three different kinds of barriers: rational, emotional and psychological antagonisms (negative routine impact).

**HP 3.8.** Routinizing the turnaround process is advisable. At a time when the pressure to act is great and resources are scarce, routines can set resources free, reduce uncertainty and increase the efficiency of turnaround management (positive routine impact).
6. Conclusion

The eight impact mechanisms that we have identified for routines translate into 15 distinct effects of routines in a turnaround. These effects are summarized in figure 7:

![Figure 7: Impact mechanisms of routines and their effects on the context, content and process of turnaround management](image)

We can conclude that routines influence turnaround management in a number of specific ways. They can be a source of inertia. This is one reason why turnarounds often fail and are usually very hard to implement. In-fighting, resistance, struggles, stress, anxiety, pronounced uncertainties, coordination difficulties, efficiency losses, blind spots and so on will always be part of the turnaround management landscape. All these phenomena were observed at the two companies we studied and are well known problems with which turnaround experts simply have to come to terms. The routine perspective offers a new way of understanding them, however. From this perspective, it is possible to identify one of the root causes that are impeding turnaround. If they are not carefully managed, routines are likely to unfold various negative impact mechanisms. Routines should therefore figure on the agenda of every turnaround manager. On the upside, routines also have positive impact mechanisms and create effects that can contribute to the success of a turnaround. Routines facilitate...
learning, add knowledge and foster new skills. They can also contain uncertainty and help stabilize
the organization. That is what routines are good for. The positive impact mechanisms must be
accelerated during turnaround management by identifying routines themselves as objects of change.
How can all this be done, however? First, what is needed is an inventory of the organization's
routines. This map should roughly outline the structure of routines in a company, listing attributes
such as how routinized certain processes are, how many agents are involved, how important each
routine is to the company and how it is anchored in the organization, for example. Routine analysis is
very similar to the function analysis that is often performed in turnaround management situations.
Second, a routine selection system is needed. This system should examine three factors: the reasons
for change (see figure 4), the ways of routine alteration (see figure 5) and the cost of change (see
figure 6). The cost item should include all routine-related costs, not forgetting anticipated expenses
such as the cost of expected emotional resistances or destabilization. Based on a comparison between
necessarily for change and costs of change, it is than possible to assign one of the six alteration
strategies to each routine cluster. Routines than can be managed in line with the chosen alteration
strategy. Conversely, strategies must be selected with due consideration for the specific crisis
situation, scare resources, time pressure and other relevant factors. By factoring routines into the
turnaround management equation and paying close attention to their characteristic attributes, impact
mechanisms and effects, it should be possible to increase the success of turnaround management.

References

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