

## CEOs CHARACTERISTICS, ORIENTATION OF TURNAROUND STRATEGY AND CULTURAL DIFFERENCE: A CONCEPTUAL REVIEW

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**Abstract:** This paper aims to discuss the logical relationship of CEOs characteristics and the orientation of turnaround strategy. As argued by Hambrick and Mason (1984) that top leaders characteristics determined their decision on choosing specific and particular strategy, this article proposed that different traits of leader will lead to distinct approach on how they were pursuing turnaround strategy. Furthermore, this study also proposed that CEOs should consider cultural contingency of their employees. Using five dimension of cultural dimension which established by Hofstede, several approaches were proposed on how CEOs should consider their style.

**Key words:** *Turnaround Strategy, Strategy Orientation, Cultural Differences, Leaders Characteristics.*

### INTRODUCTION

Research on turnaround strategy has received significant attentions. Scholars have investigated the issue from various perspective such as financial distress, entrepreneurship, operational management, and among others. However, limited studies were found investigating turnaround strategy from the perspective of top leader (i.e. CEO), especially along with the interaction of CEO style in leading turnaround process in contingent with cultural differences. Hambrick and Mason [1] have argued in upper echelon theory that top leaders have significant roles on determining organizational outcome. Their power were used in decision making, and in turn affecting organizational performance. The decisions were generated based on CEO's judgment regarding expected outcome of alternatives and their interpretation of organizational environment [1]. As conclusion of the theory, Hambrick and Mason [1] stated that organization is the reflection of its top leaders.

CEO's judgment and interpretation were generated through filtering and analysing process of surrounded information. The process were highly depended on their own bounded rationality. The concept of bounded rationality stated that everyone cannot using all information because of their limited ability to comprehend the information, limited of information it-self, and resources needed to analyze and use every information [2].

According to those limitation, CEO's tend to use relevant information which determined by their background. Decision to pursue turnaround is a strategic decision, it is not only needed an approval from CEO, but also required CEO to provide sufficient guidelines on implementing such decision. It can be said that CEO has responsibility to ensure that company has sufficient and clear plan on how they will implement turnaround strategy. Furthermore, most problems found with failing turnaround process is how the leaders deal with implementation tactic [3, 4]. Since implementation of turnaround required radical change on how people work within organization, most failed turnaround were subject to lack of cultural consideration of its employees [5].

Background of leaders played imperative role in formulation stage of certain strategy [6]. Leaders' educational background, functional background, tenure, and other experiences were shaping leaders' bounded rationality [2]. Such dimensions were interacted and influenced their interpretation and judgment to choose particular strategy. On the other hand, internal alignment between strategy and organizational architectures in implementation stage was highly depended on how leaders orchestrating their tactical move in line with organizational structure [7]. Such attempt need cultural knowledge and skill in order to align the strategy with its implementation.

This paper discussed how the different of CEO's characteristics could and might resulted in

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specific kind of turnaround approaches. Some theoretical assumption will be used to generate the argument. Review on previous researches will also include to strengthen the argument. Using exactly similar approach, this paper attempted to provide general tactics to aligning implementation stages on turnaround strategy with consider to specific countries cultural differences.

Cultural dimension theory explained that each countries could be differences in six dimension of culture which is power distance, individualism-collectivism, masculinity-femininity, uncertainty avoidance, long term orientation, and indulgence [8]. They had analyzed various countries and resulted countries specific score for each dimensions. However, in order to make relevant and focused discussion, this paper limited the analysis on power distance, individualism-collectivism, uncertainty avoidance, and masculinity-femininity. Those three dimension are believed closely related on how CEO could lead implementation stages of turnaround strategy.

## REVIEW OF RELATED LITERATURE

Turnaround strategy is attempt that companies take when dealing with turnaround situation. The situation was indicated by substantial decreasing of performance for a certain period. Some scholar used Altman Z-Score to measure turnaround condition [9, 10] few other used comparison of economy indicator (free-risk interest rate) with company's performance [11]. Francis and Desai [11] suggested that companies could be on the turnaround situation if its return on asset are below free-risk interest rate for two to four consecutive years. Despite of diverse method to indicate turnaround condition, scholars agreed that companies need to initiate substantial change to catch with poor performance.

Turnaround strategy has received many attention in the stream of strategic management research. The concept has been conceptualize in various definition. Turnaround strategy was conceptualize as concentrated companies' attempts for certain periods to change or recover companies' competitive resources in order to aligning those with competitive environment [12]. Another argued that turnaround process should implement and achieve its objective in quickly in short time period because its nature was catching up with current changes [13]. Hence, the implementation such strategy needs high intervention from top leaders through resources allocating in specific and focused recovery field.

Since its need to get direct from top leaders, turnaround result should depend on how leader maintain the process – formulation, implementation, and control. Scholars suggested that characteristics of top leader have powerful

association with how they decided and implemented strategy [12]. Such characteristics will influence interpretation of top leaders on judging organizational environment. Hambrick and Mason [1] explained the logic of such relationship in upper echelon theory. Furthermore, the said that demographical characteristics such as tenure and functional background will lead leaders to the specific judgment and the likelihood of using particular strategy orientation.

Tenure was been argued as the proxy of amount of experience. Leaders who have long tenure indicate significant experience within particular continuum. Tenure could be categorized as tenure in position, tenure in organization, and tenure in industry. Each are distinct and has been argued having specific implication on organizational outcome. Tenure diversity often seen as disparity among top leaders, reflected distance and range of experiences among team. Tenure was associated with change and innovation. Scholars argued that short tenure leaders have positive association with change and innovation. In the other hand, long tenure was closely related to status quo and stability.

Functional background was posit as a representation of leaders' expertise. Particular background such as production, finance, marketing, law, accounting, and general manager will shape cognitive style of leader in choosing source of information. CEOs with previous experiences in production usually will consider production data as primary information in making decision. Such behavior determined filtering process by focusing, or sometime overnighted on particular function. Afterward, the filtering process will determine leaders' interpretation.

Scholars have classified functional background into two categories of output oriented and throughput oriented [2, 14]. First category closely related to output performance such as sales, budget efficiency, revenue, and among other. Such orientation usually related to marketing, finance, research and development, and sales functional background. On the contrary, throughput functional background identified as the orientation that does not directly related on final performance, yet focusing on operational process within organization. This category usually contains of law, operation, production, and accounting functional background.

### *CEOs Characteristics and the strategy choices*

Mile and Snow [15] proposed four categories of strategy which is prospector, defender, analyzer, and reactor. Those types reflect orientation of companies in relation with their competitive environment. A prospector companies associated

with highly innovative either in product or in action.

characterized with constantly seeking new markets or opportunities. On the contrary, defender strategy tend to protect their market by serving its current customers and maintaining stable growth. Companies who follows analyzer were fall between the continuum of prospector and defender. They tend to careful in executing new opportunity while in the same time keeping their current markets. Finally, companies with the reactor orientation have no consistence approach since they were only reacted to the environment and failing anticipate new trends. This strategy was associated with poor performance [15].

Since turnaround strategy is a company's recovery actions, the four of categories should fall

**Table 1. CEO's characteristics and strategic choices**

No	Variables	Indicators	Strategic Approaches
1	Organizational Tenure	Long	Defender
		Short	Prospector
2	Functional Background	Output	Prospector
		Throughput	Defender

CEO with high organizational tenure will most likely pursue defender approach in turnaround strategy. High tenure indicate significant power over organizational resources including comprehensive understanding over company's condition. CEO might more concern on their current power and status, and in turn rather than initiating a strategy with highly complex and uncertainty expected outcome, he/she will more likely to choose strategy carefully. Being defender through follow competitors moves is the most rational choices in such condition. Despite of the power consideration, CEO with high organizational tenure will eventually come with defender strategy because of their understanding of the limited resources and organizational competencies. Therefore, CEO would prefer to fix their organization incrementally and carefully. Research found that CEOs in long tenure, especially those above ten years of services, implemented very few organizational change [16, 17].

In contrast to long organizational tenure, CEO with low organizational tenure would favor prospector rather than defender. CEO with short tenure will seek more power and exert to point out his/her existence through initiating innovative strategies. Being prospector will make the presence of CEO significant, so he/she could take advantages of "the romance of leader". Previous studies also noted that CEOs with short tenure, especially those below five years, initiated many organizational change [17]. In addition, short tenure CEO usually

The behavior of prospector companies was

into a relevant attempt with turnaround paradigm. In turnaround process companies could choose to prioritizing its resources and action both for aligning organization with current and future trends or fixing their business process, yet some companies might fall in between. Aligning with current and future opportunity should have close relation with the characteristics of prospector. On the other side, recovering internal business process was similar with defender since the orientation was to recover internal damages. Therefore, strategic choices of CEO's should consider the tendency along prospector-defender continuum.

has limited information of internal condition, and used previous

experiences to make judgment, which in turn might arrive at the unusual interpretation with company's culture. Therefore, according from previous discussion, proposition 1 were proposed as below.

*Proposition 1: CEOs with long organizational tenure will more likely pursue more on defender orientation strategy while CEOs with short organizational tenure will more likely pursue on more prospector orientation strategy.*

Significant amount of experiences from particular functional will influenced filtering process on decision making. Since functional output more focused on market achievement and other companies' final performances indicators, executives from such background will be more concern on information related to such performances. Furthermore, CEOs from output have experiences on linking companies' performance with its external environment such as comparing with industry performance, competitor moves, or other forces that could have influence on final performance. Scholars argued that such thinking could have influenced on action that taken by CEOs [14]. Concerning on external environment usually leads to novel and innovative action. Hence, CEO with significant experiences from output functional background such as marketing, finance, and general management would favor prospector orientation

rather than defender orientation. On the contrary, CEO with throughput functional background such as operational and accounting are more value on the information that related to internal process. Such information will lead CEOs to understand comprehensively about internal constrains and problems. Consequently, CEO from throughput functional background will more careful on responding external pressure. Therefore, such CEO would prefer defender strategy rather than prospector strategy.

*Proposition 2: CEOs with throughput functional background will more likely pursue on more defender orientation strategy while CEOs with output functional background will more likely pursue on more prospector orientation strategy.*

**Contextual consideration of CEO’s style**

Hofstede has done a research on the differences of cultural values among many countries. The study had discover few dimension which use to identify general cultures of each countries. The culture reflected the mind-set of employee, and consequently could be used as contingent of how leaders should approach their employees. Such approach should important for CEOs to consider in the implementation stage of turnaround strategy. Based on the concept of each dimension, the approaches that should be done by leader are explained on the table 2.

Power distance was defined as how much people could accept equal power especially those between leader and follower [8]. High level of power distance reflects acceptance of power inequality among organization and individual. On the contrary, low level of power distance indicated acceptance of power equality among organization and individual. Countries such as Malaysia, Philippines, Panama, and Mexico has high power distance while countries like Swedwn, Costa Rica,

and Australia were among of low level of power distance. Leader usually has significant influence on the high power distance culture, and over arguing with leader in such culture was not common.

Individualism and collectivism were a continuum which reflect a value of social framework and relationship among people. People from individualism culture are expected to take care of themselves while those from collectivism are value tightly knit of social live [7]. United States is a prominent example of individualistic culture, other countries in similar value are Great Britain and Canada. Countries with high level of collectivism are Ecuador, Guatemala, and Panama. Similar with individualism-collectivism, masculinity and femininity were also a continuum. Culture with high masculinity was concern on achievement, heroism, work centrality, and material status. In contrast, femininity was more valued on relationship, cooperation, group decision making, and quality of life [7]. Example countries with strong masculinity are Japan, Mexico, and Austria while those with strong femininity are Sweden, Norway, and Denmark.

Uncertainty avoidance reflect the level of acceptance toward uncertainty and ambiguity. High level of such dimension means that people are not comfortable with unstructured, unclear, and unpredictable work while those with low level have high tolerance with such condition [7]. Greece, Portugal, and Uruguay are among of those that have high uncertainty avoidance. Singapore and Jamaica are among of countries with low level of uncertainty avoidance. Since there are many culture, leaders need to concern on how they practicing their leadership according to specific culture. He/she should adjust their style in line with the culture of their followers.

**Table 2. Leaders’ style on the dimension of cultural differences**

Dimension	Level	Leader’s style
Power Distance	High	Coaching and directive
	Low	Coaching and supporting
Individualism - collectivism	High	Personal reinforcement
	Low	Group reinforcement
Uncertainty Avoidance	High	Directive
	Low	Visionary
Masculinity - Femininity	High	Personal reinforcement
	Low	Group reinforcement

CEOs in the employee culture with high power distance should implement coaching and directive

style. Since the power between leader and member are high, it is difficult to expect that employees will

involve actively in proposing turnaround activity. Moreover, employee will expect their leader to provide them with detail activity that they should follow in turnaround process. Since turnaround is related to change in how people work, culture with both high and low power distance needs to be guided with coaching style in order to adapt with new ways of work. However, employees in low power distance could be more expected to actively involve in proposing detail turnaround activity. Hence, CEOs in such culture should consider more supportive style.

Employees in high individualism culture are more concern on the personal feedback and benefit of turnaround process. CEOs have to consider personal benefit as well as personal reinforcement system on the turnaround process. Employees will seek both financial and non-financial benefit that they will receive as they involve in turnaround strategy. Similarly, they also will more concern on personal disadvantages and punishment system on the process. In contrast to high individualism, CEOs from countries with low individualism need to focus on group reinforcement system. People from this culture usually more engaged in togetherness, so CEOs should maintain social condition and aggregate moral of their employees.

Culture with high uncertainty avoidance favors clear and detail guidance to follow. Abstract vision are not sufficient for people in such culture to get motivated. Hence, CEOs should prefer directive style and provide their employees with detail and clear procedures. On the contrary, employees from low level of uncertainty avoidance will consider vision as challenging objective. They could maintain to work on the low level of certainty, and usually have the ability to adapt quickly to the new situation. Thus, CEOs who working in such culture should consider being visionary to their employees.

Another culture needs to consider is the tendency for masculinity or femininity. Since masculinity was closely related to the achievement, heroism, work centrality, and material status, leaders can use personal reinforcement to motivate their employee. On the contrary, employees who generally hold high femininity value need to be approached with high consideration on relationship and work social atmosphere. Leaders have to provide their femininity employee with good social relationship, group consideration, as well as with group decision-making. More importantly, such employees have high value on the quality of life.

## REFLECTION AND CONCLUSION

Turnaround strategy has clear objective which is recover or renew companies' resources in order to aligning those with changes in environment. This

study suggested that successful turnaround strategy is determined by many factors, CEOs characteristics is among of imperative dimension of successful turnaround process. This argument was relayed on the assumption of CEOs characteristics, strategy and cultural congruent. It means that aligning among those three dimension is more important than just consider on merely CEOs characteristics.

Each companies might end up using different orientation strategy subject to the difference of their CEOs characteristics. This study suggest difference strategy orientation that probably will take by company's leader based on two characteristics of tenure and functional background. CEOs with long tenure might choose defender strategy while those with short tenure probably prefer prospector. Similarly, output functional background will more likely chooses prospector strategy while throughput background will favors defender.

CEOs need to adjust their approach or leadership styles according to specific culture of their employees. Both in high and low power distance, leaders need to coach their employee with new skill and knowledge of targeted outcome. However, high level of power distance required leaders to be more directive while in low level were entailed them to be more supporting. Employees with high level of individualism and masculinity were expected to be reinforced personally. On the contrary, those in the low individualism and femininity culture will prefer group reinforcement. CEOs also need to be more specific on providing tactical action in the culture with high level of uncertainty avoidance while consider being visionary in the contrast culture. This study has several limitation. First, its lack of empirical evidence makes it difficult to generalize. Further research should consider empirical approach to confirm provided proposition. Next, this paper only consider few leadership style while in the reality the approach should be interacted among many style.

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