

Riding the Wrong Wave: *Organizational Failure as a Failed Turnaround*

Jerry Paul Sheppard and Shamsud D. Chowdhury

This article proposes that a failing organization goes through a sequence of four stages before finally landing in the morass of death. A four-stage model is proposed to describe this journey, which can lead to failure or to turnaround. By categorizing the elements of failure or turnaround, the model explains how the elements germane to each stage, when combined, facilitate the progression of an organization from crippling deterioration in performance to eventual death or to re-stabilizing survival. To support our contention, we focus on the Canadian retail industry, and specifically on the story of the once very successful but now extinct merchandising icon T. Eaton Co. Ltd., contrasting its fortunes with those of fellow Canadian retail survivors Hudson's Bay Company and Canadian Tire.

© 2005 Elsevier Ltd. All rights reserved

The current rage for courses of study in North American universities is crime scene investigation. Based on the popular U.S. TV show *CSI* (Crime Scene Investigation), students are applying in vast numbers to study forensics, and a number of schools that do not offer this course of study are working on developing it.¹ It seems that people are far more willing to study the rather squeamish matter of vicious crime and even murder than to look at the somewhat cleaner, but more far reaching business of organizational death. It is not a topic most researchers will stick with for long before moving on to something else.² Yet some professions take a keen interest in the study of failure as a way to prevent its future occurrence. For example, engineers often study why various structures fail as a way to prevent future problems. Strategy guru Michael Porter notes that '*The reason why firms succeed or fail is perhaps the central question in strategy.*'³ Clearly, closer understanding of organizational failure has as much to contribute to the understanding of strategy as the continued study of success.

There are four essential points one needs to know in order to understand organizational failure:

1. failure is not typically the fault of either the environment or the organization, but rather it must be attributed to both of these forces, or to be more exact, failure is the misalignment of the organization to the environment's realities;
2. because failure involves the alignment — or misalignment — of the organization and its environment, it is, by definition, about strategy;⁴
3. because failure deals with strategy, we can make choices to accelerate it or avoid falling into its clutches;
4. because organizational failure can be avoided even after a decline — rapid or prolonged — the ultimate failure of the organization really stems from a failure to successfully execute a turnaround.

...a firm's management, its environment, and the way they interact each play a role in its ultimate fate

Thus it is critical to our understanding of organizational survival and failure that we recognize that three intertwined factors — a firm's management, its environment, and the way the firm interacts with its environment — all play a role in determining its ultimate fate.

The degree to which managers actually have the ability to turn a company around is a matter of some debate. The management literature has a long history of crediting — or, to be more exact, blaming — an organization's decline and its eventual death on the misalignment of the organization to the environment. This history is rooted in the application of biological analogies by some researchers to the explanation of certain organizational phenomena. For example, the population-ecology perspective focuses on the dynamics of survival and demise of populations of organizations in a way similar to biologists' focus on the survival and extinction of species of living organisms⁵. This perspective stipulates that the characteristics of the species of living organisms and the degree of their adaptability determine survival or extinction. Applied to organizations, the population-ecology perspective implies that, 'organizational forms that have the appropriate fit with the environment are selected over those that do not fit or fit less appropriately.'⁶

The population ecology perspective is not, however, concerned with single organizational units, but with forms or populations of organizations. Accordingly, as dramatic changes occur, the growth patterns of certain existing industries shift and other industries appear and prosper. As a result, the declining population of firms shift focus in terms of product/market offering, or change through merger or through acquisition, or fail.⁷ This comparison of organizations with biological organisms is somewhat simplistic, in that while organizations can change forms in many different ways, biological organisms cannot. Unlike living organisms, some organizations have been able to stave off decline and failure and managed to survive for years, even centuries.

The strategic choice perspective stands in contrast to the population ecology perspective. Works like Levitt's classic 1960 article, 'Marketing Myopia', place blame for organizational decline clearly on managers' failure to properly define and ascertain the conditions of their environment. He argued that increasing population and affluence will not drive demand to

grow indefinitely. It is an understanding of the underlying customer needs that allow organizations to remain healthy.⁸

Levitt notes that when the U.S. railroads defined themselves as being in the railroad business and not in the transportation industry they missed the opportunity to move into trucking and were economically decimated by those that did so. Movie executives who defined themselves as being in the movie industry rather than the entertainment industry perceived television as a threat rather than an opportunity to produce entertainment for a new medium. The failure of executives to align themselves with the changes in customer needs set in motion the decline of once great organizations that existed in these two and in other industries.⁹

As Mellahi & Wilkinson have noted, the population ecology and strategic choice perspectives are not incompatible.¹⁰ While the environment niche occupied by railroads and movies did decline, firm failure in those industries involved defining the environment and selecting segments in which to compete. Had railroads become transportation companies, more of them would have survived. Had movie producers become entertainment makers more of them would have survived and prospered. As noted earlier, because organizational failure involves management — or more precisely, mismanagement — of aligning the organization with its environment, it is, thus, about strategy. While a firm may require nourishment for its survival from the external environment (a population-ecology perspective), the fundamentals for effective survival are crafted, guided, and executed by forces within the firm. This is consistent with the strategic choice perspective, where ‘purposeful enactment’ involves the conscious processes, practices, and actions of key players that combine to form a strategy.¹¹ Thus, if strategy, as one author defined it, ‘...helps to marshal and allocate an organization’s resources... based on... anticipated changes in the environment...’,¹² failing to evaluate the environment properly represents the most fundamental failure managers can make.

Our stars or ourselves: the oscillation between the organization and its environment

What degree of freedom managers may have to save their organizations is, as we have seen, a matter of some debate. Researchers have taken one of two extreme positions regarding the degree to which fate or free will play in shaping organizational destinies, i.e. population ecology versus strategic choice. Where strategic choice views managers as having the ability to execute strategy, modify firm structure, and impact elements of the environment to their organization’s advantage, population ecology assumes that organizational conduct is so constrained by past institutional arrangements that firms are unlikely to change even in the face of a strong need to do so.¹³ While the academic debate surrounding whether organizational failure is the fault of management or forces in the environment,¹⁴ such debate is a chicken and egg problem: we do not know where the cycle starts but simply that it exists. The occurrence of an environmental event will result in a change in the organization’s condition. The combination of such an event with a lack of preparedness on the part of the organization can initiate a decline in its fortunes.

Because organizational failure is the end result of a decline — rapid or prolonged — the organization adapts and learns to address environmental events.¹⁵ If the organization fails to adapt and is weakened as a result, it is more susceptible to future problems. For failing organizations this cycle has been labelled variously as a ‘downward spiral’ to an ‘amplitude.’¹⁶ While experiencing a downward spiral, failing organizations are continually involved in recurring sets of poor decisions that lead them into inferior circumstances. At some point the downward spiral is halted by either a failure or a turnaround. Unless the failure of the organization is the result of some sudden, unexpected and extreme external shock, such as to preclude adaptation, it could have been avoided. And if it could have been avoided, the ultimate end of the organization can be blamed on the failure to execute successfully a turnaround in the declining financial situation.

In a downward spiral, failing organizations [suffer] recurring sets of poor decisions leading them into inferior circumstances

While a spiral implies a uniform path down a slope, an amplitude can change its oscillation: speeding up or slowing down, showing greater or lesser variability. Because of its very lack of uniformity, the notion of amplitude better describes the realities of the failure process, as causes and effects bouncing back and forth between organizational flaws and environmental problems in a non-patterned way to move the organization toward failure (or survival). This view of failure allows us to look at both sides of ‘our stars versus ourselves’ debate on why organizations fail. The impact of 9-11 on the airline industry is an example. Despite an event that was disastrous for the industry as a whole, some firms were in command of their own fate and managed to avoid falling into bankruptcy. For example, short-haul economy carrier Southwest Airlines is still managing successfully in this industry. Southwest was the prototype for other short-haul carriers worldwide. Its regional imitators — e.g. Canada’s Westjet and Europe’s Ryanair—also managed successfully in a post-9-11 world. Those that were able to go through reorganization and remake their companies (e.g. Air Canada) survived. Those that could not, did not survive (e.g. Sabena Belgian). Thus, even in environments where resources are parsimonious, properly positioned companies with the correct strategies can survive through difficult times.

Failure as failed turnaround strategy

The four-stage composite model employed in this paper was presented by the second author in 2002. As he demonstrated empirically, this model is capable of describing the dynamics of turnaround or failure. Briefly, by categorizing the elements of turnaround as three critical requirements (discussed later), the model explains how the elements germane to each stage, when combined, facilitate the progression of an organization from a decline, through crippling deterioration in performance to an eventual death or a re-stabilizing survival.

Other researchers have also used stage models for turnaround or failure.¹⁷ There are two noteworthy problems in the stage models of turnaround that these researchers have presented. First, because of an absence of the meaning of process in such models, the authors’ references to process can be subsumed under an individual’s unknown perception of the construct. In other words, one author’s perception of process may be construed as content by another. Second, researchers do not justify the number of stages they propose: since the number varies from one to another, such stage models prove difficult for researchers to compare. Thus while other models are insightful in their own right, four compelling reasons encouraged us to adopt Chowdhury’s four-stage model for the demonstration of Eaton’s failure.

The first rationale for employing the four-stage model is that the model possesses a theoretical consistency with process theory. This model elucidates the sequence of events that culminate in a declining firm’s failure (or survival) and thus complement the causes and contexts of the event. Process here is the sequence of actions, incidents, or stages that describe how things change over time and why they change in this way. Process can be used in three different ways: (1) as a logic to explain causal relationships between dependent and independent variables in a variance theory; (2) as a category of concepts referring to actions of individuals and organizations; and (3) as a sequence of events describing how things change over time and why they change in this way.¹⁸ Thus, it is important to specify the exact meaning of process in any study of a particular organizational phenomenon. Of these three meanings, the one that focuses on the sequence of actions, incidents or stages over time was employed in the development of this model.

The second rationale for employing the four-stage model is that the model requirements suggest the hierarchical structure of *incident*, *event*, and *concept*. In each stage, incidents are compressed

into theoretically meaningful events that are then compressed into a few core concepts whose sequential linkage aids in explanation of how failure or turnaround occurs. Despite the hierarchical order, there is a range of types of relationships in the model — e.g., though some *incidents* are nested within a particular *event* on one level in one stage, others may be nested within another event on a different level in the same stage. As *incidents* and *events* may occur concurrently at different levels of analysis, it is difficult to determine their exact relationships across the hierarchy in any given stage. This may explain why no similar sequencing of events is likely to be observed in all failures because of the idiosyncrasies of such interactions. Thus, the model provides for a mechanism to incorporate such idiosyncrasies or contingencies in the explanation of failure or turnaround.

The third rationale for employing the four-stage model is that the model's concurrent nesting of incidents and events better depicts links and strategy flows at various levels. The application of a process model exclusively to a single business unit can be a problem due to the latter's restricted range of options with respect to certain corporate strategies such as diversification.¹⁹ Strategy changes at the corporate-level usually bring changes at the business-level. Such strategic coherence entails multi-level analysis, and so makes it hard to separate strategies related to one level as against another. Since strategies have 'fluid' characters that spread out over time and space, a clear-cut delineation of strategies or their effects proves difficult.²⁰

The fourth and final rationale for employing the four-stage model is that there is empirical support for the model. While all other models are theoretical, an analysis of the Chrysler case by Chowdhury largely supported the model.²¹ This empirical support was an important consideration in our selection of the model.

The model

Turnarounds occur when firms persevere through an existence-threatening performance decline and end the threat with a combination of strategies involving skills, systems and capabilities to achieve sustainable performance recovery. Note that this meaning of turnaround goes well beyond stereotyped financial and efficiency gains that result from certain strategic moves; rather it encompasses what Stopford & Baden-Fuller referred to as *rejuvenation*, a term meaning a sustainable recovery from simultaneous and comprehensive changes in a firm's structure, strategy, systems, technology, and individual behaviour.²²

Without rejuvenation, the firm's journey will progress towards failure and eventual death

Without such rejuvenation, the firm's journey will progress towards failure and eventual death. The four-stage model appears to illustrate either path, although clearly an organization may not pass through all the stages to face dissolution, which could occur in any of the four stages. We wish to investigate further whether an organization which eventually fails proceeds through the same four sequential stages as one that survives. What we imply here is that corrective actions are possible during any stage except the last.²³ The important question we address is: What mistakes does a dying firm make in relation to the incidents and events in each stage of the failure process?

A brief description of the model is in order (see [Figure 1](#)). During the first stage, the results of previous misalignments of organizational strategies and environmental challenges create a decline that starts from firm or industry equilibrium and drops until it reaches a nadir. The nadir prompts management into corrective actions (in failing companies these actions can occur when resources are too few to make the needed changes), this constitutes the second stage of the process. The third stage — the period of transition — is by far the most intricate of the stages. Complex interplay between strategy, structure, culture, technology, and human variables occurs during this stage. This interplay needs investment in people and systems to link together all disparate activities of the firm. In failing companies, actions may be insufficient to turn the firm around. The fourth stage shows

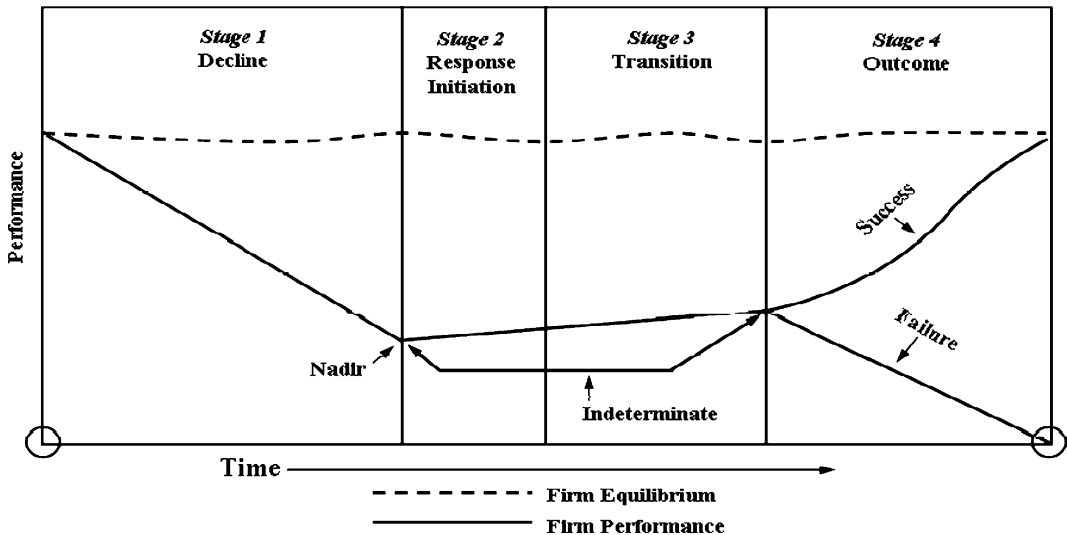


Figure 1. The Failure/Turnaround Process

the outcome of the interactions that took place during the third stage and can be evaluated as either a success or a failure.

The model has three critical requirements: *incident*, *event*, and *concept*. An *incident* is a recurrent activity which can be empirically observed in one or more stages of the model.²⁴ It can be conceived of using terms such as actions, indicators, occurrences, or raw datum. An *event* is an abstract conceptual entity that explains the patterns of critical incidents and their temporal order. It is a construct that does not lend itself to direct observation: to indicate that an event has taken place, a number of reliable and valid indicators are needed. We can thus create a construct that can be deliberately adopted for a special purpose, and defined and specified so that it can be observed and measured. A *concept* is a variable that epitomizes a phenomenon under consideration by being sequentially present through all stages of the phenomenon.²⁵ Concepts must link the stages and, thus, describe the progression of the entire phenomenon. Chowdhury derived the two requirements – events and concepts – from the literature on decline and turnaround, placed them in their respective stages, and, finally, amalgamated the stages in a composite model.

A review of the literature on decline and turnaround identified a fairly comprehensive set of events in each stage. (We will provide explanation and detail in the Eaton's example to follow.) Accordingly, *k-extinction*, *r-extinction*, and *stimulus* in decline; *domain definition*, *scope overlap*, and *strategic contours* in response initiation; *elapsed time*, *resource commitment*, *policy and programs*, *structure*, *rewards*, and *people* in transition; and *success* and *failure* in outcome. Except for *k-* and *r-*extinctions, the terms borrowed from microbiology, the meaning of the remaining events are fairly standard and consistent with the vocabulary in strategy and organization theory. *K-extinction* refers to a decline which occurs because an organization is a part of a macroniche inhabited by a population of firms, or part of an industry, that is shrinking or shifting in size or munificence. In other words, *k-extinction* occurs because the carrying capacity (or what one can think of as the 'k'arrying capacity) of the organization's environmental niche is exhausted. *R-extinction*, on the other hand, refers to organizational decline possibly through bad management. It implies reduction in resources (reduction in resources being the 'r' in *r-extinction*) within an organization independent of changes in the industry environment.

As core concepts, *performance*, *strategy*, and *implementation* were found to be sequentially present through the four stages of the process of turnaround. The key events and core concepts are imposed on the hierarchy of dimensions in Figure 2, which illustrates the three dimensions – incidents, key events, and core concepts – in their hierarchical dimension so as to demonstrate the flow of sequential stages, an essential requirement of a stage model.

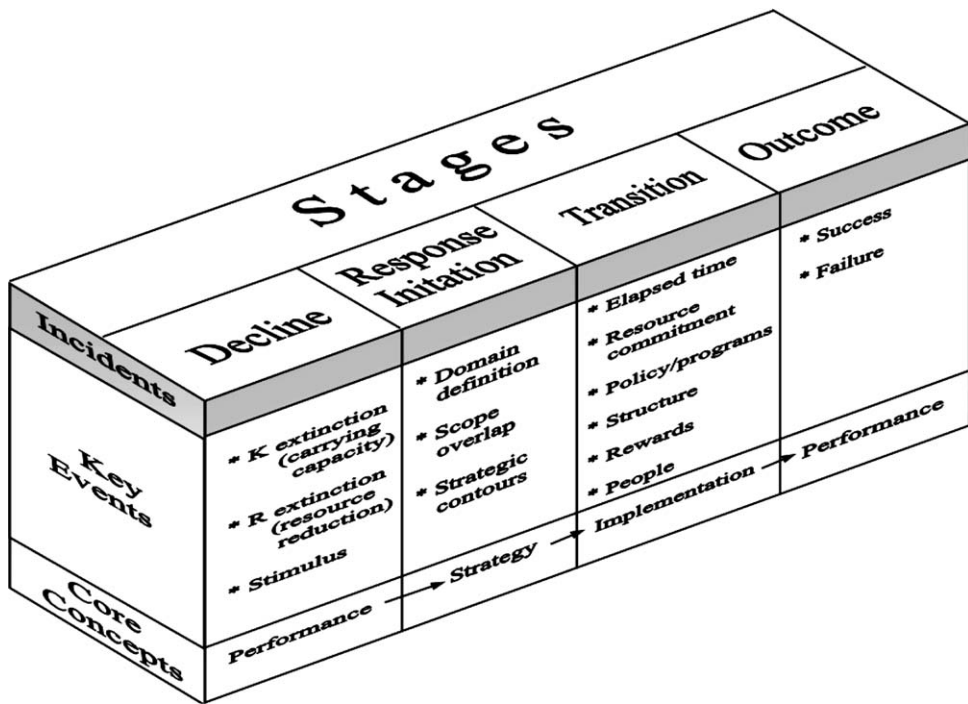


Figure 2. Key Events and Core Concepts in Turnaround/Failure

The illustrative case: T. Eaton Co. Ltd.

In order to elucidate how the model works empirically, we focus on the Canadian retail merchandising industry, and specifically on the case of the iconic retailer T. Eaton Co. Ltd., a once very successful, but now extinct, merchandiser. Founded in 1869 (only two years after the creation of the nation) Eaton's was a Canadian institution, with its stores spread across the country. To shed further light on the process, we contrast Eaton's decline with the actions made by its Canadian competitors and others in the market.

The first of these contracting companies is the Hudson Bay Company (HBC). HBC was established in 1670 to engage in the lucrative trade in transporting beaver pelts to England for the production of hats. By the mid-1800s, a combination of new materials, fashion changes and declining the beaver population spelled doom for the company. However, in the process of collecting furs, HBC had opened trading posts that became retail outlets. Today, HBC is Canada's largest department store retailer, the country's fifth largest employer, and no longer involved in the fur-trade.

A second company offering useful contrasts is Canadian Tire (CT). CT was started in a Toronto garage in 1922 by J.W. and A.J. Billes. Early on, CT fought auto makers angry about the store's low parts prices. When oil companies cut off CT's supplies to its gas bars in the 1950s, the company bought 60 million gallons from the Soviet Union (at the peak of the Cold War). When Wal-Mart and Home Depot came to Canada in the mid-1990s though, CT looked doomed. The larger American chains had more resources, more products, and bigger, brighter and newer stores. Yet, CT managed to grow and thrive in this situation by drastically revamping their stores.

Although a number of different longitudinal methods can be used to observe the process of failure, some longitudinal methods (like a real time study of events) would be inappropriate for studying an *ex post facto* phenomenon, such as failure. We decided, therefore, to use a comprehensive case with sufficient detail that would lend itself to fit within the structure of a theoretical model. Although this type of analysis is less rigorous than some others,²⁶ it holds the potential to provide some preliminary assistance to our understanding of the process of organizational failure.

To reconstruct the sequence of actions (or lack thereof) that led to the failure of T. Eaton Co. Ltd. within the framework of the above four stage model, we employed a content analysis of historic sources – books, articles and company issued documents (e.g. annual reports, filings and web pages). Like Mellahi, we employed process data to develop an interpretive case study of critical incidents to allow for a rich description of the context within which Eaton's decline occurred and as a valid way to manage large volumes of qualitative data.²⁷ There were at least three distinct reasons for the selection of Eaton's: (1) Eaton's and the Eaton family had enjoyed incredible success, fame, and power; (2) the organization was a well-known, respected and an innovative retail leader and; (3) Eaton's demise was fairly recent, surprisingly precipitous and definitive.

At one point Eaton's was the world's largest privately held retailer, in business for 130 years. The family were regarded as Canadian royalty...

Eaton's success and power was far-reaching. Not only was it the largest retailer in Canada at one point, but it was also the world's largest privately held retailer. At the time of its initial 1997 failure – after over 130 years in business – it was still one of the three largest retailers in Canada. The Eaton family were celebrities in their day in much the way the Kennedy family have been regarded as a kind of U.S. royalty. In fact the Eaton's were royalty of a sort – the son of founder Timothy Eaton was Sir John Craig Eaton, knighted in 1915 for his work in World War I.²⁸ Eaton's had so much clout that when, in the 1950s, a man leaped to his death from the Winnipeg Eaton's fifth floor (in full view of a crowd) the papers did not identify the building.

So renowned was Eaton's that, during its prime, its discreet at-home Shopping Service catered to likes of Mary Pickford, Joan Crawford, and other famous Hollywood actors. Eaton's principal innovations - initiated by company founder, Timothy Eaton - included a policy with three components: cash-only sales, no price-haggling, and a money-back guarantee. Eaton's also introduced Canada's first retail catalogue and its first Santa Claus parade. Moreover, besides installing one of Canada's first elevators in its Toronto store, it was the first Canadian retailer to illuminate its stores with electric lights. Other major innovations were the installation of customer service facilities like *'...full-length mirrors, comfortable changing closets, immaculate floor-walkers ... doormen to assist all women with packages. ... [Eaton] even provided rooms where they could relax, leave their children in the charge of a nurse, write letters or take a bath.'*²⁹

Regarding Eaton's actual demise, there are a number of elements that make its case an excellent one for analysis. First, the apparently sudden decline captured the public's interest. Since the company was privately held, its initial 1997 move into reorganization was a bit of a public surprise. Second, being such a well-known company meant that there was sufficient discussion in the business press regarding the process of decline to illustrate this model. Third, since Eaton's stock became publicly traded in 1998, it was under even more public scrutiny and, as a result, even more detailed information could be obtained. As such, the data from this period made an excellent example of a turnaround attempt.

Finally, Eaton's has not lingered on to the present day in a substantially diminished state, but had a definitive end that made it appropriate for the study of a failure. Sears, who had bought Eaton's as part of its second bankruptcy in 1999, finally pulled the plug in 2002. This has enabled us to key the reconstruction of events to the stages discussed earlier, and illustrate how Eaton's case supports the model's stage elements.

Eaton's decline and failure

In order to clarify the major points in story of Eaton's decline we have included a timeline of major events as [Figure 3](#). For Eaton's, the roots of their failure can be traced back as far as 1952 when U.S. retailing giant Sears formed a joint venture with Simpson's, then a major competitor of Eaton's.

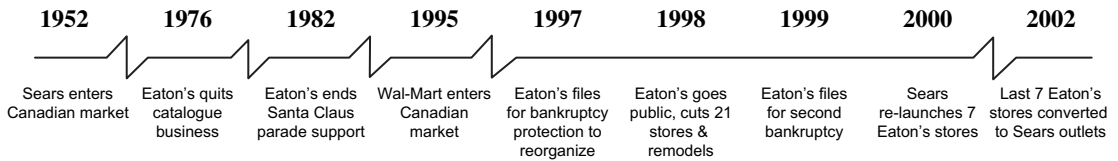


Figure 3. Timeline of Major Events in the Decline and Failure of Eaton's

McQueen noted that Eaton's '*...underestimated the power of the new arrival. It was as if everything was happening too far a field from the downtown merchants who then ran Eaton's. Simpson's-Sears stores were sleek, new and usually located in the suburbs, the growth part of most communities.*' Sears had a long history of operating suburban stores; they opened their first in 1928 in Aurora, Illinois. Before the end of the 1970s the Simpson's-Sears combination equalled Eaton's \$1.6-billion sales level. Eaton's sales froze at that level while Sears continued to grow. By the time Eaton's later arrived in bankruptcy court, Sears' sales had tripled from mid-1970s levels. About \$1-billion of this came from Sears' catalogue sales — a market Eaton's had abandoned in 1976 (the Sears catalogue phone number is the most frequently called toll free number in Canada). Pessimistically, one could say that the organization was declining relative to the growth of Sears, but even disregarding the comparison, for Eaton's this period — the late 1970s to the early 1980s - could, at a minimum, be called a period of stagnation.

Some claim that one of Eaton's biggest mistakes lay in its inconsistent marketing of the Eaton's brand. In the 1970s, it moved from being a traditional style department store to becoming a modern retailer. The company began to sell the whole idea of '*the store and the customer's relationship with the store.*'³⁰ The years between 1970 and 1980 marked the period of Eaton's greatest marketing strength. They were media savvy and had incredible resources. But, by the end of the 1980s, in the view of some experts, Eaton's had begun to lose sight of the importance of keeping its brand exciting — including withdrawing its support for the Santa Claus parade in 1982. When the recession hit in the early 1990s, they redirected their marketing toward a more price-orientated approach. Eaton's briefly tried to rebuild its brand in the mid-1990s by hiring Darcia Joseph (later president of Young and Rubicam), but the effort did not last long and Eaton's filed for reorganization under Canadian bankruptcy laws in February, 1997.³¹ In 1998, Eaton's hired a Toronto agency known for its brand-building advertising. Eaton's new advertising succeeded in gaining them the attention of the young demographic target. Unfortunately, this strategy amounted to abandoning Eaton's traditional customers.

At this point Eaton's cut product lines and moved into up-scale clothing with its Diversity in-store boutiques. This move not only ultimately alienated older loyal customers, but also failed to attract the younger customers they sought. Part of the failure to attract new customers stemmed from the premature advertising of store changes before they had begun to implement them. Potential new customers curious enough to look at the new Eaton's, found the same old store — a store whose selection of products was not sufficiently fashionable. As well, competitors — both specialty retailers and other department stores — already occupied the niche Eaton's sought. Others were selling the same clothing lines in stores with a décor and ambiance that Eaton's attempted to achieve, so there was little incentive for customers to switch. At one end of the spectrum, department stores like Sears or the Bay (HBC's major retailing arm) tried to avoid the extremes in fashion to cater to a wide range of consumers, while specialty shops captured those seeking unique selections. Eaton's was perceived as both too staid and trying too hard to be trendy and in the end alienated both its traditional and prospective customers.³²

In the 1990s, Eaton's traditional core customers were older than the average Canadian. These customers were also growing more price-sensitive due to a recession at the beginning of the 1990s. Customers were able to exercise their price sensitive impulses when Wal-Mart arrived in Canada in 1995. Wal-Mart bought out the remnants of Woolworth's 122-store Woolco chain and quickly turned around and expanded its operations. From 1994 to 1998, Eaton's share of the Canadian

department store market fell from 14.3% to 7.2% — on average, a reduction of \$400 to \$500 million in sales *every year* for three to four years!³³

Finally, Eaton's was seen to make two serious financial missteps as part of its initial reorganization. One was that while they closed only 21 of their 85 stores, when critics at the time argued that they should have closed 25 more under-performing sites. Breaking a lease is a costless move for companies under bankruptcy protection and Eaton's failed to take advantage of this. The remaining 39 stores would have been the best performing locations in the chain. Instead, the 25 poor stores that were retained were so grossly under-performing that they dragged down the entire company. Secondly, Eaton's raised hundreds of millions by selling off half the company to the public. Again, critics noted that twice the amount of funds was really needed to turn the company around. We now turn to a demonstration of how the Eaton's story fits the model.

Stage 1: Decline:

The process of decline at Eaton's exhibits elements of both k- and r extinction. K extinction occurred because the carrying capacity for the higher-end department store niche was exhausted. Holt-Refrew had occupied the high-end market in most major Canadian cities for some time, and there had been little evidence of successful entrants into the segment, with the exception of Montreal's four store chain, 'Les Ailes de la Mode' (The Wings of Fashion).³⁴ When the well-known western Canadian department store chain Woodward's attempted to convert its 26 stores into higher-end outlets in the early 1990s, it went out of business by 1993. In addition, external moves by competitor Simpson's-Sears created a more intense inter-firm rivalry. Prior to 1950, the industry consisted of three major players - HBC, Simpson's, and Eaton's — with the latter having 60 percent of the market. When Simpson's teamed with Sears to open suburban stores, cracks began to appear in the tripartite arrangement. The Simpson's Sears deal added a strong competitor that altered the balance of the arrangement that the big three stores had previously maintained.

the recession of the early 1990s meant a move towards low-price retailers [but] regular department stores were effectively shut out from this market by Wal-Mart's entry

In a further environmental development, the recession of the early 1990s meant that the general population was moving towards low-price retailers. This meant that the carrying capacity of the regular department store market was diminished and k-extinction was more likely to occur. Coupled with the public's move toward low price retailers was the fact that regular department stores were effectively shut out from entering the low price market by Wal-Mart's entry as major new low price competitor. This is not to say that the low-end of the market did not exist prior to Wal-Mart's entry, as U.S. retailer K-Mart was already in the market. Wal-Mart simply made it extremely difficult for anyone to become a low-end competitor at a time when the market segment was becoming prominent.

The department store market in its entirety was somewhat more stable than the low-end retailers. This should have given Eaton's a bit of an edge in surviving the change in the market and entry of Wal-Mart. However there were incidents indicative of r-extinction that made Eaton's susceptible to the vagaries of the market: there was a failure on the part of Eaton's to respond appropriately to Simpson's-Sears in the 1950s and Eaton's failure to maintain marketing support for their brand in the 1970s and 1980s. These poor internal decisions (r-extinction) left the organization more susceptible to downturns in the market (k-extinction) and contributed toward the final stimulus to push Eaton's past the nadir into its initial 1997 reorganization.

What about other Canadian Retailers? How did HBC and CT fair against this onslaught from the large American retailers? The threat Wal-Mart and others created may have been greater to the two

other large contrasting Canadian-based retailers than it was to Eaton's. HBC's Zeller's chain was essentially the Canadian version of Wal-Mart. Through Zeller's, HBC sold similar products in the same price category as Wal-Mart.

HBC as a whole had record earnings in 1993 (C\$151 million), but in 1994, earnings declined to C\$34 million as Wal-Mart was entering the market. In spite of an increase in earnings to C\$72 million in 1995, HBC profits fell to C\$51 million in 1996 and to C\$41 million in 1997.³⁵ HBC responded by closing some low performing stores, refurbishing some others, stressing in-store brands, and improving their distribution system. The changes have been slow, and while HBC has carefully avoided turning away its traditional customers, financial results have been less than spectacular. It may be that HBC's performance has never declined to the point where the company's management felt the critical need for a speedy and sweeping change.

The other large Canadian retailer that would have been the most threatened by Wal-Mart and the competitive environment of the early to mid 1990s was franchiser Canadian Tire (CT). With about the same number of stores as HBC, CT's 1994 sales were C\$3.6 billion (up from C\$3.0 billion in 1989). CT had seen a fairly steady decline in its profit from C\$149.6 million in 1989 to C\$5.5 million in 1994 (in only one of those years did earnings improve over the previous year). This decline likely forced CT to its nadir and caused the company to re-focus on its three traditional product lines: automotive, sports and leisure, and home products. If CT's profit picture did not force the change, the competition would. CT's product lines brought it into direct competition with two large U.S. big box retailers. CT would need to fight Wal-Mart for market share in automotive and sports and leisure and fight Home Depot for market share in home products.

There was some evidence from the U.S. of what had worked — and what had failed to work — as a response to the entry of a big-box retailer into a market³⁶ and Canadian Tire used this learning to institute change. CT responded by undertaking a billion-dollar expansion program that revamped and expanded store locations — the typical CT store today is twice the size it was in 1994. The brighter and bigger stores allowed CT to give its product lines greater depth to a degree that CT's selection of auto-parts is unmatched by any of its competitors.

Finally, ownership structure may have something to do with the differences in responses at the three companies. Eaton's, though a closely held family firm, had disinterested ownership, and thus the company was allowed to fall farther than if it had been under more intense scrutiny. On the other hand, HBC — a widely held company — has gone through several leadership changes in an effort to keep the company profitable. Though its changes have been slow it has maintained profitability. Canadian Tire is publicly traded, but ownership is closely controlled by Martha Billes (daughter of founder A. J. Billes). Yet because the company's operations have been run by non-family professional top management for the last 38 years, and more importantly because CT's franchisee dealers - logically - take an intense interest in the fortunes of the company, the need, desire and competence to drive a quick turnaround for the company were certainly present.

Stage 2: Response Initiation:

Early on in its battle with Simson's-Sears, Eaton's failed to recognize that the actions of its suburban competitors were important. That is, it defined its *domain* as that of a downtown retailer instead of looking at where the population was moving and then moving along with it. Later, in Eaton's initial 1997 bankruptcy reorganization it redefined its domain again — both in terms of geographic areas covered (via the number of markets in which it kept stores open) and by the product lines carried (Eaton's refocused on higher-end apparel and removed electronics, furniture and appliances). Being a single-business company, Eaton's choice was somewhat restricted with respect to cures such as diversification and vertical integration, yet product/market refocusing appeared to be a viable response. However, Eaton's remained committed to an effort that was less likely to be successful at this stage because the company had failed to close enough stores or to introduce its refocused strategy successfully.

HBC has been somewhat clearer about the domains of its various retail divisions. By emulating the U.S. retailer Target, HBC's lower-end Zeller's chain has positioned itself as a bit more upscale

retailer than rival Wal-Mart. Whether exclusive brands such as Mossimo, Cherokee and Delta Burke will produce the perception of sufficient differentiation among consumers is still unclear. As for HBC's traditional department stores, critics note that HBC's Bay chain is '*not precisely positioned*' and is trying to be all things to all people. '*The Bay has designer shops at the same time they have Scratch & Save sales, giving different messages – and the customer is rightly confused.*'³⁷ In addition, HBC's new home décor chain, Home Outfitters, has moved the company into a very competitive area where they have no brand recognition.

Canadian Tire's re-focus on its three traditional product lines was the most clear-cut move the company could have made. Anything which did not fit well into those categories was dropped. As a result the company's identity was clearer in the consumer's eyes.³⁸ CT management applied this ability to refocus operations when, in 2001, the company bought Mark's Work Wearhouse – a work wear retailer whose stores were recognized for their bright, friendly surroundings. Mark's had drifted into the more competitive market of casual wear over the years and CT has refocused the company back toward its blue-collar roots with some success.³⁹

Finally, Eaton's management failed at numerous stages to understand the *strategic contours* involved in the terrain of successfully turning around a company in these circumstances and bringing it back to profitability. For example, in the early decline stage in the 1980s, Eaton's may have recovered by simply re-concentrating on keeping its brand exciting – e.g. returning its support of the Santa Clause parade, refocusing back on its 'store and the customer's relationship with the store' policy and/or restoring its mail order catalogue. Eaton's management, either through timidity or stupidity, did not take this route. Later in the 1980s, Eaton's may have still been able to recover if it had pursued cost reduction through eliminating under-performing locations. In its initial reorganization Eaton's had an opportunity unique to the bankrupt firm: shedding leases on less profitable store locations at will and with no penalty. However Eaton's management failed to do this. At this point it also failed to get sufficient proceeds from its public stock offering, in spite of still having the name recognition that would have allowed them to do so. The depth of Eaton's failure, translated in terms of the enormity of its debt, required deeper cuts to stores and greater proceeds from stock sales. Eaton's management simply did not seem to understand the route that needed to be taken: raising sufficient capital, making deep cuts to cull under-performing stores, and applying its new capital quickly to refurbish the remaining stores, and then the company image. The route was quite clear, however, to contemporary business commentators.

management simply did not seem to understand the route that had to be taken: raising sufficient capital, culling under-performing stores, quickly refurbishing stores and company image. It was quite clear to contemporary commentators

To some degree HBC understands the strategic contours involved with turning around their operations. Improvements to their distribution system have been made. However, closing and refurbishing stores has been slow due to pre-existing arrangements with mall owners. HBC has also moved into retail areas where it was weak with its Home Outfitters and DealsOutlet.ca – together these lesser brands have contributed about one percent to HBC's sales but reduced its earnings by about 20 percent.⁴⁰ In addition, HBC's stores lag behind the industry in sales per square foot. HBC's main chains sell \$146 to \$155 per square foot. These numbers are closer to the late Eaton's figure of \$125 than to rival Sears Canada (\$237 per square foot) or Wal-Mart (\$381 per square foot). HBC's lower figures mean that store sales must support more overhead than any of its non-bankrupted major rivals. In an industry where customers are concerned with price, this extra overhead burden puts great pressure on HBC's bottom line. While there is evidence that

management understands the need to improve these figures, their ability and desire to do so seems somewhat hesitant and uncertain.

Canadian Tire seems to understand the importance of the sales per square foot numbers. Their traditional stores have averaged close to \$500 per square foot in sales in their main product lines (excluding seasonal lawn and garden numbers). The new format stores have been averaging \$420 per square foot. As a result, CT introduced Concept 20/20 — a plan to expand some new-format stores by 20 percent and generate 20 percent higher sales. CT is using the program to reinvent its store space. According to the company, *'Concept 20/20 stores are more welcoming and customer friendly — with better traffic flow, better lighting and signage, better display, greater accessibility to customer service, and superior merchandising opportunities.'* The stores' central area is changed regularly and *'provides customers with new experiences each time they visit.'* Concept 20/20 *'encourages more browsing and more opportunity for impulse purchases.'* This leads to larger sales per customer visit.⁴¹

Stage 3: Transition:

The transition from decline to recovery is not immediate. In fact, turnaround may take many years.⁴² In Eaton's case, until this stage, there were numerous opportunities to turn the company around. Yet, Eaton's delayed response to problems was typical. Decades earlier, Eaton's and Sears (neither of them discount chains) instituted an 'Every Day Low Price' policy. Both Sears and Eaton's realized the poor fit of the policy with their products and customers. Sears abandoned the strategy in a month, but it took Eaton's two-years to learn from their failure and to do away with the policy.⁴³ Delays of this type meant that any moves the company made extended the *elapsed time to recovery* to an extent that that would have been intolerable for creditors. In the end, trying to preserve too much of the chain meant that the company was still too large and cumbersome an institution to make decisions quickly — a factor that also extended the organization's elapsed time to recovery. This occurred at the same time creditors were clamoring for a quick recovery. In addition, managers had not given themselves sufficient slack to allow for the increased elapsed time; i.e. they failed to gather sufficient resources in their stock offering to cover the outflows that occurred during the company's recovery attempt. Eaton's was simply not able to act quickly or decisively enough — from the perspective of debt and equity providers — to change their situation.

Both HBC and Canadian Tire present interesting contrasts to Eaton's. HBC's go slow approach has also placed it in a position where its elapsed time to recovery has been lingering. If turnaround is when, as Chowdhury notes, *'a firm perseveres through an existence threatening performance decline'*, HBC is still in the process of its turnaround. Though HBC has not had negative earnings, it has also never regained the level of profitability it had prior to Wal-Mart's arrival (the closest being 2000 when HBC made C\$125 million). CT's efforts, on the other hand, were drastic and fairly immediate. It is hard to compare a CT store from the mid-1990s to the one of today. The traditional stores scarcely exist, and were, by and large, replaced by the new larger format stores by the year 2000.

potential new and old customers were driven away by the lengthy construction period and their inability to identify what the Eaton's brand was all about

The *substantive levers* available to Eaton's to create a successful turnaround were also scarce. For starters, there was a lack of resources and resource commitment that caused Eaton's problems in this stage. The lack of resources also contributed to insufficient elapsed time due to a hurried attempt at turnaround: e.g., one where advertised operational claims of a 'new Eaton's' could not be

delivered on because renovations were still in progress. Eaton's faced a resource scarcity on two fronts. First, it did not acquire sufficient resources to make the needed changes. Second, it was left with extra demands on resources from under-performing store locations that were not only losing money but required a program of speedy renovation that was unlikely to turn them around. The lack of resources also made it harder to coordinate the introduction of a new marketing scheme with the newly renovated decor and new products. Both potential new customers and old customers were driven away by the lengthy construction period and by their inability to identify what the Eaton's brand was all about. The levers of subunit policies and organizational structure did not allow for speedy actions needed to turn the organization around quickly enough. A final lever — the organization's people — also failed. The people at the top of the Eaton's organization were part of the problem. Not only had the Eaton family members neglected the proper management of the company for years, even the executive hired to turn the company around quit in the middle of the effort. Certainly those employees who were not fired in the first bankruptcy were no longer as enthusiastic about their role in a company that was on shaky ground. All of this had a negative impact on Eaton's post-reorganization programs and made its continued existence more perilous.

HBC has substantive levers to create change. While over time HBC's huge real-estate holdings have declined, it still has history and reputation. HBC is over 300 years old, its agents mapped a huge swath of North America and the company provided rugged products to western and arctic explorers. Yet HBC has never used this fact to build any kind of Hudson's Bay Company product line that would lean on this history. HBC could also use its size in the Canadian market to acquire funding to more quickly tackle making-over and maintaining the appearance of its stores. The company has, however, been slow to do these things.

Canadian Tire has used a number of substantive levers to stay competitive. Being a chain of franchises, both the company and its franchisees have used their equity and available credit to move the stores forward into their new larger formats. The fact that the stores are technically locally owned has over the years garnered the chain some degree of customer loyalty. CT has not taken this customer loyalty for granted. To keep its customers, the company has maintained its complete geographic coverage — 85 percent of Canadians live within a 15-minute drive of their local CT store. To keep customers coming back CT maintained its use of 'Canadian Tire "Money"' (cash bonuses that can only be used at CT). The tactics seem to be working — CT management claims that nine out of ten adult Canadians shop at CT at least twice a year, and 40 percent of Canadians shop at CT every week.

Stage 4: Outcome:

The outcome for Eaton's was not a pleasant one. After failing to keep its traditional customers, failing to acquire new customers and having saddled itself with too many poorly performing stores and too little cash from stock sales proceeds — Eaton's ended up in receivership again in 1999. Bought out by Sears, there was some hope for rehabilitation of the Eaton name. However, what panache Eaton's had not stripped away through successive bankruptcies was certainly not aided by its possession in the hands of a company that was not a high-end retailer. In five short years, during which the chain was reduced from more than seventy to just seven stores, the Eaton's name went from retailing icon to a name synonymous with failure. Even Sears, with all its resources, could not save the name and by 2003 the last of the Eaton's stores were converted to Sears' outlets.

Because of HBC's slow going on closing and changing stores and adapting systems and marketing, the company has maintained a slow rate of sales growth (less than two percent compound sales growth since 1994 — the year Wal-Mart arrived in Canada). HBC's lower sales per square foot translate into higher overhead and, given the price sensitivity of consumers, it also means that HBC has suffered with frequently lower profits. This has occurred at a time when press reports indicate that Sears' and Wal-Mart's Canadian growth rates are quite healthy.

The changes at Canadian Tire have propelled the company to a net income of C\$350 million on sales of C\$6.1 billion in 2003 (four times HBC's 1994-2003 sales growth rate).⁴⁴ CT has been more profitable than HBC since the mid 1990s and, at current rates, will overtake it in sales size within the next two to three years.

Conclusions and implications: Snatching defeat from the jaws of victory

Eaton's started out small and rose to the top of the Canadian market, and to being the largest privately held department store chain in the world. It took the company over 50 years to crash. Such a long time span supports the academic insight and conventional wisdom that symptoms of decline, and eventual failure, start appearing many years before the failing firm's ultimate death.

In this paper, we proposed to illustrate the failure of Canadian retail icon, T. Eaton Co. Ltd., through a stage model of turnaround developed earlier. Given that failure is an *ex post facto* phenomenon, analyzing a comprehensive case of failure along the tenets of a theoretical model is likely to enhance our understanding of failure. The widely-publicized failure of T. Eaton Co. Ltd. provided us with this opportunity. The presence of two other indigenous major competitors facing similar market pressures also provided a way to look at the possibilities for success in such a market. These comparisons are highlighted in Table 1 below.

As mentioned earlier, an analysis of the turnaround of Chrysler Corporation provided initial support for the model in earlier research. It can be concluded from the foregoing analysis and its synthesis in Table 1 that, with a few exceptions, the model also accorded tentative support to the Eaton's case. Briefly, although there were three requirements of the model (*incident, event, and concept*), we were mainly able to see the relationships between two of them: core concepts and key events. We narrated the story of Eaton's failure in terms of three core concepts — performance, strategy, implementation, and performance (again) — each representing a stage. These concepts served to link the four stages of the process of Eaton's failure and were sequentially present through these stages. The case also demonstrated how a combination of the listed elements in every stage contributed to each concept, enriching the story of Eaton's failure.

This does not imply a wholesale applicability of the model. Any number of incidents can be chosen to represent an event, and that their number and nature vary across situations. In the Eaton's case, which was reconstructed from many secondary sources, the systematic and chronological listing of the incidents making up each event was impossible. An analysis of original and relevant sources (company documents, published detailed interviews with Eaton family members and other key stakeholders etc.) for the full time-span of Eaton's decline, could have allowed the case to be reconstructed and all incidents recorded. Recurring incidents representing several related events could then be tied to the core concepts of the model, and tell more completely how Eaton's spun from decline to death.

Chowdhury added two caveats to the degree of his model's wholesale applicability. First, because different organizations proceed at greatly different rates through a stage of turnaround or dissolution, variation is likely in the span of a stage and in the elements that make it up. The Eaton's case — along with those of the HBC and CT — seem to support this caveat. For example, a combination of Eaton's stagnation and decline spanned an unusually long period of time; after a decade, HBC is still working on a turnaround; while CT seems to have completed its turnaround in under five years.

Although external forces outside the firm can, to some extent, influence how the turnaround outcome — success or failure — eventually unfolds, these forces are mediated by strategic maneuvering within the firm. This manoeuvring can take place during one or more stages of the process of turnaround. In the case of Eaton's, unfortunately, this manoeuvring was either absent, or inappropriate, or late, or a combination of the last two. For HBC, such manoeuvring has been slow and less effective than the quick and decisive moves CT made to turn its situation around.

external forces are mediated by strategic manoeuvring within the firm.

At Eaton's this manoeuvring was either absent, or inappropriate, or late...

Table 1. Stages and Action

| Stage | Eaton's | Hudson's Bay Co. | Canadian Tire |
|-------------------------------|--|---|--|
| 1: Decline | | | |
| K- extinction | Carrying capacity for the high-end dept. store niche in decline and already full. | Carrying capacity for lower-end expanded but over-shadowed by entry of Wal-Mart. | Focus on traditional lines with new focussed areas has allowed for success. |
| R- extinction | Failure to support the brand and reorganize in a way reflecting market carrying capacity and resources needed to change. | Avoiding fashion extremes and catering to a wide range of consumers, meant an inability to quickly change. | Earnings declined from unsuccessful U.S. market entry, ownership succession rumors and disgruntled franchisees |
| Stimulus | Disinterested owners may have let decline to go past the point of recoverability in the face of new competition. | Publicly traded, the firm has gone through several CEOs to find solutions in the new competitive environment. | Professional managers and interested franchisees moved firm in the right direction to meet the competition. |
| 2: Response Initiation | | | |
| Domain definition | Narrow domain definition/ability to move into new niches was unsuccessful. | Maintained defined domain/however new ventures have had little success. | Focused on traditional lines/with new focused areas have allowed for success. |
| Scope overlap | The search for younger customers alienated past ones. | Going slow allowed targeting of traditional customers | All ventures allow synergies in shipping and marketing. |
| Strategic Contours | Failure to understand on the need to maintain brand and keep overhead down | Saw need to keep customer base, renovate stores, and move to lower overhead costs. | Saw need to keep customers, drastically renovate stores, and keep overhead costs low. |
| 3: Transition | | | |
| Elapsed time | Delayed and insufficient to achieve a turnaround. | Lengthy and ongoing. | Quick and effective |
| Resource commitment | Insufficient to make the changes needed. | Ongoing and not yet sufficient to make drastic change. | Extensive and immediate. |
| Policy/ Programs | Making and marketing of changes was uncoordinated. | Mixed signals regarding the store's target market. | Concept 20/20 to improve operations and customer interest |
| Structure and rewards | Disinterested family owners saw little need for change. | Public shareholders driving the need for some change | Professionals and profit-minded franchisees drove change. |
| People | Disinterested family owners saw little need for change. | Several changes of CEOs in an effort to improve performance | Professional managers/ interested franchisees drove change. |
| 4: Outcome | | | |
| Success/ Failure | Final failure after two bankruptcies and attempted re-launch. | Stagnating sales and profits relative to others in the market. | Increasing/record sales and profits. |

Regardless of its source — k- or r extinction — decline occurs if the organization lacks sensitivity to its environment and fails to anticipate and respond to unfavourable conditions. In fact, it is the sensitivity of management that defines if and when the nadir is recognised and prompts turnaround actions. In the case of Eaton's, the first major environmental jolt took place with the Sears/Simpson's arrangement in 1952, but Eaton's failed to appreciate the full scope of this change in the competitive environment. More accurately, Eaton's confused its decline with a brief hiccup, or with a series of discrete hiccups, which hardly indicated the notion of sustained difficulties. It failed to determine when and how its performance reached a *nadir* and how to defend itself with appropriate response initiation. This failure may to some extent exist in today's HBC but is certainly not the case with CT.

We also found a variation in relation to one of the elements in Stage 1: stimulus. Although a lot of stimuli seemed obvious in Eaton's earlier in Stage 1 (e.g., when Simpson's-Sears first surpassed Eaton's sales level), Eaton's failed to appreciate them. When management belatedly considered the recession of the 1990s, and Wal-Mart's entry, as real stimuli for action, those actions, rather limited in scope, occurred too late to make a difference in Eaton's eventual fate. This suggests that stimulus can occur past Stage 1, leaving a narrow gap between action initiation and the ultimate dissolution of the firm. However, HBC's case shows that the gap may also be quite wide.

The stage of decline at which the turnaround actions are initiated is very important. It is much easier to reverse decline at its earlier stages through an aggressive pursuit of tactical measures, such as cost-cutting, enhanced employee productivity, and parsimonious slack resources. True, no guaranteed panacea to cure an ailing firm, these short-term actions provide a temporary breathing space, and set the basis for the firm's ultimate survival through long-term strategies, such as diversification, vertical integration, and product/market initiatives. Therefore, if the short-term measures occur too late, decline can turn into an 'ever descending spiral.' This also happened in the case of Woodward's, the now nonexistent leading department store chain in western Canada mentioned earlier. Dropping less profitable areas such as restaurants, electronics, furniture, and appliances that faced savage competition from mass merchandisers and specialty shops, Woodward's concentrated on fashion, accessories, and home fashions — areas where it enjoyed competitive advantage in western Canada. But these product/market initiatives came too late to save Woodward's and were a template for Eaton's failure. In the case of both HBC and CT their actions have taken place when the companies were still money-makers — as such they have been more successful. Therefore, an application of the same strategy at different stages has different ramifications, as has been supported by recent research by Mellahi.

The model also suggests the presence of contingency factors to explain why two processes have different tracks. This is clear in the case of Eaton's. In Stage 2, it is quite likely that some key stakeholders might have dictated the *strategic contours* of possible recovery. In other words, Eaton's actions might have been different had it been a public company, as stockholders pressure on the board and management to institute a decisive response to reverse the decline might have led to a different contour and timing of a turnaround strategy. As Mellahi documents, in his post mortem analysis of the failure of HIH (Australia's largest-ever corporate failure), though a small number of board of directors triggered a 'rebellion' against the top management of HIH for its quickly declining performance, it was not in time to stop the company's failure. On the other hand, the more interested shareholders at HBC and franchisees at CT lend support to what key stakeholders can do.

Makridakis asserts that few businesses manage to survive for long periods and that only a small percentage of them maintain above-average performance for considerable spans of time. The truth of this assertion depends on how a *long* period is defined. Some firms have survived for centuries. Having changed from a fur-trading company to a retail merchandiser, HBC has a 335 year history. Sustained success is by no means unheard of: the 1892 merger of two large rival electrical companies produced General Electric (GE), one of the most successful, highly diversified companies in the world, still ranked by Stern Stewart in the first two for market value from 1993 to 2000.

Fundamentally, it appears that the problem-sensing ability of management was missing at the troubled Eaton's

In this paper, our purpose was not to debate various theories of decline. What seemed important is that the perpetuation of decline and the subsequent death of an organization can largely be contributed to the 'complacency' of those in the highest positions of organizational power. This was certainly the case with the Eaton's and has been supported by other more empirical investigations. For example, case-based empirical enquiry has demonstrated that the dynamics of complacency play a strong role in the decline of small firms.⁴⁵ An investigation of 18 large North American and European corporations found that the erosion of profits under complacent management is due to a lack of strategic planning and neglect of critical areas,⁴⁶ such as attending to an increase in competition and an increase in the rate of technological changes.⁴⁷ The failure of Eaton's attests to the insidious effects of strategic complacency in large firms. The late Eaton's and the surviving HBC and CT showed significant differences, not only in the elements of the four stage model presented here but along numerous dimensions of practical basic strategy with which managers ought to be familiar – as summarized in Table 2.

Table 2. Strategic Advice for Managers

| Element | What to do: |
|--------------------------------|--|
| 1. Poor current performance | Do not confuse a sustained decline with a brief hiccup or a series of hiccups. This delineation is critical: if confusion leads to oversight or inaction on your part, it may lead to your firm's eventual death. Recognise a decline early and that there are elements of the firm's strategy that must be changed. |
| 2. Taking action | Be serious and judicious in understanding the decline situation you are up against and prioritise and execute your strategies accordingly. |
| 3. Mission | Know what your firm is all about: what basic customer needs your firm can serve well; the products you sell; the customers and market segments you serve. Develop a clear identity that sends a clear signal to customers. |
| 4. Addressing key stakeholders | Listen carefully to key stakeholders. Ask for their input and all-out support and mobilize them to rally around your firm's chosen course of action. |
| 5. Industry dynamics | Be careful about ambiguous and incomplete environmental data, as they might lead to incorrect interpretation of the industry dynamics. Because of constantly evolving industry dynamics, an incorrect reading doesn't let you manoeuvre the external forces well; rather it serves as a booby trap. |
| 6. Resources | Be steadfast and decisive in the acquisition and use of funds needed to make the correct change in a timely fashion. The same change might need far more resources later, or the opportunity to change might have been lost for good. |
| 7. Capabilities | Have marketing to connect with what customers want and the financial acumen to fund needed changes. |
| 8. Core competences | Make a dedicated effort to exploit where the firm can add value with rare, hard to imitate activities. |
| 9. Domain selection | Be familiar with your industry's domain without defining it too narrowly or too broadly. Be ready to quickly adjust your domain along with changes in customer needs. Do not stick to domains that have recently seen limited success. |
| 10. Implementing changes | Coordinate implementation of strategy elements to work together in an effective, decisive, and timely way. |

Fundamentally, it appears that the problem-sensing ability of management was missing at the troubled Eaton's.⁴⁸ When a problem has been brewing over a long period, its economic and social consequences may not appear immediate to managers: on many occasions, problems within Eaton's or in its environment seemed to have been set aside as random events. Eaton's top managers frequently '*deluded themselves into believing that a problem does not exist or that it is not serious*'⁴⁹ when it often was critical. In fact, the problem sensing ability of Eaton's management seemed to diminish as the company moved through the phases leading to its ultimate disappearance. Even when the company had decided on a reasonable course of action, its responses proved insufficient, ineffective and poorly timed. The result was the calamitous decline and failure of a once-proud Canadian retail name.

Acknowledgements

Our special thanks to Marnie Young for her research assistance with this article. We are grateful to the *LRP* editor-in-chief, two guest editors of this special issue, and two anonymous reviewers for their constructive comments and kind assistance at various stages of this article.

References

1. D. Lewerenz, CSI's Spinoffs: Future Crime Scene Investigators, *Washington Post* C07, (2003) (August 19).
2. For example, Richard D'Aveni did award-winning work in the area in the late 1980s but quickly moved on to the subject of "Hypercompetition." Likewise, after performing a through review of the topic – C. M. Daily, Bankruptcy in strategic studies: past and promise, *Journal of Management* 20(Summer), 263–295, (1994) – Catherine Daily moved onto the study of corporate governance.
3. See M. E. Porter, Toward a dynamic theory of strategy, *Strategic Management Journal* 12(Winter Special Issue), 95–117 (1991).
4. For a recent summary of strategy definitions Chapters 1 and 4 in M. A. Hitt, R. D. Ireland, R. E. Hoskisson, W. G. Rowe and J. P. Sheppard, *Strategic management: competitiveness and globalization - Concepts* (1st Canadian Edition), Nelson Thomson Learning, Toronto (2002).
5. H. E. Aldrich, *Organization and Environments*, Prentice-Hall, Englewood Cliffs, N.J. (1979); M. T. Hannan and J. Freeman, The population ecology of organizations, *American Journal of Sociology* 82, 929–964 (1977); B. McKelvey, *Organizational systematics: Taxonomy, evolution, classification*, University of California Press, Berkeley, California (1982).
6. H. R. Hall, *Organizations, structures, processes, and outcomes* (5th ed.), Prentice-Hall, Englewood Cliffs, N.J. (1991).
7. '*This S-curve pattern of birth, steep growth, plateau, and eventual decline can be observed in a great many cases, including technologies, products, services, companies... industries and whole sectors. S-curves, the equivalent of biological birth, maturity, old age, and death seem inevitable unless something is done to reverse their natural course.*' S. Makridakis, What can we learn from corporate failure? *Long Range Planning* 24(4), 115–126 (1991) 119-120.
8. T. Levitt, Marketing Myopia, *Harvard Business Review* 38(July-August), 24–47 (1960). He notes, in a retrospective commentary published in the *Harvard Business Review*, 53, (September-October), 35+ (1975), that the 1960 work is based on earlier work of others.
9. P. Barr, J. L. Stimpert and A. S. Huff, Cognitive change, Strategic action, Organizational renewal, *Strategic Management Journal* 13(Summer, 5), 15–37 (1992).
10. For a more complete discussion and synthesis of these two literature streams see K. Mellahi and A. Wilkinson, Organizational failure: a critique of recent research and a proposed integrative framework, *International Journal of Management Reviews* 5-6 (March, 1), 21–41 (2004).
11. J. Child, Organizational Structure, Environment and Performance: The Role of Strategic Choice, *Sociology* 6(1), 2–22 (1972).
12. J. B. Quinn, *Strategies for Change: Logical Incrementalism*, Irwin, Homewood, IL (1980).
13. See H. E. Aldrich, *Organizations and Environments*, Prentice-Hall, Englewood Cliffs, N.J. (1979); B. McKelvey and H. E. Aldrich, Populations, natural selection and applied organizational science, *Administrative Science Quarterly* 28(1), 101–128 (1983).

14. Some general bankruptcy review can be found in C. M. Daily, Bankruptcy in strategic studies: past and promise, *Journal of Management* **20**(Summer), 263–295 (1994); J. P. Sheppard, Strategy and bankruptcy: an exploration into organizational death, *Journal of Management* **20**(4), 795–833 (1994); For a strategic approach to bankruptcy see J. P. Sheppard, A Resource Dependence Approach to Failure Prediction, *Social Science Research* **24**(1), 28–62 (1995a); For a choice and determinism discussion see L. G. Hrebiniak and W. F. Joyce, Organizational adaptation: Strategic choice and environmental determinism, *Administrative Science Quarterly* **30**(3), 336–349 (1989); M. W. Lawless and L. K. Finch, Choice and determinism: a test of Hrebiniak and Joyce’s framework on strategy – environment fit, *Strategic Management Journal* **10**(Sept./Oct.), 351–365 (1989).
15. Or, in the case of the failing organization, they fail to learn. See P. Baumard and W.H. Starbuck, Learning from failures: Why it doesn’t happen, *Long Range Planning*, **38**(2), (2005) doi:10.1016/j.lrp.2005.03.004.
16. The notion of ‘Downward spiral’ is employed by D. C. Hambrick and R. A. D’Aveni, Large corporate failures as downward spirals, *Administrative Science Quarterly* **33**, 1–23 (1988); for discussion of ‘Amplitude’, see S. D. Chowdhury, Turnarounds: A stage theory perspective, *Canadian Journal of Administrative Sciences* **19**(3), 249–266 (2002).
17. D. G. Bibeault, *Corporate turnaround: How managers turn losers into winners*, McGraw-Hill, New York (1982); E. Finkin, Company turnaround, *Journal of Business Strategy* **5**(4), 14–24 (1985); D. C. Hambrick, Turnaround strategies, in W. H. Guth (ed.), *Handbook of business strategy*, Warren, Gorham, and Lamont, Boston, 270–298 (1985); J. A. Pearce and D. K. Robbins, Toward improved theory and research on business turnaround, *Journal of Management* **19**, 613–636 (1993).
18. A. H. Van de Ven and M. S. Poole, Explaining development and change in organizations, *Academy of Management Review* **20**, 510–540 (1995).
19. This contradicts the view held by J. A. Pearce and D. K. Robbins, Toward improved theory and research on business turnaround, *Journal of Management* **19**, 613–636 (1993).
20. Regarding the fluid character of strategy, see A. M. Pettigrew, The character and significance of strategy process research, *Strategic Management Journal* **13**(Winter Special Issue), 5–16 (1992).
21. For details of his Chrysler cases analysis, see S.D. Chowdhury, (2002), op cit. at Ref 16.
22. J. M. Stopford and C. Baden-Fuller, Corporate Rejuvenation, *The Journal of Management Studies* **7**(4), 399–415 (1990).
23. This is consistent with the view held by W. E. Weitzel and E. Jonsson, Decline in Organizations: A Literature Integration and Extension, *Administrative Science Quarterly* **34**(1), 91–110 (1989).
24. A. H. Van de Ven, Longitudinal research for studying the process of entrepreneurship, in D. L. Sexton and J. D. Kasarda (eds.), *The State of the Art of Entrepreneurship*, PWS-Kent Publishing, Boston, 214–242 (1995).
25. M. P. Bhawe, A process model of entrepreneurial innovation, *Journal of Business Venturing* **9**, 223–242 (1994).
26. Again the Chowdhury article is a useful example. Also see J. L. Denis, A. Langley and L. Cazale, Leadership and strategic change under ambiguity, *Organization Studies* **17**, 673–699 (1996); C. A. Maritan, Capital investment as investing in organizational capabilities: An empirically grounded process model, *Academy of Management Journal* **44**, 513–532 (2001).
27. A. H. Van de Ven, Suggestions for studying strategy process: a research note, *Strategic Management Journal* **13**, 169–188 (1992); Also see K. Mellahi, The Dynamics of Boards of Directors in Failing Organizations, *Long Range Planning*, **38**(2), (2005) doi:10.1016/j.lrp.2005.04.001; and P. Angelides, The development of an efficient technique for collecting and analyzing qualitative data: the analysis of critical incidents, *Qualitative Studies in Education* **14**, 429–442 (2001).
28. J. L. Santink, Eaton and Sir John Craig, *The Canadian Encyclopedia.com*, <http://www.thecanadianencyclopedia.com/index.cfm?PgNm=TCE&Params=A1ARTA0002497>, (2005) Accessed March 20.
29. W. Stephenson, *The Store That Timothy Built: A Century of Adventure with Canada’s Most Remarkable Retailers*, McClelland and Stewart, Toronto (1969); Also see D. Olive, Looking to the past for new leadership for Eaton’s, *National Post* **1**(20), C10, (1998) November 18. P. C. Newman, *Merchant Princes: Company of Adventures Vol. III*, Viking/Penguin, Toronto (1991); R. McQueen, *The Eatons: The rise & fall of Canada’s royal family*, Stoddart Publishing, Toronto (1999).
30. P. Allossery, How a love affair went sour, *National Post* **1**(251), C4, (1999) August 17.
31. The Canadian law in this case more closely follows the U.S. law’s reorganization bias than the British law’s tendency toward liquidation. Thus Eaton’s was allowed to keep running until a plan could be worked out for them to stay in business. See E. Berglof, H. Rosenthal and E.L. von Thadden, 2001, *The Formation of*

Legal Institutions for Bankruptcy: A Comparative Study of the Legislative History, Mannheim University Working Paper, <http://www.vwl.uni-mannheim.de/vthadden/p/pdf/vthadden/research/bankrupthist.pdf>, accessed March 20, 2005.

32. For more details, see M. Janigan, Hard times at Eaton's (Toronto edn) *Maclean's* **62**, Canadian Press, (1998) Nov. 30.
33. J. Schofield, The retail revolution: shoppers are shaking up the market, and Wal-Mart is winning (Toronto edn) *Maclean's* **34**, (1998) March 1.
34. Les Ailes has the types of special touches for which Eaton's was historically famous — a concierge, a private room for nursing mothers, and, on occasion, complimentary coffee and dessert. If Les Ailes does not have an item in stock, employees will get it for the customer, even if they have to go to a competitor to buy it. (See S. Silcoff, Move over, Timothy Eaton: Quebec retailer Paul Roberge is reinventing how Canadian department stores do business, *Canadian Business* **58**(June 26/July10), 64, (1998) .). Yet even with all this going for it, Les Ailes has trouble maintaining profitability.
35. These figures are net earnings after interest and taxes, and reflect HBC's earnings for the fiscal year ending Jan 31 of the following year. Thus 1994 earnings figure reflects earnings for fiscal year ending 31 Jan 1995, the 1995 figure reflects fiscal year ending 31 Jan 1996, etc..
36. The evidence comes mostly in the form of how some retailers managed to survive and how other retailers failed when Wal-Mart or Home Depot arrived in town. For some recent examples see H. L. Davidowitz, Opportunity knocks, *Chain Store Age* **80**(10), 48 (2005); L. Conley, Climbing back up the mountain, Fast Company, (2005) April: 84–86. Retail's Rising Stars For 2005 *Chain Store Age*, **81**(1): 14-53; E. Valas, Small Business Survives, *Dealerscope* **47**(1), 54 (2005).
37. Z. Olijnyk, Bay watch: profits are down and competition is ferocious. Is CEO George Heller's turnaround plan enough to keep a 333-year-old retail icon from going over the brink? *Canadian Business* **75**(11), 90–93 (2002).
38. F. Sheikh, How Canadian Tire refocused and solved its identity crisis, *Marketing Magazine* **104**(48), 13 (1999).
39. Canadian Press, Canadian Tire profit jumps on higher sales; Earnings rise 29% despite threat of cool selling season Mark's Wearhouse and finance arm give big boost, *Toronto Star*, August 11: C2 (2004).
40. Hudson's Bay Company, Hudson's Bay Company 2003 Annual Report: 45 (2004).
41. Canadian Tire, 2004, Canadian Tire 2003 Annual Report: 20.
42. D. Schendel, G. R. Patton and J. Riggs, Corporate turnaround strategies: A study of profit decline and recovery, *Journal of General Management* **3**(3), 3–11, (1976) found that turnarounds can take four to 16. While the 16 year time line may seem somewhat lengthy for today's hyper-competitive markets, the lingering under-performance of HBC indicates that long turnarounds may still be possible.
43. Thus any learning that could occur from the failure simply never occurred. To see how organization's can better learn from failure see M. D. Cannon, & A. C. Edmondson, Failing to learn and learning to fail (intelligently): How great organizations put failure to work to improve and innovate, *Long Range Planning*, **38**(2), (2005) doi:10.1016/j.lrp.2005.04.005.
44. CT figures are net of Mark's Work Wearhouse acquired in 2002. Mark's earnings were C\$25 million on sales of C\$458 million in 2003. Sales averaged a respectable \$250 per square foot in the Mark's Work Wearhouse stores.
45. S. D. Chowdhury and J. R. Lang, The decline of small firms: A preliminary investigation into the concept of complacency, *Canadian Journal of Administrative Sciences* **13**(4), 321–331 (1996).
46. M. Hedge, Western and Indian models of turnaround management, *Vikalpa* **7**(4), 289–304 (1982).
47. Though we have not discussed technical change, there has been an impact. We found many references to the automation of CT's warehouses. In an industry where Wal-Mart's distribution system is touted as one of its strategic advantages, CT has wisely made major investments to bring technology to bear as a method for improving its own distribution system.
48. S. Kiesler and L. Sproull, Managerial response to changing environments. Perspectives on problem sensing from social cognition, *Administrative Science Quarterly* **27**, 548–570 (1982).
49. D. C. Hambrick and R. A. D'Aveni, Large corporate failures as downward spirals, *Administrative Science Quarterly* **33**, 1–23 (1988).

Biographies

Jerry Paul Sheppard is an associate professor of Strategic Management at Simon Fraser University, Canada. His PhD dissertation from the University of Washington — in the areas of strategic management and business, government and society — won Strategic Management Society Best Dissertation Award. He has written numerous journal articles on organizational survival and failure, as well as law and the environment and ethics. His current publications include *Strategic Management: Competitiveness & Globalization, Canadian Editions*, with Hitt, Ireland, Hoskisson, and Rowe. *Faculty of Business Administration, Simon Fraser University, Burnaby, British Columbia, V5A 1S6 CANADA Phone: (604) 291-4918, Fax: (604) 291-4920, e-mail: sheppard@sfu.ca*

Shamsud D. Chowdhury earned his PhD degree in strategic management at the University of Kentucky. He is currently an associate professor of strategy and competitiveness at the School of Business Administration at Dalhousie University in Halifax, Canada. His research interests include corporate governance, comparative analysis of ownership structures, and organizational decline and turnaround. He sits on the editorial review board of the *Canadian Journal of Administrative Sciences*, *Journal of Business Research*, and *Metamorphosis*. *School of Business Administration, Dalhousie University, Halifax, Nova Scotia, B3H 3J5 CANADA Phone: (902) 494-1795, Fax: (902) 494-1107, e-mail: shamsud.chowdhury@dal.ca*