



The combination of turnaround management, blue ocean strategies and disruptive innovation as tools in guiding companies in overcoming their recession problems and develop a long- term healthy economic performance

Karaoulanis Andreas
andrekaroul@gmail.com

ABSTRACT

The contemporary financial environment creates several uncertainty obstacles for a variety of companies all over the globe. In order to be able to escape from such distress situations, companies need to develop a certain set of strategies which they should implement in the right way. Blue oceans strategy, turnaround management, disruptive innovation and strategy as simple rules are some of the core strategic approaches the author suggests in order companies to overcome crisis and sustain a long- term healthy economic performance.

Key words

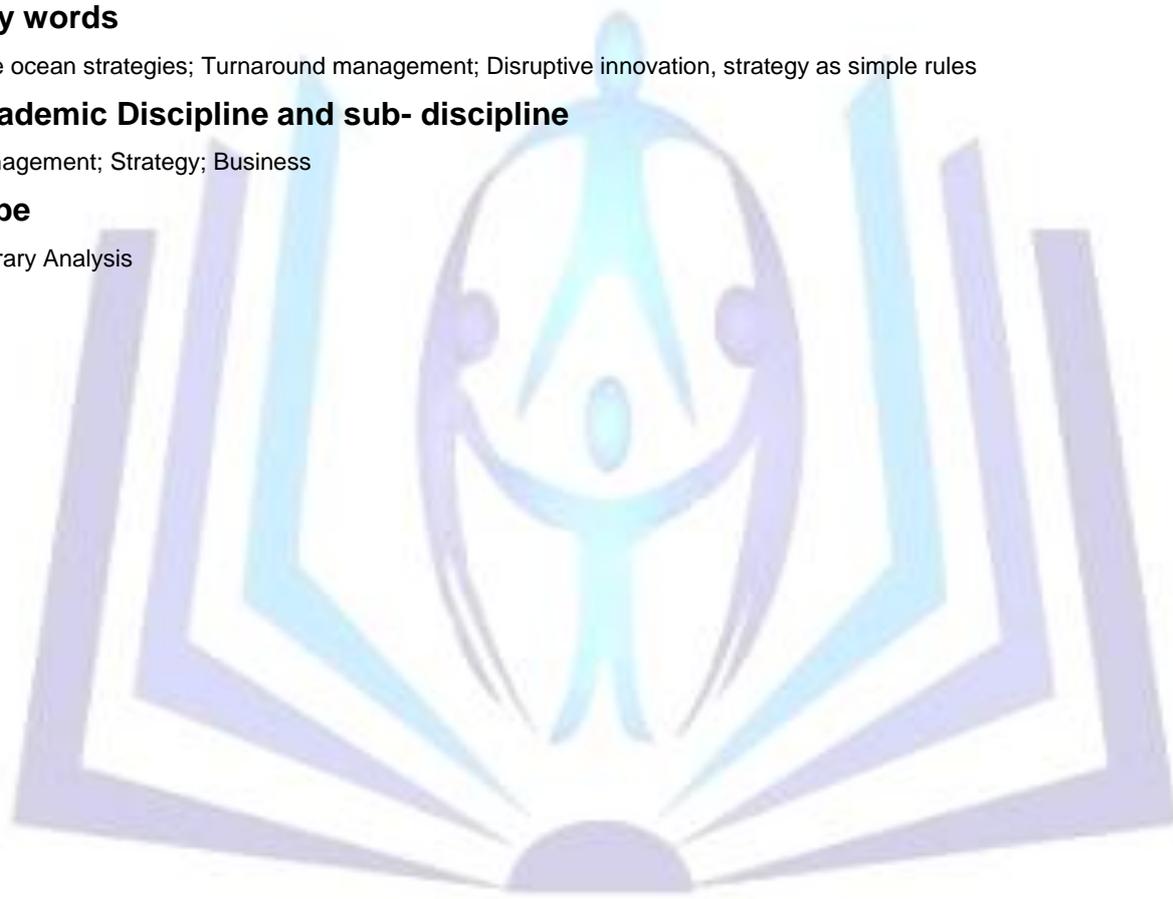
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INTRODUCTION

According to Knight (cited in Kliesen et al., 2013), uncertainty is an unknown risk. In general, uncertainty springs from different kind of sources such as, demand uncertainty, supply uncertainty, competitor's uncertainty and "externalities"¹ (Wernerfelt et al., 1987, p.189). It is important to notice that political decisions (i.e. threat of currency default), unstable governments, and new heavy tax laws, are creating the last years external uncertainty.

FIVE MAIN STEPS FOR OVERCOMING RECESSION PROBLEMS

According to Courtney et al. (1997, pp.75-78), there are four levels of uncertainty:

1. A clear- enough future,
2. Alternate futures,
3. A range of future,
4. True ambiguity.

"In volatile markets, corporate management should focus on processes more than positioning" (Eisenhardt et al., 1997, p.77).

There are several strategic steps companies should take in order to avoid potential threats during recession/ uncertainty periods. These steps are the following:

Step 1: Choose the right analytical tools.

SWOT analysis with a combination of PEST analysis, can help companies to detect their weaknesses (SWOT analysis), while it can scan the businesses environment in order to spot the opportunities needed (PEST analysis). Also by identifying their weaknesses and strengths (SWOT analysis) they should focus on themselves and create the right opportunities. By eliminating weaknesses, they can create opportunities, or by focusing on strengths can open new ones. Creating opportunities in an uncertain environment can be vital. The use of PEST analysis can be helpful in terms of analyzing the Political, Economic, Socio-Cultural, and Technological changes in SMEs' business environment. This can help them understand the forces of change that shaping the market (Mindtools, n.d.). Also, companies, in order to acquire a better insight of the character of the crisis-uncertainty in their market segment, can participate in industry consortia (Courtney et al., 1997, p.77), something which will help them to better analyze the situation.

Step 2: Going lean-make less wastes.

Toyota's lean production system paradigm, with it's the "just-in-time" method (Ohno, n.d.) can be very helpful especially during stressful economic times. By using Toyota's lean system re- developed in order to follow the specific company's needs, companies can eliminate "wastes" which will inevitably lead to bigger, unnecessary inventories. In that way, they can decrease costs, increase quality of service with a faster flow and services to their customers (Ruffa, 2009). Going lean can improve operational efficiency, which is one of the three defensive approaches² a company should use in a crisis-uncertain environment (Gulati et al., 2010, p.67)

Step 3: Use of internet and disruptive technologies.

Following the example of several Greek SMEs during the last ongoing recession, we can easily see that they miss several strategic points in terms of business development and sales. One of these is that many of Greek SMEs, do not have an online sales point. By establishing their internet and-or mobile network of sales, they can, without much expenses which is crucial in so uncertain environments, expand their market share by attracting customers from different locations in Greece. Also, by creating an online tool in order to achieve customer interaction, they can gain a competitive advantage. This "customer as innovator" (Thomke et al., 2002) approach can create waste elimination, customer satisfaction thus customer retention and bigger market share. Greek SMEs should adopt a disruptive innovation approach in e-market. Adopting such disruptive technologies, can help SMEs to confront uncertainty, because they can achieve better customer satisfaction thus customer retention.

Step 4: Investment in new business and assets.

Investing in new assets is being considered to be an offensive approach (Gulati et al, 2010, p.68). For example, when prices for acquiring a store are at their lowest level, a company can buy a bigger and more central positioned store. Also, companies can invest in new adjacent business, i.e. a furniture company can invest into carpets or tapestries selling or other home based accessories. In that way, a "black swan" can be avoided, i.e. when business is going bad in the furniture market, the furniture company can find a grip in its adjacent business sales. Also companies can make incremental investments which could put the company in a privileged position. They can achieve such a posture by joining forces with other companies in the same market fragment. With little investments they can wait until the environment will

¹With the term "externalities", we mean uncertainty due to external factors such as social factors and government intervention(Wernerfelt et al., 1987, p.189)

² According to Gulati et al. (2010, p.67),companies combine three defensive approaches-reducing the number of employees, improving operational efficiency, or both. They tend to combine them with three offensive ones-developing new markets, investing in new assets, or both.



become more certain before formulating their strategy. Such joint ventures should be limited, and mainly in distribution, in order to minimize the risk (Courtney et al., 1997, p.74).

Step 5: Increase customer retention.

According to Best (2014, p.24), the marketing cost of retaining customers, is 5-10 times lower than acquiring them. By increasing the number of retention customers, companies which facing recession will be able to increase their profits and create the basis upon which they can stabilize their sales in such unstable environment. In order to increase customer retention, they should increase customer satisfaction, as there is a strong bond between them (Best, 2014, p.24). For example, due to heavy antagonism and low prices in Greece's constrained market, customer retention springs from better customer satisfaction. Companies in general and especially SMEs should focus more on customer satisfaction in order to acquire a competitive advantage and create more customer value which accordingly will lead to increase company's profits. Retain current customers in such a turbulent and uncertain market environment like Greece's, can create a stable source of profits and monetary liquidity.

USE OF METRICS IN STRATEGY FORMULATION

Some of the available metrics companies can use in order to survive the crisis-uncertainty, are the following:

- **Customers' retention (forward looking marketing metric):** Customer retention = $1 - (1/N)$, N = average customer life (Best, 2014, p.27).

From the above we can see that as customer retention increases, the customers' life expectancy increases exponentially with customer retention (Best, 2014, pp.26, 27).

- **Customers' satisfaction (forward looking customer metric):** Customer satisfaction Index (CSI) = The average of the customer's satisfaction ratings for a sampling of customers (Best, 2014, p.18).

Best (2014, p.17), suggests a six-category scale ranges from "very dissatisfied" to "very satisfied". The levels of customer satisfaction are rated from zero for "very dissatisfied" to 100 for "very satisfied" customers. Finding the CSI, the case company can determine- predict in a degree, the customer's future behavior thus their rate or retention, as high levels of customer's satisfaction generally correspond to high levels of customer's retention (Best, 2014, pp.454, 484).

- **Market Development Index:** Market Development Index (MDI) = $\{(Current\ Market\ Demand) / (Market\ Potential)\} \times 100$.

The MDI, can help the case company to understand the evolution of the market and to measure the market's potential for future growth. For example, if MDI goes beyond 67, although there is a growth potential, this task can be proved to be more difficult than when having an MDI of i.e.33, because the business faces strong forces that impede full market development (Best, 2014, p.92).

- **Variance analysis:** This kind of analysis should be implemented in order to determine the results of the metrics and target the specific sources of potential problems in the company's marketing strategy in order to evaluate the plan's performance.

This is an analytic tool the business can use in order to break down the Net Marketing Contribution (NMC), in order to determine which component is responsible for the marketing plan's behavior (Best, 2014, p.469).

- **NMC** = Volume x Margin per Unit – Marketing & Sales Expenses = (Demand x Share) x Price – Variable Unit Cost) – Marketing & Sales Exp. (Best, 2014, p.469). From the above mentioned equation, which is a fundamental marketing profitability metric, we can calculate the demand Variance, the share Variance, the price and the cost Variances (Best, 2014, pp. 470, 471).

INNOVATING

Nowadays, companies compete ferociously against one another in order to prove and declare their uniqueness instead of struggling to prove their potential superiority (Dawar, 2003). Companies are trying to innovate in order to correlate their potential specific brand name with what their customers have in their minds about their brand (Dawar, 2013). In that way of thinking several brands tend to launch a specific image creation which correlates their brand with an abstract image of a specific brand quality they want to demonstrate in order to gain their competitive advantage.

But this is not the only way innovation tries to create a competitive advantage. Customers have specific considerations while trying to purchase a product. These considerations usually are costs and risks over the entire purchase, consumption, and disposal cycle of the product (Dawar, 2003). In order to understand their customers' needs and try to solve their potential problems, many companies innovated in several ways in order to give to their customers' what they wanted and gain a bigger market share.

The example of Hyundai during the great recession of 2008- 2009 which introduced a risk- reduction guarantee to target their customers' concerns, which was the fear of losing their jobs or income, is prevalent and signifies the importance of innovation solving customers' problems (Dawar, 2013). As Dawar underlines, Hyundai, instead of offering a price reduction as other automobile companies was doing, offered to its potential customers a risk- reduction guarantee which said "if you lose your job or income within a year of buying the car, you can return it with no penalty to your credit rating" (Dawar, 2013).



THE SIMPLE RULES OF STRATEGIC DECISIONS

According to Eisenhardt et al. (2001), there are times when managers need to jump into chaotic markets in order to probe for opportunities. To build successful forays and shift flexibly among opportunities as circumstances dictate. In order to do such moves, managers recognize the need of simple rules to guide them through the chaos. This is where the simple rules idea was born.

While in traditional strategy the competitive advantage, companies strive so hard to acquire, comes from exploiting resources or stable market positions, in strategy as simple rules, advantage comes from successfully seizing fleeting opportunities. This simple rules as strategy, according to Eisenhardt et al. (2001), fell mainly into five broad categories, which are the following:

- ✓ **How- to rules**, which keep managers just organized enough to seize opportunities,
- ✓ **Boundary rules**, which sometimes delineate boundary conditions that help managers sort through many opportunities quickly,
- ✓ **Priority rules**, which can set priorities for re- source allocation among competing opportunities,
- ✓ **Timing rules**, which can help companies to be synchronized with emerging opportunities and coordinate the companies' various parts to capture them,
- ✓ **Exit rules**, which help managers pull out from yesterday's opportunities.

(Eisenhardt et al., 2001).

As Warren Buffet said "Chains of habits are too light to be felt until they are too heavy to be broken." (Maltoni, n.d.). According to Maltoni (n.d.), simple rules work due to several reasons, the most important of which are the following:

- ✓ They confer flexibility- to pursue new opportunities while maintaining some consistency,
- ✓ They can produce better decisions- especially when we have limited time frames and a shortage in information, simple rules makes it easy for managers or even simple people to take sound decisions.
- ✓ They allow the members of a community to synchronize their activities- by using such simple rules, community, or company members etc., can achieve things that under different circumstances could be far more difficult to achieve.

Although simple rules are not a panacea in problem solving and strategy implementation, they can be very handy in several ways and even help marketers escape from very difficult and frustrating situations, while they can offer them the way to embrace new successful opportunities throughout a chaotic market momentum which under different circumstances can take them to the verge of disaster.

Eisenhardt et al. (2001, p.116) argues that their perspective is more useful when markets are in a chaotic state. They believe that rules can drive companies to competitive advantage but not all the rules and certainly not so many rules. Managers should establish an equilibrium between rules and knowledge of how and when to act. Timing is important (Eisenhardt et al., 2001, p.112).

It is also important to underline that according to Eisenhardt et al. (2001), rules are not a panacea. On the contrary, although companies should follow rules religiously, strategists should know when the right momentum is to change them. This is a point of congruence between them and Porter, as they all see the great role of managers-strategists. As Porter indicates (2008, p.79) "The job of strategist is to understand and cope with competition", which in simple words means that strategists should have the first and the last word in implementing the right company's strategy.

Dawar (2003) is trying to describe how companies can achieve competitive advantage by focusing downstream to their customers. So Dawar is more focused in just one direction.

TURNAROUND/CHANGE MANAGEMENT

As Kraus et al. (2013) indicated, today's quickly changing economic environment increases the possibility for many companies that during their lifetimes it is probably to face an economic crisis themselves too. If such a situation will take place, companies need to be able to identify the crisis as early as possible in order to develop the right "weapons" to use and get out of the crisis stronger than before (Hauschild, 2008, cited in Kraus et al., 2013).

According to Eisenhardt et al. (1999), patching is the strategic process by which corporate executives routinely remap businesses to changing market opportunities. This is a crucial process when markets are turbulent (Eisenhardt et al., 1999).

Lenahan (2006; 2011; 2005), underlined that maintenance is the "sum of activities performed to protect the reliability of the plant", while with the term reliability of a plant, the author implies "a plant that is available when required and capable of performing to designed specification economically and safely for the life of the plant". It is obvious from the above that maintenance is the step which prevents the company from reaching turnaround management. According to Neil Harvey (2011), who quotes Goodman's definition of a turnaround: "A turnaround is to produce a noticeable and enduring improvement in performance, to turn around the trend from down to up, from not good enough to clearly better, from under achieving to acceptable, from losing to winning." What springs from that definition is that almost any company can be said that is in a turnaround phase (Andrews, n.d.).



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This perspective is in accordance with what Eisenhardt et al. (1999, p. 79) dictates "if senior executives adopt the patching mind- set- in other words, if they assume that organizational change is frequent, routine, and mostly small in scale- and also develop an infrastructure that supports a fluid organization, then they can start to patch as market opportunities arise".

Boyne (2002, cited in Beeri, 2012), classified turnaround management strategies (TMS) into 3 categories (3Rs):

- ✓ Retrenchment strategies which enhance efficiency and stability via selling assets and cutting back on unproductive activities to free up resources that can be re- invested in more productive ones (Boyne, 2006, cited in Beeri, 2012),
- ✓ Repositioning strategies which involve proactive activities that emphasize growth, cost effectiveness and innovation (Robbins and Pearce, 1992; Boyne, 2004, cited in Beeri, 2012),
- ✓ Reorganization strategies which involve replacing key leadership figures, shifting or replacing non- leadership personnel, changing the organizational structure or rethinking the organizational culture (Walshe et al., 2004, cited in Beeri, 2012).

According to Obiajunwa (2013), there are several skills needed for the successful implementation of turnaround management. The most important of these skills are the following: resource allocation skills, communication/presentation skills, decision making skills, technical and computer knowledge, contract and quality management skills, risk management and human resources skills, budgeting and cost management skills, supervision of others skills.

BLUE OCEAN STRATEGY

According to Kim and Mauborgne (2004), every corporate manager need to realize that the business universe consists of two distinct kind of space, which are the "red" and "blue" oceans. Red oceans represent all the existent industries today, while blue oceans represent the unknown market space. The industries that meant to be discovered in the future.

As Kim and Mauborgne indicated in their essay "Blue Ocean Strategy" (2004), there are two ways to create blue oceans. Companies can give birth to new market spaces- completely new industries, while, the most common way, is to create a blue ocean from within the existing industry (red ocean) by altering its boundaries. The second case is the one that the author suggests to examine in this PhD research project.

Kim and Mauborgne (2004), underline that there are 5 elements of the Blue ocean strategy, which are the following:

- ✓ Create uncontested market space
- ✓ Make the competition irrelevant
- ✓ Create and capture new demand
- ✓ Break the value/cost trade off
- ✓ Align the whole system of a company's activities in pursuit of differentiation and low cost.

As Johnson et al. (2008) indicated in their essay "reinventing your business model", changing in organization level is not an easy thing. In fact the authors are extremely absolute in their opinions when they stated that "pursuing a new business model that's not new or game- changing is a waste of time and money" (Johnson et al., 2008). This underlines of the importance in the creation of something new, a blue ocean, but also indicates how complicated and difficult this might be.

CONCLUSIONS

As the very rich Chinese language indicates, the word 危机, stands for both crisis and opportunity. This means that there is always a solution even for the most difficult/ complicated problem by proposing the proper scientific approach which will spring as the result of the right implementation of certain important strategy implementations, such as turnaround management, blue ocean strategies, MCSs, simple rules in decision making, innovation etc .Certain metrics can help companies in order to acquire a better icon of the market and guide them thru recession via a safe path.

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Andreas Karaoulanis, MBA, MsEng is currently working in the banking sector in Greece. He has an MBA degree in Industrial Management and Economics from Blekinge Institute of Technology in Sweden and a MSc in Engineering from Aristotle University of Thessaloniki. He is very experienced after 25 years of working in several industries like engineering, banking, retail and consulting. He is a Linked In blogger with many managerial posts.