

TOP-MANAGEMENT IMPACT FACTORS PREVENTING TURNAROUND PROCESSES

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Abstract

The article focuses on identifying the impact factors of top-managers to prevent turnaround processes in times of increasing economic difficulties within medium-sized German companies present on the international market. The data collection for this study was based on conducting interviews and studying the activity of four companies. The main criteria to differentiate the four companies were size, products and services, ownership and market situation. The paper managed to determine different overall valid role behaviors of top-managers to lead companies in a sustainable manner. Increasing international competition, higher shareholder expectations and fast developing international markets position the top-management into the focus for fast turnaround processes. The impact factors of this small but important group of people are the key for long-lasting company's success and a secure way to maintain work places.

Keywords

Leadership, top-management, complexity, sustainability, turnaround, change.

JEL Classification

M10, M16, M19

Introduction

In the current global economy, the increasing international competition and the change of technology force companies to continuously adapt to the environment in which they operates (Schmid et al., 2017; Marquardt et al., 2018). However, not all changes attempts are successful. A significant number of firms are facing the challenge to fail in adapting and as a result they experience serious loss of performance. Therefore, managerial response to organizational performance decline is considered critical in maintaining the survival of a company and to remain a viable business entity (Ketchen and Palmer, 1999; Lohrke et al.,

2004; Lutas et al., 2020). Top managers are often in charged to formulate and implement effective transformation strategies needed to reverse a decline in the organizational performance (Lohrke et al., 2004; Ceptureanu et al., 2018). Such approaches on top management responsibility are frequently encountered in the practitioner community.

Although a higher interest in this topic is from practitioners, the interest in the role of top management in a turnaround context is evolving also in the scientific literature (Ghazzawi, 2018; Liu, 2020). According to Abebe and Myint (2014) despite a significant amount of empirical work in studying the relation between top management and turnaround performance, in general the findings are inconsistent and sometime contradictory (Trahms et al., 2013).

The article focuses on the impact factors of top-managers or top-management teams of German based midsize industrial companies that are acting at an international level in times of increasing economic difficulties. Despite all the problems encountered by such companies, it can be observed that managed to survive on the market. In 2019 a turnover drop of 25% up to 50% in some German industrial companies was noticed. In this situation the implications were imminent lack of liquidity, low capacity utilization, negative results, unstable financial situations, reduction of work schedule job loss or even closing the company. At the same time, there were other companies that managed to succeed as in the previous years, despite of all comparable economic difficulties registered in their industrial sectors.

The purpose of this paper is to present the related top-management impact factors preventing companies' crises and the resulting turnaround processes. The main question to be answered is: "What are the impact factors of top managers to keep their own company on a successful track or at least to prevent turnaround processes?"

Turnaround processes are described as a set of strategic and operational activities for companies that experience poor performances in a period of time to ensure economic survival (Robbins and Pearce, 1992). The top management impact factors are defined based on the interviews that were held with CEOs of four companies, part of comparable industrial sectors.

Research Methodology

The current research identifies the impact factors of the top-management in preventing turnaround processes in companies. The discoveries of the article are based on a selection of four interviews with CEOs of industrial companies acting in the same industrial sector, from a total of 25 interviews with CEOs of companies of different size and from different industries. The interviews were taken through personal meetings in open discussions or by phone, and were planned as an ongoing process taking place over several weeks or months. Therefore, a standardized interview form has not been prepared or used. All interviews were based on a non-disclosure agreement, which restrict to mention among others the name of the company or the name of the CEO. Even if specific market and technology conditions were different between companies, the basic situation and conditions among them were comparable. A long-lasting successful company will be set as a reference model. The general success factors of the other three companies and the role and behavior of their top-managers will be compared to the reference model and the implications will be discussed. The interviews and project analysis took place between April and November 2019.

Market and Industry description

The companies that were evaluated are part of the classical and traditional midsize industrial group in Germany. This industrial group with a worldwide leading market position is one of the biggest German industrial sectors with 6523 companies and a total turnover of 232 billion euro in 2018 (Anon, 2019). This group delivers 3.5% of the Gross Value Added of Germany (Breitkopf, 2018).

The industrial group, and thus the evaluated companies, is characterized by:

- using mechanical engineering,
- having companies with a long history,
- recording a turnover range between 50 - 1000 million euro,
- a number of employees from 250 to 5000,
- a high number of mechanics and engineers from all fields,
- a high impact of the German market,
- generating worldwide exports through subsidiaries, external distributors and agencies,
- long-lasting relationships with customers and their sales partners,
- extensive know-how of markets, products, applications and competitors,
- high technical specialization in a complex environment of technical development, cost effective production, contract risks and effective sales organization with low profit margin,
 - a level of profit from the turnover is between 2-5%, and only in a few companies this can reach up to 12%,
 - worldwide high economic activity for the last decades, registering a high market demand.

Companies' description

Each company included in this study was defined by (1) size (turnover, number of employees), (2) company development (3) market development, (4) ownership, (5) actual situation. All the evaluated companies are operating in the same industrial sector, and the particularities of each company is presented in the following table.

Table no. 1 Specification of the evaluated companies

Company	Employees (2019)	Sales (2019, mil euro)	Business Development (2011 - 2018)	Market Development (2011 - 2018)	Ownership	Actual Situation (2019)
1	2,500	700	++	+	Family	++
2	1,000	400	+	++	Foundation	-
3	800	140	0	+	Family	-
4	800	140	-	+	Foundation	-

Source: Authors' proposal based on CEO statements at the time of the interview

As it can be seen, in the conducted research there were included two companies having family ownership and other two having foundation ownership. There is an important difference in terms of employees' number inside each group of companies. In the case of family companies the difference between them is of 1700 employees, while in the case of those owned by foundations the difference is much smaller of only 200 employees. In order to have a unitary evaluation and to better understand the criteria used in analyzing companies performance, we present in Table no. 2 a detailed explanation of the scale used.

Table no. 2 Evaluation criteria

Item	++	+	0	-	--
Business development since 2011	Growing more than 10%	Slightly growing (1-9%)	Scarce goal achievement	Layoffs of employees	Closing facilities
Market Development since 2011	Fast Growing	Slightly growing	No development	Slightly shrinking	Fast shrinking
Actual Situation	Growing more than 10%	Slightly growing	Scarce goal achievement	Layoffs of employees	Closing facilities

Source: Authors' proposal based on CEO statements at the time of the interview

Top-management role

The long lasting and successful Company #1 will be set as a reference model. The success factors of the other three companies will be compared to the reference model and all the implications will be discussed.

Company #1 CEO Statement:

Vision: Since the beginning in 1960, we have a clear vision. We deliver the highest added technical value and profitability to our worldwide customers. On a regular base, the Top-Management discusses the vision and the values with the Family Board seeking a continuous development of the company on the Codes of Conduct. The negative reporting about plastic waste and plastic ocean pollution is the main challenge of the future. Nevertheless, the vision is unchanged for the last fifty years. Long-term thinking and acting is one of our key success factors.

Values: Economic success, world leadership technology, sustainability, responsibility (both social and of the group management for their success), maximum organic and strategic growth in long-term thinking, and last but not least, passion. We live this values in challenging and generating uncomfortable discussions on all Management levels. We respect the higher potential of every person. Conflict readiness and consensus is necessary on both sides for a sustainable company improvement. All this needs strong trust.

Positioning: We are clearly positioned as the top-specialist in field for specific packaging foils.

Strategy: Organic and strategic development of the company to strengthen our undisputed worldwide technology leadership combined with a long-term customer relationship.

Operation: We are operating on clear, challenging and individual targets for our different group companies. A tough controlling system through the complete added value processes and the continuous improvement process are essential.

Understanding the role of the top-management:

- challenge the vision with the environmental situation,
- controversial discussion partners and ready for conflicts with Family Board and Group Managers,
- strictly devoted to the vision,
- practice a close cooperation between the owner family and the company,

- challenge the group companies,
- support the group managers.

Comparison between the evaluated companies

In the next stage of the research we compared the other three companies with the reference model Company #1. The main comparison criteria used are: vision, values, positioning, strategy and operation. For the comparative analysis we used a comparison grid, presented in Table no. 3, in which there was used the same evaluation criteria described in Table no. 2. In the comparison grid we include also some comments relating to each evaluation factor.

Table no. 3 Comparison between companies

Com pany	Vision	Values	Positioning	Strategy	Operation
1	++ Clear vision to guideline operation	++ Living values which support the vision	++ In line with vision and values	++ Logic aggregation	++ Challenging, supportive and controllable
2	0 Abstract vision available	0 Values are defined on an abstract level	0 No use for market and technology	0 Short term target fulfillment	- Weak controlling and staff management
3	- Statement based on the history. Future orientated vision not available	- Abstract defined values without any practical use	0 Considering in house possibilities w/o reflection of market demands	0 market share improvement without statement to profitability	-- Weak processes, very low profitability, bad internal cooperation, no existing controlling system, poor staff management
4	- General description and unclear intentions	0 Abstract defined values without any practical use	0 Technology leader with little competitive advantages	- No explicit strategy for the future, except to survive	-- Weak processes, no profitability, bad internal cooperation, no existing controlling system, poor staff management

Source: Authors' proposal based on CEO statements at the time of the interview

The four evaluated companies are a part of the well-known German mid-size mechanical engineering industry. All companies were founded by engineers and none of the founders is still alive or any of the family members is active in the top-management. All companies are technology wise on the highest level in their specific field. The specific world-wide market developed almost equally over the last decade.

The comparison grid revealed some evident differences between these companies. In the case of *vision* we can observe a significant difference between Company #1 that has a clear vision to guideline operations while Company #4 has unclear general descriptions of its intentions. Analyzing the *values* it can be observed that only Company #1 has living values which support

its vision while the rest of the companies have a more abstract definitions of the values. In case of *positioning* is in line with vision and values for Company #1 while Company #2 does not use the market and technology at all to improve its position on the market. Discussing about *strategy*, Company #1 has a logic aggregation while Company #4 has no explicit strategy for the future, having only the instinct to survive. The same difference is encountered in the case of the last evaluation factor, the *operation*, where Company #1 has challenging, supportive and controllable operations the other companies have weak processes, very low profitability, bad internal cooperation, no existing controlling system and poor staff management.

Understanding the top-management role

In the next phase of the research the top management role was analyzed. In this regard it was used the same method as in the case of the companies’ results comparison, through a comparison grid (Table no. 4) with the following comparison criteria: challenge and devotement to vision and values; partner for discussion and cooperation with board; readiness for conflicts; challenge, control and support the organization. There was used the same evaluation criteria and also comments were included for each of them.

Table no. 4 Comparison in top-management role

Com pany	Challenge and devotement to vision and values	Partner for discussion and cooperation with the board	Readiness for conflicts	Challenge, control and support the organization
1	++ Accepted	++ Accepted	++ Accepted	++ Balanced
2	- Not accepted	- Role understanding as a recipient of orders	- Low	- Almost no challenges, over supporting, limited controlling systems
3	-- Not accepted	- Role understanding as a recipient of orders	-- Very low	-- Little challenges, no support, no controlling system
4	-- Not accepted	- Role understanding as a recipient of orders	- Low	- No challenges, no support, limited controlling systems

Source: Authors’ proposal based on CEO statements at the time of the interview

The qualifications of the CEOs are comparable. All of them are university graduates, have minimum 15 years of experience in C-Level positions and reached an age of 50 – 60 years. The setting itself of the interviews with the four CEOs were interpreted and became part of the result of this research. For example the CEO of Company #1 was well prepared in all three interviews and we have not been interrupted even a single time. As in the case of result analysis the top management role comparison reveal differences between the studied companies. For the first evaluation factor, *the challenge and devotion to the vision and values*, Company #1 accepted while the other companies does not accepted. When dealing as *partners for discussions and cooperation with the board* the top managers from company #1 accepted

this role while the top managers from the other companies understand this role as a recipient of orders. In case of *readiness for conflicts* the same situation is present, company #1 accepted this role while the other companies have a low or a very low degree understanding this role. For the last evaluation factor, *challenge, control and support the organization*, the top managers of company #1 understand this as a balanced role while top managers of company #4 have no challenges, no support and limited controlling system.

Conclusions

In order to identify the impact factors of the top management in keeping the company on a successful track or at least to prevent turn around processes, there was studied the results of the companies, the CEOs perspective and the role of top-management. The most important observations were: (1) the ownership and the long history of the companies shows no influence on business performance; (2) slow market development can be overcompensated by high performance of the top-management; (3) the positive business development of Company #2 was strongly supported by an intensive market development; (4) CEO as a partner for board discussions is obviously linked to readiness for conflicts; (5) two directional readiness for conflicts seems to support business development; (6) challenge, control and support as well as understanding for process quality is linked to readiness for conflict; (7) lack of readiness for conflict seems to be linked to: a) no or limited controlling processes and capabilities over the complete business process, starting with sales and ending with post order calculation; b) lack of challenges and support to sales organizations.

Finally, understanding the comparison of the four top-management role shows that a clear vision and values supports the partnership between Supervisory Board and top-management. This partnership starts already in the search for the character and the personal strength of the top-manager. Readiness for conflicts in two directions seems to be a major personality characteristic to lead a company to continuous success. Readiness for conflicts leads to clarity in vision and consistent actions. Top-managers with an understanding role as an accepted partner to the Board and a supporter, controller and challenger to the company, needs the readiness for conflicts in all directions. A validation for these results is that in January 2020 Companies #3 and #4 started turnaround processes.

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