

TURNAROUND STRATEGIES FOR DECLINING SMALL BUSINESS: THE EFFECTS OF PERFORMANCE AND RESOURCES

HOWARD S. RASHEED

*Cameron School of Business University of North Carolina Wilmington
601 S. College Road, Wilmington, NC 28403, USA
rasheedh@uncw.edu*

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This study explores the choice between growth and retrenchment as turnaround strategies for small business owners experiencing decline in performance. Current theory related to organizational failure describes deterministic and voluntaristic perspectives of strategic choice, but they have not been applied to small business decline. Using the voluntaristic perspective the proposed model suggests choice is contingent on the effects the owner/manager's perceptions of performance and resource availability during a period of decline. Survey data from small government contractors in the U.S. Small Business Administration database are used to test the model. The results indicate these contractors choose growth strategy when their perceptions of resource availability and past financial performance are both high and when both are low, indicating small business owner/managers remain aggressive when faced with adverse conditions.

Keywords: Small business; turnaround strategy; retrenchment strategy; organizational decline; resource-based theory.

1. Introduction

Many firms experience trends of deteriorating financial performance at some point in their organizational life cycle as a result of market erosion and maladaptive decisions by management. Based on a deterministic perspective, this organizational decline can be attributed to environmental factors while the voluntaristic perspective attributes decline to internal factors, particularly management actions and perceptions. Whether causality is attributed to external factors, internal factors, or both, managers can respond by selecting strategies that redirect resources in an attempt to improve their firm's competitive position.

Management literature related to organizational decline has predominately focused on strategic responses by managers in declining multinational corporations (Penrose, 1959; Ackoff, 1970; Hofer and Schendel, 1978; Hitt and Ireland, 1985; and Wernerfelt, 1984). At the corporate level, these strategic choices are generally classified as growth, stability, or retrenchment strategies. Firms experiencing negative trends of performance typically resort to retrenchment as the likely turnaround strategies (O'Neill, 1983; Pant, 1991; Robinson and Robinson, 1992). Growth as a turnaround strategy has been largely ignored.

Research on turnaround strategies has considered a number of factors that influence the likelihood of recovery. From an external perspective, the firm's competitive environment and the maturity of the industry influences the choice and effectiveness of turnaround strategies (Mukherji, Desai and Francis, 1999; Morrow, Johnson and Busenitz, 2002). The internal perspective appears to be a more dominant view, however. For example, the severity of the financial deterioration and management failure has been offered as a contributing factor to turnaround strategy formulation and likelihood of a successful recovery (Hofer, 1980; Robbins and Pearce, 1992; Chowdhury and Lang, 1996). Lohrke, Bedeian and Palmer (2004) examined the role of the top management team on turnaround strategy formulation and implementation. Among Asian firms, Tan and See (2004) suggested that strategic choice is a function of organizational slack, size, and management's perception of external factors controllability. However, the effects of the degree of deterioration and limits to resource availability on strategic choices for small business owners have not been adequately addressed.

The issue of decline is of particular interest for small businesses, given the exceptionally high mortality rate (Chowdhury and Lang, 1993). Previous small business research has addressed certain elements of decline and failure, but has not been conclusive. In their survey of the literature, Boyle and Desai (1991) concluded that small business failure was generally attributable to issues of management control. Chowdhury and Lang (1993) suggested that the intensity of the performance deterioration (crisis or gradual decline) and resource availability are critical factors in the success of a turnaround effort. Subsequent work by these authors compared recovery rates of small firms choosing either retrenchment or entrepreneurial moves (Chowdhury and Lang, 1996). Their results suggest that a growth strategy is a possible alternative as a turnaround strategy, but retrenchment has better short-term results. What has not been addressed is which factors affect the strategic choice of small business owner/managers experiencing decline.

The current study extends previous research by determining whether the likelihood that small business owner/managers will choose growth or retrenchment strategies when faced with deteriorating performance depends on their perception of resource availability and historical financial performance. This paper first discusses literature related to perspectives of organizational decline, turnaround strategy, and resource-based theory, particularly in terms of small business ownership and management. Next, hypotheses are presented and tested for the effects of performance and resource on strategic choice. The findings should help small business owners make more informed strategic choices when faced with declining performance.

2. Literature Review

2.1. Tale of two perspectives

Two basic theories have dominated the management literature on organization failure. A deterministic perspective in classical industrial organization and organization ecology literature suggests that managers are constrained by exogenous industrial and environmental constraints and therefore their strategic choices have limited impact (Mukherji *et al.*, 1999;

Morrow *et al.*, 2002). A more voluntaristic perspective in organization studies and organizational psychology literature suggests that managers' actions and perceptions are the fundamental cause of organizational failure (Mellahi and Wilkinson, 2004).

From the ecological perspective, Cameron, Sutton, and Whetten (1988) described organizational decline as a two stage phenomenon. The first stage of decline occurs when an organization's adaptation to its domain or microniche¹ deteriorates. The second stage occurs when the organization's financial and human resources begin to diminish. Both stages of decline indicate that the organization has become less adapted to its microniche and is less successful at exchanging its outputs for new inputs. Weitzel and Jonsson (1989) characterized decline as the opposite of successful adaptation to the environment. They suggested that organizations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten the organization's long-term survival. Mukherji, Desai and Francis (1999) concluded that a firm must develop turnaround strategies to match the pressures of its multilayered environment in order to become competitive.

According to population ecologists, strategic decisions differ as the company evolves through the stages of the organizational life cycle (Hanks, 1990). Small firms focus on survival during the start-up phase, and their strategy is limited to making their product or service innovation successful. During the growth phase, small firm owner/managers adopt competitive strategies that can require retrenchment. In the decline stage, growth is negative, products are obsolete or have limited potential, and the organization is inefficient or bureaucratic. Decline is often preceded by ineffective or short-lived attempts at revival, during which small firms focus on internal changes that can be made by reallocating limited resources (Hanks, 1990).

2.2. Size matters

Strategic response to decline is expected to differ for small firms for a number of reasons (Chowdhury and Lang, 1993, 1996). Founders of small firms, at some point, exhibit entrepreneurial characteristics associated with creating incremental wealth and assuming major risks in terms of equity, time, and career commitment. Because they have assumed a personal risk, they are likely to have a different strategic response than the manager of a multinational firm when faced with the loss of their life savings as well as their reputation. In their initial entrepreneurial role as founder, small business owners tend to be leaders who are emotionally involved in a venture, think strategically to create opportunities, and provide the inspiration for sustained momentum (Burton, Ahlstrom and Wan, 2003).

According to the theory of disequilibrium and chaos, small business owners in their role as founder and entrepreneur periodically introduce innovation, thereby creating disequilibrium (Stevenson and Harmeling, 1990). In the decline stage, they often have difficult transitioning from the visionary and aggressive competitor role of founder to the role of professional turnaround managers. When faced with the reality that the failure may be

¹Microniche is defined by Cameron, Sutton, and Whetten (1988) as the product or market domain of the firm.

attributable to their poor management, they may resort to the more familiar aggressive role of innovator (Bruno and Leidecker, 1988). If they fail to make the transformation, either the venture suffocates or the founder does not survive the organizational evolution. When the experience of crisis gives rise to a more rational, planned approach to the strategy-making process, recovery is more likely (McCarthy, 2003).

The other difference for small firms, when compared to large diversified corporations, is financial resource limitations attributable to size and lack of external financing and liquidity (Mahoney and Pandian, 1992). Consequently, strategic alternatives available to small firms are sometimes limited to internal changes that are made through the reallocation of limited resources.

Despite resource constraints and lack of evidence to suggest it is a successful strategy in the decline stage, the question is what factors would cause a small business owner to choose a growth strategy or an "entrepreneurial move" as suggested by Chowdhury and Lang (1996)? Although not empirically validated, Holt (1992) suggested other factors that may influence a small business owner's preference for growth. From the owner/manager's perspective, growth may be necessary to establish an image, increase the firm's asset base, meet competition, improve profits, satisfy the founder's need to head a large organization, or has become essential for survival. These reasons may supercede a rational approach to turnaround strategy formulation.

2.3. Turnaround strategy

Most prior research in the strategic management literature has focused on turnaround strategy when firms are in decline (Schendel, Patton and Riggs, 1976; Hofer, 1980; Hambrick and Schecter, 1983; O'Neill, 1983; Pant, 1991; Pearce and Robinson, 1992). Turnaround strategies emphasize the improvement of operational efficiency through cost reductions and asset reductions (Chowdhury and Lang, 1996). The two principal types of turnaround strategies, contraction and consolidation, are used when a corporation's problems are not pervasive (Pearce and Robinson, 1992). However, researchers have largely ignored the possibility that firms may choose a growth strategy when experiencing declining performance. Chowdhury and Lang (1996) considered entrepreneurial moves, which typically involve growth strategies, as an alternative to retrenchment for small manufacturing firms.

Two basic growth strategies are diversification at the corporate level and concentration at the business level. Ramanujam and Varadarajan (1989) defined diversification as the entry of a firm into new lines of activity, through internal development or acquisition. Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion. Diversification can also be accomplished through external modes such as acquisitions and joint ventures. Concentration can be achieved through vertical or horizontal growth. Vertical growth occurs when a firm takes over a function previously provided by a supplier or a distributor. Horizontal growth occurs when the firm expands products into new geographic areas or increases the range of products and services in current markets. However, much of the empirical research for large firms has focused on diversification strategy.

Previous research of multinational firms has established a linkage between decline and diversification by suggesting that poor financial performance affects the choice of diversification strategy. Burgelman (1983) maintained that the creation of new ventures is often stimulated by deteriorating performance in existing businesses. Ramanujam and Varadarajan (1989) also suggested that a diversification strategy is a likely response to poor financial performance. Tan and See (2004) proposed that firms with organization slack will choose a more offensive strategic orientation. International geographical diversification has also been linked to strategic choice for small firms in difficulty. Specifically, firms that are already involved in foreign business will grow internationally in response to declining performance (Chen and Martin, 2001).

Prior studies have proposed that strategic choice for declining firms is contingent upon past financial performance trends. For example, firms substantially below financial break-even may initiate asset reduction strategies, while firms operating near break-even may implement revenue generation or cost reduction strategies (Hofer, 1980). Robbins and Pearce (1992) also linked strategic choice for declining firms to financial performance. They suggested that as severity of decline increased, retrenchment strategies should progress from cost reduction to asset reduction strategies. Sudarsanam and Lai (2001) also indicated that the intensity of decline was a contributing factor in whether the firm recovered. If severity is a success factor, past financial performance should therefore be considered as a factor in the strategic choice:

H1: *Perceptions of past financial performance influence small firms' choice between growth and retrenchment strategies.*

The resource-based view of strategic management has received a great deal of attention recently as a perspective for understanding firm growth. Resource constraints are a limitation to growth created by the need to balance goodwill, excess capacity and organizational slack (Penrose, 1959). According to Penrose (1959), the growth of the firm is limited only in the long run by its internal management resources. Additionally, it is partly constrained by the requirements for expansionary ventures (Mahoney and Pandian, 1992). Although new managerial recruits increase the growth potential of a firm, training new managers and their integration into the work force occupies the time and effort of existing managers and thus temporarily reduces the managerial services available for expansion.

Resource availability has been suggested as a predictor of strategy choice, particularly in regards to diversification (Penrose, 1959; Ackoff, 1970; Hofer and Schendel, 1978; Hitt and Ireland, 1985; and Wernerfelt, 1984). The traditional concept of strategy suggests organizations establish competitive advantage by effectively evaluating their resources and focusing those resources on the generation of rent² (Andrews, 1971; Ansoff, 1965). Therefore, it is the resources of the firm that limit market choice and profit expectations (Wernerfelt, 1989).

Penrose (1959) classified resources into the following: land and equipment; labor (including worker's capabilities and knowledge); and capital (organizational, tangible, and intangible). Subsequent research by Hofer and Schendel (1978) suggested that a firm's

²Rent is defined as return in excess of a resource owner's opportunity costs (Tollison, 1982).

resource profile combines the following resources and capabilities: (1) financial resources (e.g., cash flow, debt capacity, new equity availability); (2) physical resources (e.g. plant and equipment, inventories); (3) human resources (e.g. scientists, production supervisors, sales personnel); (4) organizational resources (e.g. quality control systems, corporate culture, relationships); (5) technological capabilities (e.g. high quality production, low cost plants). Grant (1991) later added a sixth type of resource, intangible resources (e.g. reputation, brand recognition, goodwill). Chowdhury and Lang (1993) suggested access to financial resources was a determining factor for the success of a turnaround effort of small firms. Consequently, the following hypothesis is offered:

H2: Perceptions of resource availability influence small firms' choice between growth and retrenchment strategies.

In addition to this link between resources and growth strategies, resource constraints have been associated with poor financial performance among publicly-traded firms. D'Aveni (1989) linked decline and resources by defining decline as a pattern of decrease over time in a firm's financial and managerial resources. He concluded that firms may delay or avoid bankruptcy by adopting a growth strategy to support a resource deficient firm. In other words, the strategy choice of a firm with poor financial performance is dependent upon the availability of resources. Chen and Martin (2001) found that the propensity to diversify internationally was contingent on managerial resources specific to foreign experience. As mentioned before, a small business owner/manager's strategic alternatives are limited by the availability of resources, thereby precluding some complex strategic alliances or large acquisitions. It can also be concluded that the result of a trend in poor financial performance is resource constraints. Therefore, this study proposes a joint effect of resource constraints and financial performance on strategic choice:

H3: The perceptions of resource availability will moderate the effect of perceptions of past performance on small firms' choice between growth and retrenchment.

3. Methodology

3.1. Sample

The sample for this research was derived from the United States Small Business Administration's (SBA) database of small businesses that contract with U.S. federal agencies. Firms included in the database conform to the small business standards of the SBA for their respective Standard Industrial Classification Code.

A questionnaire was developed and tested using a focus group of ten small business manager/owners, using questions from the State of Florida Disparity Study. Focus group feedback was used to identify relevant and potentially strong concepts and relationships. The resulting questionnaire was then randomly distributed to 400 firms in the database with a cover letter to introduce small business owner/managers to the purpose of the study and assure confidentiality. Respondents were included in the survey if they were a founder, as well as a current majority owner and a primary manager, based on a survey question. There

were 138 complete and usable instruments returned for an acceptable response rate (34 percent) for limiting the effects of selection error (Yu and Cooper, 1983). The sample was further stratified by considering only firms that indicated their most recent performance period was stagnant or declining, resulting in a final sample of 88 firms. The final sample was compared to the 50 firms eliminated from the study, finding no significant differences in terms of size or industry. As categorized in the database, the proportion of respondents by industry were as follows: professional service (22 percent), non-professional service (23 percent), construction (17 percent), commodities (14 percent), and manufacturing (24 percent). The average size in terms of employees was 35. The ethnic distribution of the sample was as follows: African American (28 percent), Caucasian (25 percent), Hispanic (22 percent), Asian (14 percent), Native American (8 percent), Other/Non-responsive (3 percent).

3.2. Measurement of variables

Consistent with McDougall and Round (1984), strategic choice was measured on a binary basis, as growth or retrenchment strategy anticipated during the next twelve month period of performance. Strategy was coded "1" when they chose a growth strategy (acquiring another company, establishing a new market, or joint venturing with another company). Strategy was coded "0" when they chose a retrenchment strategy (turnaround, divestment, or liquidation). The 20 firms choosing stability were eliminated from the study to ensure better interpretation of the results.

Limited theory exists for developing a measurement scale for manager's perceptions of resource availability. Although objective measures are more popular, Venkatraman and Ramanujam (1986) found a high degree of correlation between perceptual and objective performance measures and concluded that perceptual measures are acceptable operationalizations of business economic performance. Therefore, this paper measures resource availability based on small business owner/manager's perceptions. In keeping with Hofer and Schendel (1978) and D'Aveni (1989), the resources considered were: (1) availability of debt financing; (2) availability of equity financing; and (3) availability of labor. Response options were coded on a Likert-like scale of 1 to 5, with "1" being not very available to "5" being very available. A Cronbach alpha (coefficient = .73) calculated the internal consistency estimates of reliability for the three items and their relationship to the resource availability factor. The sum of the scores for the three items represents the degree of resource availability perceived by the small business owner/manager, with scores ranging from 3 to 15.

Financial performance was measured by asking the respondent whether sales and profits increased, remained the same, or decreased each year over the past three years. Again, perceptual measures are an acceptable substitute for objective measures of economic performance (Venkatraman and Ramanujam, 1986). For both measures of performance — sales and profit — an upward trend was coded three (3), a stagnant trend was coded two (2), and a deteriorating trend was coded one (1). A Cronbach alpha (coefficient = .83) calculated the internal consistency estimates of reliability for the six items and their relation to the performance factor. The scores were summed for sales and profit trends for each year over the three year period, resulting in a potential range of 6 to 18.

Size and industry are often used as control variables to limit confounding effects. In this sample, the effects of size are limited since all firms are classified as small in their respective industry. Research indicates that the change in total market sales may have an impact on business difficulties (Chen and Martin, 2001). In this study, industry effects are limited because firms in the sample derive an average of 28 percent of revenue from U.S. Federal Government procurement, and are therefore not included as a control variables.

3.3. Analysis

Since the dependent variable, strategic choice, was measured dichotomously (growth or non-growth), a hierarchical logistic regression model was used to determine if resource availability and financial performance have a joint influence on strategic choice. The following logistic regression equation (in linear form) suggests the relationship of the variables tested in the preceding hypotheses.

$$\text{Strategic Choice} = a + \beta_1 \text{ Resource availability (R)} + \beta_2 \text{ Financial Performance (P)} + \beta_3 \text{ R*P} + e$$

In this model, strategic choice represents a positive binary variable of growth or retrenchment. The signs of the parameter estimates are expected to be positive for the main effects and the interaction term.

4. Results

Table 1 provides means, standard deviations, and correlations for the variables used in this study. An analysis of the data indicates that none of the variables exceeded acceptable thresholds for skewness (2.0) and variance inflations factors (10.0) suggesting no problems with normality of data or multicollinearity that would violate assumptions for the general linear model (Lomax, 1992).

Table 2 shows logistic regression analysis results for the full and reduced models. In the reduced model, the regression coefficient for the perception of financial performance coefficient is negative and marginally significant ($p < 1$). This result provides limited support for Hypothesis 1. The regression coefficient for perception of resource availability coefficient is negatively significant ($p < .05$) and large, relative to its standard error. This result provides support for Hypothesis 2. The full model includes the main effects as well as the interactive

Table 1. Means, standard deviations and correlations.^a

Variable	Means	s.d	1	2	3	4
1. Strategy	.46	.50	—			
2. Perform	13.56	2.48	.08	—		
3. Resource	6.95	3.46	-.42**	.21	—	
4. Interact	95.23	46.23	-.35*	.57**	.91**	—

^aN = 68.

⁺p < .10 or better, one-tailed test.

*p < .05 or better, one-tailed test.

**p < .01 or better, one-tailed test.

Table 2. Results of logistic regression analysis.

Independent Variables	Parameter Estimates	Parameter Estimates
	Full Model	Reduced Model
Intercept	10.78 ⁺ (2.46)	1.66 (1.74)
Financial Performance	-.80 ⁺ (.59)	.01 (.15)
Resource Availability	-1.64* (.99)	-.29* (.12)
Interaction Term	.12* (.08)	—
Pseudo R ²	13.66%	10.48%
Change in R ²	3.18%*	
Model Chi-Square	9.97*	7.4*
N	68	68

Note: Standard errors are reported in parentheses.

⁺p < .10 or better, one-tailed test.

*p < .05 or better, one-tailed test.

**p < .01 or better, one-tailed test.

term, which is a cross-product of financial performance and resource availability perceptions. In moderated regression equations, a significant interaction term indicates that two or more lines fit the data better than a single regression line. When significant interactive terms are present, their interpretation supercede the interpretation of the main effects (Bedeian & Mossholder, 1994). In the full model, the interactive effects coefficients are negatively significant ($p < .05$) and large in relation to its standard errors. The results support Hypothesis 3, which proposes that the interaction of financial performance and resource availability perceptions significantly impacts the selection between a growth or retrenchment strategy.

In linear regression, the R^2 would indicate the additional variance explained by the interaction term. This analysis calculates a pseudo R^2 in keeping with Aldrich and Nelson (1984). The interpretation of a pseudo R^2 is similar to the traditional R^2 , providing a measure of the quality of fit for the model. The change in R^2 (.0318) between the reduced and full models is significant ($p < .05$), indicating that the interaction term adds significantly to the explanation of strategic choice.

Since there is a significant relationship between the moderator (resources) and both the predictor (performance) and dependent variable (strategy), the model is a quasi-moderating relationship (McArthur and Nystrom, 1991). In other words, resources moderate the form of the relationship but not the strength. In addition to the interpretation of the sign of the interaction, the form of the interaction can also be interpreted. A series of simple regression models were created by entering different values for the moderating variable, resource, in the interactive multiple regression models (Simerly and Li, 2000). Using Cohen and Cohen's (1983) guidelines, one standard deviation above, at, and below the means were used as the high, medium, and low values, respectively, to plot the interactive effects of resources and performance with respect to strategy. Substituting a range of low-low to high-high response values of performance and resource availability into the unstandardized regression equation,

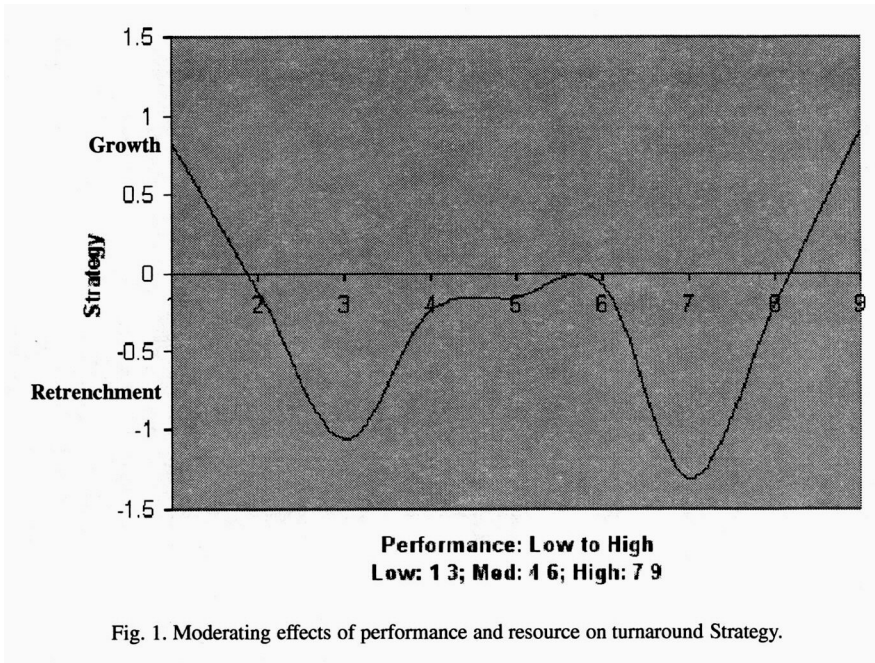


Fig. 1. Moderating effects of performance and resource on turnaround Strategy.

a symmetrical curve results, suggesting that firms are likely to choose a growth strategy at very low and very high levels of combined financial performance and resource availability. This is demonstrated in Fig. 1, since the slope of the curve is not zero.

Specifically, the graph indicates that firms with low performance perceptions (1 through 3) and low resources ("1" on the x axis) will choose a growth strategy (above 1 on the y axis). As resources increase with respect to low performance perceptions (2–3), the likelihood of choosing a growth strategy diminishes. When performance perception is moderate (4–6), the slope nears zero, indicating limited preference for either growth or retrenchment. When performance perceptions are high (7–9), the likelihood of choosing a growth strategy increases as resource perceptions increase (7–9). Specifically, firms with high resource and performance perceptions are likely to choose a growth strategy (9).

5. Discussion and Conclusion

The purpose of this study is to propose and test a model of strategic choice for small businesses in decline. The results indicate the choice between growth and retrenchment strategies depends on the interaction between perceived performance and resource availability. Specifically, small business owner/managers are likely to choose growth if they perceive high levels of past financial performance and perceive that resources are available to support their strategic plan. However, the symmetrical nature of the interaction of the main effects suggest an interesting phenomenon. Firms are also likely to choose a growth strategy if they perceive a very low combination of financial performance perception and resources availability. Although it appears to be counter intuitive, this supports previous findings that small business owner/managers remain aggressive in their strategy choice, even when

performance and resources are poor (Staw, Sandelands and Dutton, 1983). Small business owners may, therefore see growth as their only alternative to severe decline. These results support D'Aveni's (1989) finding among public firms that resource deficient firms near bankruptcy choose growth strategies. These findings also support Burgelman's (1983) contention that deteriorating performance stimulates efforts to create new ventures. Similarly, diversification strategists have suggested a curvilinear relationship between the relatedness of diversification and performance. Finally, these results confirm that turnaround strategies are typically used when decline is not severe (Pearce and Robinson, 1993). Considering other retrenchment strategy alternatives such as liquidation or asset reduction, it is not surprising that small business owners may choose to turnaround through growing rather than fail.

One possible limitation of this study is the representativeness of this convenience sample of small business owner/managers which contract with U.S. federal agencies. Since the study did not control for the degree of public versus commercial market base, this study may not be generalizable to all firms. Secondly, this research does not consider the success of implementing a growth strategy as a response to financial decline. Future research could examine the effects of trends on the strategic choice of small firms in decline using objective financial data, although it is difficult to obtain from privately-held companies. Also, limiting strategic choice to a dichotomy improves the interpretability but lessens our understanding of stability strategy as a discrete choice. Although not directly measured as part of the dependent variable, Figure 1 suggests that firms with moderate performance perceptions (4–6) may choose stability strategies which are implicitly represented by zero on the y axis. Finally, using only declining firms and eliminating firms choosing stability strategies reduced the sample, but the power was still sufficient for a study of this nature (Cohen and Cohen, 1983). Although a mean difference comparison between declining firms and the non-declining firms related to strategy choice did not produce significant results, future research may investigate why not.

Although the generalizability of the study is limited because the convenience sample is small government contractors and predominately ethnic minorities, it still contributes to our understanding of the dynamics of small business owners in decline. Most scholars and practitioners would suggest that embarking on a growth strategy in decline is counter intuitive. Chowdhury and Lang (1996) did consider entrepreneurial moves as a possible strategic response for small businesses. So, is this response unique to small business owners, versus managers of larger firms; or is it unique to government contractors versus commercial firms? Or is it some psychological or sociological anomaly associated with owners from historically underserved ethnic groups? Although anecdotal evidence, the author's observation of this apparently illogical response among small and disadvantaged business owners was the original motivation for this study. If this evidence has any validity it is important for two reasons. One, small business owners should work toward disassociating the decline of their firm with a personal failure. Although no evidence is presented in this manuscript that this is the case, the likelihood of this possibility is common sense. Secondly, small business owners should learn the skills and techniques associated with turnaround strategies. Often large firms hire the "gun slinger" to come in and clean house because it requires a

dispassionate approach that small business owners have either the psychological objectivity, temperament, or business knowledge to handle. Thirdly, small business owners should accept the fact that more sometimes means less. Aggressively going after more contracts often leads the owner/manager to accept contracts with less profit margin or that are beyond their core competences. In this case the hole just gets deeper. Finally, entrepreneurship educators may find it useful to consider growth as an alternative turnaround strategy and explore the psychological dimensions associated with this choice for small business owner/managers.

In conclusion, this study suggests there is merit to analyzing how strategic variables interact in periods of decline. It also should encourage the use of a resource-based approach for predicting how small business owner/managers respond to deteriorating financial performance. Although decline is not always the most popular subject, understanding the context of aggressive or passive strategic choices should help explain the behavior of small business owners when things get tough.

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