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# **Organizational decline: A yet largely neglected topic in organizational studies**

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organizational studies**

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## **Organizational decline: A yet largely neglected topic in organizational studies**

### **ABSTRACT**

Well known and reputable corporations, not only the small entrepreneurial firms, also face organizational decline and failure. Albeit organizational decline is a reality, there is a notable scarcity of research on the topic. Organizational decline is more often studied in small companies and attributed to the liability of newness and a lack of a variety of physical, technological, financial and social resources. In this review paper we examine the extant research on organizational decline. Empirically, we conduct a bibliometric study involving citations and co-citations analyses to uncover the connections between authors and theories used. We conclude that evolutionary theories support a considerable number of works, namely on the effects of inertia, isomorphism and adaptation. Sociological approaches have examined the adjustment of the internal structures and actions to enhance positioning. Other research on decline has taken a learning and decision making perspective or focused on turnaround strategies. Noteworthy is also the scarcity of research using a resource-based view (RBV), perhaps because the emergence of the RBV in the 1990s coincided with strategy scholars' decreased interest on organizational decline. Notwithstanding, organizational decline is still one of the core areas of research for organizational ecologists.

**Keywords:** bibliometric study, organizational decline, turnaround, organizational failure

## INTRODUCTION

Wheten (1980) argued that organizational decline was a neglected topic in management studies and noted that “the organizational decline, although of important and fundamental concern to organizations, has been given little attention by research” (p. 577). It is apparent that the majority of business and management studies are biased towards success and successful organizations. As such, business failure and decline is less often delved upon. The extant research on the decline is thus rather limited (Torres et al., 2011). In fact, although some scholars such as Barnard (1938) stated that firms’ main measure of success is their ability to survive, most authors still take growth as the normal condition for an organization (e.g., Penrose, 1959; Scott, 1976; Bedeian, 1980; Ford, 1980).

Hoffman (1989) argued that there are three relevant areas of research in organization decline: organizational decline itself, turnaround and bankruptcy. Examples of these studies include the definition of organizational decline (e.g., Greenhalgh, 1983; Cameron, Kim & Wheten, 1987); the influence of environmental changes on decline and the impact on organizational structure (Zammuto & Cameron, 1985; Sutton, 1990); the assessment of decline on organizational performance (Hambrick & Schechter, 1983; Wheten, 1987; Cameron, Sutton & Wheten, 1988); organizational decline models (Hofer, 1980; Slatter, 1984; Slatter & Lovett, 1999; Bibeault, 1999); and organizational decline related to early events (Altman, 1983; Hambrick & D’Aveni, 1988).

However, despite the research focus on decline mainly up to the 1990s, we are still unable to fully capture the underlying dynamics or explain how and why firms, even seemingly successful firms, may decline (Kimberly, 1976; Cameron & Wheten, 1983; Torres et al., 2011). At least in part, this may be due to a lack of empirical data on declining firms and bankruptcies. In reality, we do not yet know how often firms actually decline or understand the process that leads firms to decline.

In this article we review the extant literature and analyze the theoretical influence in the academic research of organizational decline and related topics (turnaround and bankruptcy, for ex.). In a bibliometric study on organizational decline in six top tier management/business journals -

*Academy of Management Journal (AMJ), Administrative Science Quarterly (ASQ), Academy of Management Journal (AMJ), Management Science (MS), Organization Science (OS) and Strategic Management Journal (SMJ)* - we examine the theoretical contribution and the most influential authors. We thus seek to better understand the intellectual structure that connects theories and authors (White & McCain, 1998; Ramos-Rodriguez & Ruiz-Navarro, 2004) that have researched organizational decline. Through the citation and mainly the co-citation study we may provide some guidelines for future studies in organizational decline, namely by pointing out the main theories that have been used, gaps in the literature and opportunities for applying other theories are likely to be salient.

This paper is organized in four main parts. First, we present the theoretical underpinnings on organizational decline. We then present the method, procedure for data collection and sample. In the third part, we reveal the results. We conclude with a detailed discussion, identifying limitations of this study, showing implications for theory and practice and pointing out avenues for future inquiry.

### **WHAT IS DECLINE RELATED TO**

Organizations, as individuals, evolve through a life cycle. During their life evolution the organizations must adapt and renew to survive (Chandler, 1962; Scott, 1971). Usually, the life cycle models have four stages: birth, growth, maturity and decline, but sometimes also a renewal or turnaround stage (Greiner, 1972; Adizes, 1979; Kimberly & Miles, 1980; Quinn & Cameron, 1983; Kazanjian, 1984; Miller & Friesen, 1984; Gersick et al., 1997; Pandit, 2000; Hoy, 2006). Organizations that fail to respond may end up in complete failure. Examining decline we are focused mostly on the later life cycle stages, while seeking to figure out why it occurs and why are firms unable to shift path.

The extant business/management research has been largely biased towards assuming that growth is the normal state of organizations (Penrose, 1959, Scott, 1976; Bedeian, 1980; Ford, 1980). This may explain why it is the usually studied topic (Wheten, 1980) rather than decline. Nonetheless, albeit the literature has focused on growth and only marginally

on decline, Barnard (1938) had already noted that firms' ability to survive is the true measure of success.

Organizational decline is usually a direct or indirect topic of research in evolutionary theories, especially in organizational ecology (Barron, 2003; Baum & Shilipov, 2006). There are also specific organizational decline studies, mainly driven by the seminal works from Whetten (1980, 1980a). We will follow these two approaches to review organizational decline related topics.

### **Organizational Ecology and Decline**

Organizational ecology may be conceptualized as a theoretical approach to understand how populations and companies emerge, grow, and decline (Carrol, 1984). Its foundations may be traced to evolutionary theory (Barron, 2003) and organizational sociology (Hannan & Freeman, 1989). Baum and Shipilov (2006) pointed that current research in ecology theory has focused on four distinct levels: intraorganizational ecology, demography of organizations, population ecology of organizations and community ecology of organizations. Considering especially demography of organizations and population ecology of organizations, is easy to understand its influence for studying organizational decline.

According to Singh and Lumsden (1990) there are six approaches to studying organizational mortality in organizational ecology: fitness set theory, liability of newness, resource partitioning, liability of smallness, effects of founding conditions, and the density dependence. Mortality, in this work may be considered as the result of decline.

The fitness set theory from Hannan and Freeman (1977) and refined by niche-width theory<sup>1</sup> in Freeman and Hannan (1983) predicts that specialist organizations would have low mortality rates in fine-grained environments, and in coarse-grained environments for low levels of variability (Benton & Dess, 1985; Singh & Lumsden, 1990). Generalist

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<sup>1</sup> The niche width considers two types of organizations: generalists and specialists. Specialist organizations maximize the environment exploitation and risk to follow the change in that environment. Generalist organizations search for more security and have a lower level of exploitation of the environment (Hannan and Freeman 1977).

strategies would have lower mortality in coarse-grained environments for high levels of variability (Freemann & Hannan, 1983).

Organizational ecology is also concerned with the effect of aging on failure. The work on the liability of newness (Stinchcombe, 1965) states that young organizations should be more vulnerable than large established firms. Young organizations have to learn new roles and routines as social actors in a milieu where available resources are scarce (Baum & Shipilov, 2006). Hannan and Freeman (1984) also complemented Stinchcombe's point of view noting that firms that demonstrate reliability and accountability are favored in the selection process. These organizations must have more reproducibility, and the structural inertia generated is expected to increase with organization ageing. Hence, younger organizations would be more likely to fail than older organizations (Singh & Lumsden, 1990; Baum & Shilipov, 2006).

Resource partitioning is one of the central approaches of organizational ecology (Hannan & Carroll 1992; Carroll & Hannan 1995) "and deals with the population dynamics of competing generalist and specialist organizations" (Vermeulen & Bruggeman, 2001, p. 87). Carrol and Hannan (1995: 217) argued that "increasing concentration enhances the life chances of specialist organizations". Resource partitioning predicts that with a high concentration in the generalist mass market, the mortality of specialists will decrease and the mortality of generalists will increase (Singh & Lumsden, 1990).

Liability of newness is related to small firms propensity to fail (Hannan & Freeman, 1984). Hannan and Freeman (1984) argued that as structural inertia<sup>2</sup> is expected to increase with organizations size, large organizations would be less likely to fail. Small organizations would have several liability of newness manifested, for instance, in a difficulty to raise financial capital, less possibilities to recruit and train their workforce, lower stock of social capital, increasing the possibility of failure.

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<sup>2</sup> Structural inertial theory (Hannan & Freeman, 1977, 1984) states that organizations have difficulty to change strategy and structure quick enough to adapt to uncertain and changing environments.

Founding conditions are also important for firms future development (Stinchcombe, 1965). There are imprinting effects organizational processes that are institutionalized and resist to alteration (Singh & Lumsden, 1990). It means that organizations are shaped by the historically specific resources upon which their founders initially drew (Johnson, 2007). It may be difficult to change and adaption to environmental change increasing the possibility of failure (Baum & Shilipov, 2006), and creating opportunities for new organizations to enter and undermine the established competitors positions (Tushman & Anderson, 1986).

Mortality rates are related to the number of organizations in the population - i.e., to the population density. The idea of density effects over founding and mortality (Aldrich & Fiol, 1984; Hannan, 1986) were based on neo-institutional literature (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Meyer & Scott, 1983) and organizational ecology (Hannan & Freeman, 1977).

### **Research on Organizational Decline**

The extant research on organizational decline is mostly related to organizational decline itself, turnaround and bankruptcy events (Hoffman, 1989). In fact, organizational decline concerns understanding why firms fail, or lose competitiveness, and are overcome by other better succeed firms. To explain these phenomena, the extant research has taken on multiple conceptual approaches. For instance, examining decline as a function of the erosion of firms' resources and capabilities (Cameron, Whetten & Kim, 1987).

Wetzel and Johnsson (1989) noted five different aspects of organizational decline: the reduction of organization dimension (McKinley, 1987), internal stagnation (Whetten, 1980) or lack of efficiency, failure to adapt to the external environment (Greenhalgh, 1983), and as an inevitable phase in the organization's life cycle (Milller & Friesen, 1984).

Various perspectives and objectives have been adopted by researchers in organizational decline. Pandey and Verma (2005) considered that academic studies use two main approaches: examining the factors in organizational decline and turnaround through cross sectional data

(Hambrick & Schechter, 1983; Barker & Duhaine, 1997; Castrogiovanni & Bruton, 2000), and examining various company processes related to decline and turnaround (Van de Ven & Huber, 1990). Santos (2006) suggested that to analyze decline and turnaround we must take into account several facets, such as: the content of the strategic actions (e.g., Hambrick & Schechter, 1983), the context to understand how and why the decline started (Slatter & Lovett, 1999), and the processes used by managers to proceed with successful turnaround strategies (e.g., Bibeault, 1982). The fact is that while some organizations are able to proceed with a successful turnaround, others are not and end in bankruptcy (Hoffman, 1989; Adler & Chaston, 2002).

Studying decline is important to try to predict and foresee those factors that may lead firms on this path (Wheten, 1980). That is, by understanding the early signs, causes and decisions that may lead to decline (e.g., Argenti, 1986) managers will be more likely to avoid it (Pandit, 2000). Authors such as Altman (1983) and Hambrick and D'Aveni (1988), for instance, noted how decline actually begins several years prior to the visible symptoms or actual failure, and that often times managers prefer to ignore or hide decline or at best fail to respond to it.

## **A BIBLIOMETRIC STUDY IN LEADING MANAGEMENT JOURNALS**

### **Method**

The bibliometric method used in this paper was based on Ramos-Rodriguez and Ruiz Navarro's (2004) study on the intellectual structure in the research published in the *Strategic Management Journal*. Our bibliometric study aims to identify patterns and trends using citation and co-citation analyses (White & Griffith, 1981; White & McCain, 1998) but on a single topic: organizational decline. We also add to existing studies by assessing the research published in six leading business/management journals, not in a single journal.

The conceptual support for using citation analysis is that the more often cited documents (including books, articles, reports, etc.) are the most influential for a certain discipline or field of study (Tahai & Meyer, 1999).

The co-citation analysis examines pairs of articles that are simultaneously cited in an article. In essence, articles that are cited together in another article are likely to be related either in terms of the theories, the themes or the authors (White & Griffith, 1981; McCain, 1990; White & McCain, 1998). The raw data for co-citation analysis are the times that selected pairs of articles that are cited together (White & McCain, 1998). Combined with other techniques, co-citation can map the structure of research areas. These pair of works co-cited with other papers of distinct authors, may form clusters of research that tend to share common theoretical or methodological themes (Small & Garfield, 1985).

### **Procedure and sample**

The bibliometric study was performed in six top ranked academic leading management journals (Wingers & Harzing, 2007): *Academy of Management Journal* (AMJ), *Administrative Science Quarterly* (ASQ), *Academy of Management Journal* (AMJ), *Management Science* (MS), *Organization Science* (OS) and *Strategic Management Journal* (SMJ). We searched these six journals using ISI Web of Knowledge's internet portal (available at *isiknowledge.com*). These journals were selected because they are among the top ranked in business/management studies and they are accessible in most university libraries and electronic databases.

The selection of the sample followed three simple steps. First, we selected the journals to conduct the search; second, each journal was searched using a set of eight keywords using the option "topic" in the portal (at <http://isiwebofknowledge.com>). The keywords were: *decline* (with the variations organizational decline and performance decline), *decay* (with the variations strategy decay, performance decay and organizational decay), *bankruptcy*, *failure* (with the variations business failure and organizational failure), *turnaround*, *retrenchment*, *longevity* and *life cycle*. This search procedure seeks to identify articles on decline by identifying the keywords on the title of the articles, the abstracts, the author-supplied keywords and the keywords created (KeyWords Plus). For each article identified we read the title and abstract to guarantee that the content of the article matched our goal. For instance, we excluded articles on M&A and alliance failures, as we were trying to focus on single organization failures. These procedures

entailed the analysis of 16,179 articles published in the entire available online database of the journals (Table 1). The final sample comprises 74 articles for additional analyses.

**Table 1.** The sample

Journal	Period available	Total articles published	Articles on decline	% in the journal	% of sample
Academy of Management Review (AMR)	1986/2009	1,968	7	0.36	9.46
Administrative Science Quarterly (ASQ)	1972/2007	3,338	9	0.27	12.16
Academy of Management Journal (AMJ)	1993/2009	2,820	9	0.32	12.16
Management Science (MS)	1991/2008	5,432	8	0.15	10.81
Organization Science (OS)	1992/2009	869	14	1.61	18.92
Strategic Management Journal (SMJ)	1988/2009	1,752	27	1.54	36.49
<b>Total</b>		<b>16,179</b>	<b>74</b>		<b>100</b>

Source: data collected from ISI web of knowledge. Computations by the authors.

For each article we collected information on the authors, author-supplied keywords and all references used. The data were organized with the software Bibexcel<sup>3</sup>, which permitted us to create the citation and co-citation matrixes. The matrix was the input for the scaling multidimensional multivariate analysis (EMD) with Microsoft Excel 2007 and the statistics software SPSS.

## center of research in international business & strategy **RESULTS**

It is notorious that organizational decline has not been a hot topic on business/management research. Jointly, the six journals considered published a total of 16,179 articles. Only in the SMJ we found a larger number of papers, 27 papers (1,54% of all articles published in SMJ) and in OS 14 papers (or 1,6%) dealing with decline (see Table 1).

The 74 articles in our sample used a total of 3,476 references. Table 2 shows the top 32 most cited works references in the 74 papers of our sample (as in this work are just 74 articles, we decided to show the articles in attachment I).

<sup>3</sup> Available at <http://www.umu.se/inforsk/Bibexcel>

**Table 2.** Top 32 most cited works

#	# citations	References	% citation in 74 articles
1	26	Staw, B., Sandelands, L. & Dutton, J. (1981). Threat rigidity effects in organizational behavior: A multilevel analysis. <i>Administrative Science Quarterly</i> , 26(4): 501-524.	35,1
2	24	Hannan, M. & Freeman, J. (1984). Structural inertia and organizational change. <i>American Sociological Review</i> , 49: 149-164.	32,4
3	21	Hannan, M. & Freeman, J. (1989) <i>Organizational ecology</i> . Cambridge, MA: Harvard University Press.	28,3
4	18	Thompson, J. (1967). <i>Organizations in action</i> . New York: McGraw Hill Book Co.	24,3
5	17	Cyert, R. & March, J. (1963). <i>A behavioral theory of the firm</i> . Englewood. Cliffs, New Jersey: Prentice Hall.	23,0
6	17	Hambrick, D. & D'Aveni, R. (1988). Large corporate failures as downward spirals. <i>Administrative Science Quarterly</i> , 33: 1-23.	23,0
7	17	Nelson, R. & Winter, S. (1982). <i>An evolutionary theory of economic change</i> . Cambridge, Mass.: Belknap Press of Harvard University Press.	23,0
8	17	Hannan, M. & Freeman, J. (1977). The population ecology of organizations. <i>American Journal of Sociology</i> , 82: 929-964.	23,0
9	16	Pfeffer, J. & Salancik, G (1978). <i>The external control of organizations: A resource dependence perspective</i> . New York, NY: Harper and Row.	21,6
10	15	Tushman, M. & Romanelli, E. (1985). Organizational evolution: A metamorphosis model of convergence and reorientation, <i>Research Organizational Behavior</i> , 7: 171-222.	20,3
11	13	Whetten, D. (1980). Sources, responses, and effects of organizational decline, in Kimberly, J. & Miles, R. (Eds), <i>The Organizational Life Cycle</i> , Jossey-Bass, San Francisco, CA, pp.342-74.	14,9
12	13	Levitt, B. & March, J. (1988) Organizational learning. <i>Annual Review of Sociology</i> , 14: 319-40.	17,6
13	13	Stinchcombe, A. (1965). Social structure and organization. In March, J. (Ed.) <i>Handbook of Organizations</i> , p.142-193, Chicago: Rand-McNally.	117,6
14	12	D'Aveni, R. (1989). The aftermath of organizational decline: A longitudinal study of the strategic and managerial characteristics of declining firms, <i>Academy of Management Journal</i> , 32 (3): 577-605	16,2
15	12	Porter, M. (1980). <i>Competitive strategy: Techniques for analyzing industries and competitors</i> . New York, Free Press.	16,2
16	12	Cameron, K., Kim, M., & Whetten, D. (1987). Organizational effects of decline and turbulence. <i>Administrative Science Quarterly</i> , 32: 222-240.	16,2
17	12	Hambrick, D. & Schecter, S. (1983). Turnaround strategies in mature industrial-product business units, <i>Academy of Management Journal</i> , 26 (2): 231-248.	16,2
18	12	Cameron, K., Whetten, D., & Kim, M. (1987). Organizational dysfunctions of decline. <i>Academy of Management Journal</i> , 30: 126-38.	16,2
19	11	Whetten, D. (1980). Organizational decline: A neglected topic in organizational science. <i>Academy of Management Review</i> , 5: 577-588.	14,9
20	11	Bibeault, D. (1982). <i>Corporate turnaround</i> . New York: McGraw Hill.	14,9
21	11	Tushman, M. & Anderson, P. (1986). Technological discontinuities and organizational environments. <i>Administrative Science Quarterly</i> , 31: 439-465.	14,9
22	11	DiMaggio, P. & Powell, W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. <i>American Sociological Review</i> , 48(2): 147-160.	14,9

23	11	March, J. (1991). Exploration and exploitation in organizational learning. <i>Organization Science</i> . 2:71-87.	14,9
24	10	Schendel, D. & Patton, G. (1976). Corporate turnaround strategies: A study of profit decline and recovery. <i>Journal of General Management</i> , 3: 3-11.	13,5
25	10	Kahneman, D. & Tversky, A. (1979). Prospect theory: An analysis of decisions under risk. <i>Econometrica</i> , 47 (2): 263-291.	13,5
26	10	Carroll, G. & Hannan, M. (1989). Density delay in the evolution of organizational populations: A model and five empirical tests. <i>Administrative Science Quarterly</i> , 34(3): 411-430.	13,5
27	10	Henderson, R. & Clark, K. (1990). Architectural innovation: The reconfiguration of existing product technologies and the failure of established firms. <i>Administrative Science Quarterly</i> 35: 9-30.	13,5
28	10	Barron, D., West, E. & Hannan, M. (1994) A time to grow and a time to die: Growth and mortality of credit unions in New York City, 1914--1990, <i>Amer. J. Sociol.</i> , 100: 381-421.	13,5
29	10	Amburgey, T., Kelly, D. & Barnett, W. (1993). Resetting the clock: The dynamics of organizational change and failure, <i>Administrative Science Quarterly</i> , 38: 51-73.	13,5
30	10	Singh, J. (1986). Performance, slack, and risk taking in organizational decision making. <i>Academy of Management Journal</i> , 29: 562-585.	13,5
31	10	Kimberly, J. & Miles, R. <i>The organizational life cycle</i> . San Francisco: Jossey-Bass, 1980.	
32	10	Greenhalgh, L. (1983) Organizational decline, in Bacharach, S. (Ed.), <i>Perspectives in Organizational Sociology: Theory and Research</i> , vol. 1, Greenwich, CT: JAI Press.	13,5

Notes: Works ordered by citation frequency in the 74 articles in our sample.

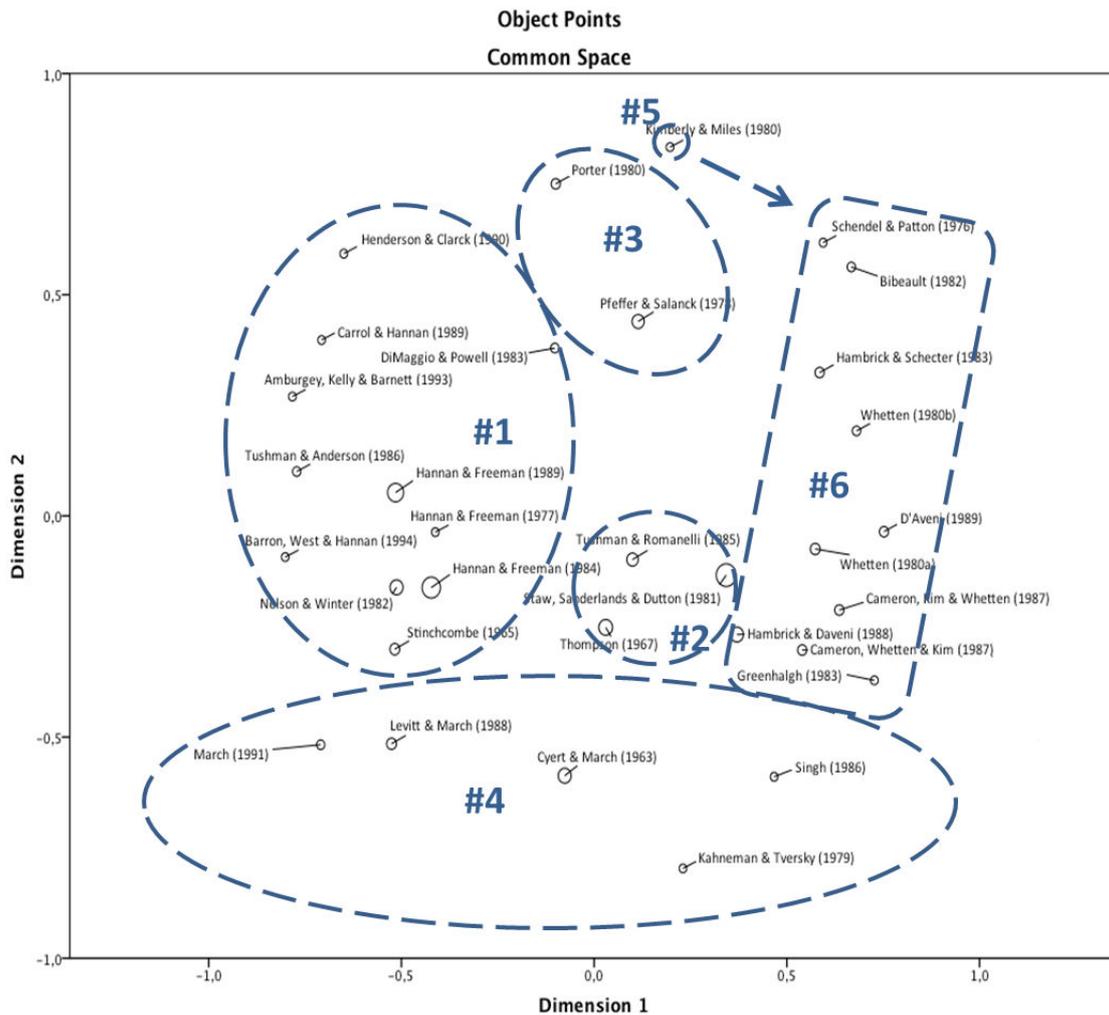
Source: computations by the authors. Data retrieved from ISI web of knowledge.

The works in Table 2 were used to map the clusters in Figure 1. This map shows the co-citation ties. To read the co-citation map note that the proximity between authors reflects the co-citations relations; such that the closer the authors, the more often they are co-cited together. This graphic analysis helps illustrate the structure of the intellectual ties between authors. Figure 1 includes five clusters that are the core themes underlying the extant research on decline.

The first cluster (#1) may be identified with the evolutionary theories, either economic or sociology-based approaches, and is specifically related to works on Organizational Ecology. The second cluster (#2) seems influenced by the work of Staw, Sunderlands and Dutton (1981) on the threat-rigidity response model with an organizational focus provided by Thompson (1967) and Tushman and Romanelli (1985) argument on firms changes. Cluster #3 includes works that support the analysis of the external environment on organizational decline and demise. Cluster #4 comprises significant research on learning and decision making, represented by such works as March's (1991) work on exploration and exploitation, Levitt and March

(1988) and Cyert and March (1963). Cluster #6 and the work #5 on organizational life cycles, is more specific to decline and turnaround, and its works tend to have ties to research on diverse domains.

**Figure 1.** Co-citation map of the 32 most cited articles



### DISCUSSION AND CONCLUDING REMARKS

Whetten (1980), in his seminal article on decline, noted that organizational decline, in spite of its importance, had not received enough scholarly attention. Cameron, Sutton and Whetten (1988) argued that around three-quarters of the academic literature on organizational decline appeared after 1978. Our empirical study confirms that management/business academic interest on the topic basically halted in the 1990s (Torres et al., 2011), at least concerning works directly related to

organizational decline. We also noted how conceptually diverse organizational decline research may be and we will discuss trends and open paths to deepen our actual understanding of how, why and what leads to decline.

In this paper we sought to review the extant research on organizational decline as published in top management journals over an extended period of time. In this endeavor we focused on examining the ties binding theories, concepts and authors. Methodologically, we conduct a bibliometric study and use citation and co-citation analyses. In this manner, we are able to analyze but primarily to complement existing research by noting theoretical trends and future scholarly inquiry avenues.

Our data and results permit us reach some conclusions. First, the small number of works on organizational decline identified denotes that decline is not an often delved upon subject, at least not directly. This may be surprising given the importance of understanding why firms, and entire industries, decline and manners to avoid failure.

Looking at table 2 – that includes the most cited references – we notice the relatively large number of books (11 books out of 32 works). These books are either important and/or seminal works such as Porter's (1980) on industrial organization, Nelson and Winter's (1982) on the evolutionary theory, Hannan and Freeman (1977) on population ecology and Pfeffer and Salancik's (1978) on resource dependence. It is also relevant to note that the most cited work was Staw, Sandelands and Dutton's (1981) article on threat-rigidity effects on organizations. Examining Table 2 we also detect that evolutionary theory works, either with economic or sociological influences, are frequently referenced in organizational decline studies - works # 2, 3, 7, 8, 13, 21 and 22 are representative of the organizational ecology perspective. Other influential works to studying organizational decline include Thompson (1967) on behavior in complex organizations, Cyert and March (1963) on the behavioural decision making within firms, Pfeffer and Salancik's (1978) resource dependence theory and argument that organizations depend on resources and the environment constraints organizations. The co-citation network identified five distinct clusters (see Figure 1). These five clusters

identify the predominant discussions evolving. These clusters are now discussed.

### **Cluster #1. Evolutionary Theories**

Cluster #1, in Figure 1, shows a group of works on evolutionary theories applied to the study of decline. The cluster is mainly dominated by organizational ecology works, mostly influenced by sociology, where some topics such as mortality and liability of newness emerge in the 74 works in our sample. The evolutionary theories seek to understand the dynamic processes underlying organizations new forms, changes and industry life cycles. Evolutionary theorists argue that to understand how and why industries emerge, develop and disappear, the organizational and industrial organizational change processes must be studied (Barron, 2003).

The evolutionary theories in this cluster display two facets: one supported in economic theory (Nelson & Winter, 1992) and other in sociology, such as social ecology (Michael Hannan & John Freeman works, 1977, 1984). Nelson & Winter (1992) emphasized the role of organizational routines for firms to perform their core functions. Ecology works (Hannan & Freeman, 1977, 1984) deal with the relation between organizations and resources in their environments noting the selection pressure and the resistance to change (see also Barron, 2003). This inertia, or resistance to change, is arguably one of the central explanations for why firms' decline. Hannan and Freeman (1977, 1989) studied the possibility of survival between specialist and generalist organizations in different environmental conditions. Carrol and Hannan (1989) argued that the density of companies at the time of founding is related to survival, namely due to a scarcity of resources from which to draw. Stinchcombe's (1965) work is somewhat related in that he notes how organizations are shaped by specific resources from their founders, and his concept of the liability of newness. With the liability of newness Stinchcombe (1965) highlights firms' weaknesses but also that the odds of survival increase with aging.

Nelson and Winter (1992) argued that organizations may be thought of as evolving, and that firms may be seen as a group of routines that build the firms' memory and knowledge base. According to Nelson and Winter (1992) managerial decision making is sub-optimal but, if performance is

under the optimal, changes and search for new routines will occur. The focus and explanation on organizational change and adaptation explains why the Nelson and Winter (1992) is used for researching organizational decline and turnaround strategies.

Other works by Tushman and Anderson (1986) studied the influence of technological changes in survival, competition and uncertainty. While Henderson and Clark (1990) suggested that organizational change can be disruptive or adaptive, and that a possible outcome of change is organizational failure.

Institutional theory also comes into play in this cluster. The work of DiMaggio and Powell (1983) develops the institutional argument that over time firms will tend to resemble each other namely due to mimicry – and it is noteworthy that firms will tend to imitate successful others - and isomorphism. The institutional argument on decline also argues that for organizations to improve their odds of survival they need to gain legitimacy (Barron, 2003).

## **Cluster #2. Organizational Behavior**

In cluster #2 we find the most often cited work - Staw, Sandelands and Dutton's (1981) work on threat rigidity in managerial individual decisions that may lead to organizational decline. In this paper, Staw and colleagues argue that there is a tendency for individuals, groups, and organizations to behave rigidly in threatening situations, and proposed a model of response to threatening effects. This approach leads us to understand firm decline in declining, or hazardous, environments.

Cluster #2 also includes Thompson's (1967) work on how organizations attempt to cope with sources of adversity, actions or changes in structure to improve their position in relation to the external environment. The tie to decline may be traced to the idea that there are specific methods to cope with adversity and improve of the prospects of organization survival.

The work by Tushman & Romanelli (1985) also dealt with organizational evolution. The punctuated equilibrium model proposed by Tushman & Romanelli (1985) is based in the social ecology (e.g., Hannan &

Freeman, 1977) and adaptation (e.g., March & Simon, 1958). The authors argue that:

*"Organizations progress through convergent periods punctuated by reorientations which demark and set bearings for the next convergent period. Convergent periods refer to relatively long time spans of incremental change and adaptation which elaborate structures, systems, controls and resources towards increased co-alignment . . . Reorientations are relatively short periods of discontinuous change where strategies, power, structure, and systems are fundamentally transformed towards a new basis of alignment. . ."*

(Tushman & Romanelli, 1985: 173).

### **Cluster #3. External Environment**

The external environment plays a substantial role on firms' decline. Porter's (1980) work on competitive advantage examines the impact of the external environment, in particular at the industry level, on firms' competitive ability. Pfeffer and Salancik's (1978) resource dependence theory also emphasizes how external resources of organizations effect organizational behavior. In fact, Pfeffer and Salancik (1978) specifically deal with how organizations cope with their external environment, changing their structures and deploying actions involving personnel, production, etc.

### **Cluster #4. Learning and Decision Making**

Learning and decision-making are core approaches to studies on organizational decline (Cluster #4). The works on organizational learning assume that organizations learn with the experience, learn by doing, and also learn how to process changes (Cyert & March, 1963; Levitt & March, 1988). March (1981) and Cyert and March (1963) stated the firm as a complex and adaptive system with internal autonomy and external constraints.

The work of Singh (1986) is related to decision making and slack resources. Cyert and March (1963) defined slack resources as a surplus of resources required to maintain organizations working properly. Singh (1986) refined the concept noting that holding excess resources is directly

related to innovation, risk taking and, consequently, the possibility of decline.

Kahneman and Tverski (1979) developed the prospect theory studying decision making under risk. They argued that the choices under risk are inconsistent with the usual utility theory. Decline and turnaround situations show conditions for decision making under risk.

### **Cluster #6 (work #5). Specific Decline Works**

Cluster (#5 and #6) comprises life-cycle, decline and turnaround works. These works define what decline and turnaround are about, and delve into the content, context and process leading to turnaround. For example, Kimberly and Miles (1980) work represents the organizational life cycle works, and the recognition of decline and turnaround as a phase in firms' life cycle.

Decline has also been associated with such aspects as reduction of firm size, loss of market share, reduction of assets, diminishing profit margins, decreased share prices (e.g., Greenhalgh, 1983). Notwithstanding, in their majority, these are treated as consequences of decline and not as *ex ante* factors that would predictably lead to decline. Other authors argued that decline is related to the retraction of the market and firms' inability to react to shifts in demand (Cameron, Kim & Whetten, 1987). A common aspect to several studies defining what decline is about is the distinction between types of decline. Whetten (1980), for example, distinguished two types of decline: *stagnation*, which is more likely to occur in passive and less flexible organizations (see also Greenhalgh, 1983), and *reduction*, in which there is a loss of market share and decreased competitiveness.

D'Aveni (1989) studied the strategic and managerial consequences of organizational decline, comparing firms in bankruptcy and non-declining surviving firms. He found different patterns of decline and reflected how decline is actually the outcome of past decisions. The consequences reflected threat-rigidity responses. The author argued that bankruptcy might be avoided in environments of growing demand. Moreover, decline is not an event but rather a process (Hambrick & D'Aveni, 1988) and firms

tend to take long to perceive and respond to it, often times preferring to ignore, or hide it.

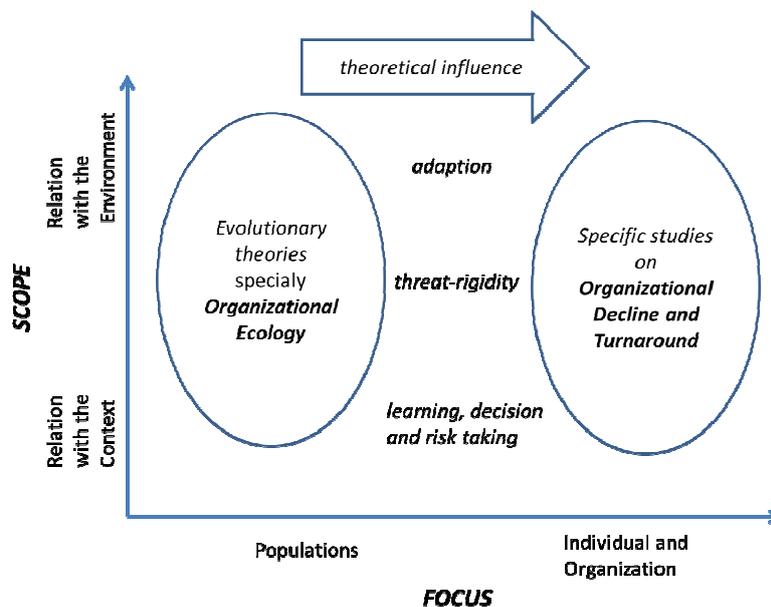
The seminal work on organizational turnaround is Schendel & Patton (1976), where they concluded that turnaround is more related to the managerial actions than to the external environment. In a similar vein, Hambrick & Schechter (1983) studied turnaround strategies focused on improving efficiency and detected three different patterns: asset/cost surgery, selective product/market pruning, and piecemeal moves. Bibeaault (1999) also noted that unsuccessful turnarounds are related to poor management, insufficient financial resources and a weak turnaround strategy.

### Conceptual evolution

How has research on decline evolved and what are some possible gaps that remain under-explored? In the prior analyses we delved into the extant research to observe and interpret the intellectual ties and conceptual themes on organizational decline research.

Figure 2 reveals that there are two groups of influencing works. One, on the left, is mainly comprised by evolutionary theories and particularly research on organizational ecology. On the right, we detect a variety of specific organizational decline subjects.

**Figure 2.** Intellectual foundations of organizational decline research



The *x-axis* represents the **focus** of the theoretical conversation. On the left we encounter essentially populations of organizations, which is consistent with Organizational Ecology research, and on the right we encounter the individuals and the organizations, which is more attuned to a wealth of studies related to organizational decline.

The *y-axis* of figure 2 represent the **scope** of the work, whether related to the organizational context or to the environment. A portion (at the top) of the research has been primarily driven at the influence of the environment and the context of adaption, while other (at the bottom) focused on the threat-rigidities and decision-making processes and hazards.

We may say that evolutionary works, mainly organizational ecology works supports and influence the specific works on organizational decline (the arrow indication). Organizational ecology deals with populations and one of their premises is that one individual company is not able to influence the population as a whole (Hannan & Freeman, 1977). This is maybe one of the main gaps and incentives to study individual or groups of organizations to understand the issues, causes and possible solutions for decline, studied in the specific organizational decline studies. We think there a need for more works like D'Aveni (1989) comparing firms that fail and got to turnaround, or the influence of managerial actions and decisions (Schendel & Patton, 1976; Bibeault, 1999).

Also, some findings of organizational ecology must be studied in individual or small group level for the same reason above. Concepts as liability of newness (Stinchcombe, 1965), liability of smallness and inertia (Hannan & Freeman, 1977, 1984) must be still more related and confronted to other concepts as adapting (Thompson, 1967), threat-rigidity response (Staw, Sandelands & Dutton, 1981), decision making, learning (March, 1991; Cyert & March, 1963) and innovation (Henderson. & Clark, 1990).

Perhaps, the most important area of research in the discipline of strategic management relies in why do firms differ (Carroll, 1993) and why do some firms perform better than others. Different strategic management approaches to tackle this issue. The resource-based theories (Barney, 1991; Teece, Pisano and Shuen, 1997) has been taking a lot of research attention than other perspectives, even than the population ecology perspective

(Hannan & Freeman, 1989), in the search for the sources of firms' competitive advantage. In our case seem to be also a good proposal to use it as a search for better understanding decline and turnaround.

RBV focuses on firm specific resources and understand firms as a 'broader set of resources' (Wernerfelt, 1984: 171). An extension on RBV are the dynamic capabilities (Teece, Pisano and Shuen, 1997). Grant (1991: 119) argue that "While resources are the source of a firm's capabilities, capabilities are the main source of competitive advantage.

Also, the top management team (TMT) may be considered as a strategic resource (Hoskinsson et al., 1999), due to strong influence of their decisions in other organizational resources (Hambrick & Mason, 1984). It reinforces the use of RBV theories and the study of TMT influence in organizational decline.

Also, the organizational ecology theory works usually have populations in the same country, there are a global competition and also regional influences (Fladmoe-Lindquist & Tallman, 1994; Ferreira, Lee & Jang, 2009).

Populations of organizations also decline due to technological innovations, for example, and so it should be studied in individual and group level. The understanding of the decline process (Van de Ven & Huber, 1990; Hambrick & D'Aveni, 1988) will request to investigate the individual and small groups of contrasting companies in depth, what is methologically difficult to do and to generalize. But, could be used to deep the understanding and confirmation of other studies (either organizational ecology, as well as specific works on organizational decline). We will have to use qualitative studies, in depth case studies (Eisenhardt, 1989; Porter, 1991) as well as anthropology and other methods to do it (Mahoney & McGahan, 2007). Reviewers will also need to be fewer skeptics in reviewing and publishing these kind or works.

Finally, there is a growing thinking that we have to understand better the practice of decision making and execution inside the organizations (Mintzberg, 1987). Strategy-as-practice approaches (Whittington, 1996) seem to be a good approach for organizational decline, especially

turnaround works, as it would give the possibility to contribute to better management and strategic decision practice in organizations.

### **Limitations and future research**

This work has some limitations. Perhaps the main limitation concerns the method and specifically the sample. Although we selected six top management/business journals these certainly do not represent the entire stock of knowledge on decline that has been published. Nonetheless, we believe that our sample is fairly representative of the most impactful research but future studies may extend our study to other Journals such as Sociology-specific, perhaps even distinguishing disciplinary emphasis and conceptual lenses. As we noted that organizational decline is an active field of study within population ecologists, there may be other fields of study pushing the boundaries of our current knowledge but it did not yet make substantial inroads into the management literature.

We also noted a somewhat surprising scarce focus on decline using a resource-based view (RBV) perspective. The RBV is one of the core approaches in the contemporary management research and it is likely that we have much to gain from examining decline internally in the firm. The application and extension of the RBV is a fertile ground for future theoretical and empirical research. A third limitation is also methodological. We use citations and co-citations to infer the importance and impact of a given article but without a content analysis we do not know the context in which a certain citation was made. In some instances, authors cite other works to augment on their arguments, in other instances to criticize the work or to contrast it with his own arguments. The limitations of using citation analysis are well known. Future research could delve into a deeper content analysis of the articles published to better assess trends and research gaps.

Future research may even evolve with more of a case study approach. Case studies (single or multiple) and grounded methods are likely to permit a better identification of the hows and whys of decline. Moreover, while we noted the relevance of organizational ecology studies for understanding decline, this view is not sufficient to grasp the causes, and mainly the remedies to successful turnarounds.

Also, there are maybe a lot of studies of small companies decline, but less regarding important and big companies. Even some that has the image of innovative, as the recent case from Kodak decline.

To conclude, decline and related topics, such as turnaround strategies, are still a fairly neglected topic in management research. A majority of the studies dealing with decline were done in 1970s to 1990s and only a few after 2000. The fact is that decline is still an important topic and probably more today due to increased domestic and international competition, and the turbulent technological environment that renders technological and knowledge-based advantages rapidly obsolete. We claim for additional research on decline and with a diverse theoretical support. For instance, using the resource-based view to understand what goes on internally in the firm. There is much to learn from failure but there is also much to learn from firms that are capable of turning around and restructuring from a declining path.

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