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Exploring the Mediating Effect of Organizational Inertia on the Relationship of Turnaround and Organizational Performance Framework: A Proposed Framework

Muhammad Suhaimi Mohd Yusof[1], Abd Rahim Romle[2]
[1,2]*School of Government, Universiti Utara Malaysia, School of Government, Universiti Utara Malaysia*
abd.rahim@uum.edu.my

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Abstract
Organizational inertia is a state of organization in idle or stagnant organization phenomenon which reflects on products of organization, method of production and policies whilst it is also as an element of organizational behavior and the storage of ability that caused the organization resists to change. It is a kind of state an organization has the tendency to continue on its current path and restrain from having some changes by insight, action and psychologically based inertia also significant change is hard to bring into organization if there is too much that needed to overcome. This study examines the relationship between turnaround and organization performance in SMEs as the organizational inertia will be the mediator in this study. The respondents of this study consisted of owner or manager of the SMEs which is listed in the system. In this study, data collection will be executed in all states in Malaysia. Hence, this paper proposed on the framework of organizational inertia as mediator on the relationship between turnaround and organizational performance.

Keywords: *Organizational inertia, SME, change management, turnaround, organizational performance*

1. Introduction

The literature review by [1] on organization decline described this condition as a state of absolute decrease in the organization's resource that occurs over certain period of time due to the internal action or inaction by the factors of turbulence environment and external. [2] emphasized most of the organization will face enormous pressure during decline period as the condition of organization under threats of turbulence environment. In order to describe the definition of organizational decline, the focus of organizational decline should be on the symptoms and remedial actions on organizational decline not the situation faced by the firm at that time because it shows the negative image of the organizational performance [3][4]. Hence, identifying variety of causes and solutions is the crucial part in solving the problems faced by the firm [5]. Nevertheless, failure in overcoming the threats during decline period could lead to more consequences as the management failed in managing decline period.

The causes are from internal and external environment factors that affect the concern of the firm itself to cope with the crisis and especially organizational ineptness and management's inability to distinguish the changes occurred in the external and internal factors [6]. According to the [7], the finding on the 2007-2008 financial crisis showed planning and resource allocation are more crucial during crisis. To sum, previous researches such as [8][9][10][11][12][13] on organizational decline showed retrenching assets, operational efficiency, reconsidering services and product and change leadership are the strategies used by most of the organization under decline threats. Thus, top management team should be able to identify relevant strategies in overcoming the threats during decline period due to the turbulence environments nonetheless top management team must be careful in choosing the strategies as it will cause loss to the organization.

The discussion on the literature shows that the need for turnaround strategies in the firm is the way to helps the firm to rise from decline state to breakeven and from breakeven to growth also it is a recovery method by the firm itself to recover the economic performance [14][04].

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Besides, corporate decline is a situation of organizational faced a persistent loss situation and turnaround is the way to reach the equivalent of the breakeven [15]. On the other hand, some of the researchers look turnaround in the broad perspectives as a method taken by the firm to save organization from decline also it is a relevant method which should be taken by all the organization if they are facing or experience this kind of state as proposed in the life cycle theory [16][17][18] [19].

The organizational inertia also looked as an element which inhibit the positive impact of the organization to perform well in the market. Furthermore, some of the organizations are apathetic to evolve and ignore the needs to change even though it is explicitly shows that the knowledge is available to use to evolve nevertheless it remains embedded in the structures and organization is difficult to change [20]. Aligned with this, [21] stated that McDonalds was having turnaround in their operations routines and menu as they had changed some of the procedures and raw materials in serving the breakfast. Nonetheless McDonalds had lost 4.6 percents in the stock in the year of 2016 as they seen the organization became less relevant to the younger generations. Thus, change cannot guarantee better outcomes as what had happened to McDonalds due to some change executed by them.

2. Literature Review

Turnaround

[22] Described turnaround as different process for organization in learning process which is called as organizational learning experiences and can achieved by learning to execute new things in new and efficient ways. Turnaround also was defined as a radical move in order to gain more improvements and maintaining the momentum or strong in the industry during crisis period [22]. Similarly, the improvements within the organization can only be achieved by a series of multiple consequential events in a specific period of time instead of single events nonetheless it is important to study any turnaround theory in perspective which show sequence to the other as it is a dynamic nature due to occurring consequential changes in the process [23]. Understanding the study of turnaround will helps to understand how and why the businesses respond to turnaround actions. It could lead to successful and unsuccessful of turnaround in the organization. In short, turnaround can be concluded as a constructive set which aim to fix original faults in eliminating weaknesses, learning new skills and strength in order to achieve recover and growth from the decline phase in the first place. However, turnaround process must follow the stages or phases in ensuring its success as it will be discussed in the next section.

Retrenchment

According to [24], retrenchment is a process of reverse performance decline and it was a universal stage whilst it is necessary response no matter what kinds of problems that need turnaround to be implemented. It is an important stage in the recovery phase and it could be useful in creating positive change momentum whereas there are three type of potential benefits of retrenchment; (1) efficiency restoration, (2) slack generation and (3) momentum creation. In the downsizing process, this practice allow employee to leave, helping the employees to find another job and avoiding the inequities during the layoff process. This action also will motivate the remaining employees to stay and work harder. Thus, the retention action is essential to the valuable and skilled employees during downsizing process especially for the effective turnaround. Employee management will help to motivate employees in turning the organization effectively in the post-downsizing [25]. According to [24], retrenchment is a process of reverse performance decline and it was a universal stage whilst it is necessary response no matter what kinds of problems that need turnaround to be implemented. It is an important stage in the recovery phase and it could be useful in creating positive change momentum whereas there are three type of potential benefits of retrenchment; (1) efficiency restoration, (2) slack generation and (3) momentum creation. In the downsizing process, this practice allow employee to leave, helping the employees to find another job and avoiding the inequities during the layoff process. This action also will motivate the remaining employees to stay and work harder. Thus, the retention action is essential to the valuable and skilled employees during downsizing process especially for the effective turnaround. Employee management will help to motivate employees in turning the organization effectively in the post-downsizing [25].

Organizational Restructuring

Organizational restructuring can be referred as changes that will be made on the subunits of organization without making any changes on the firm scopes but portfolio restructuring referred as changes in the scope of firm [26]. Financial restructuring can be seen in the changes on debt levels and cash flows but organizational restructuring is not the same phenomenon as the other two [27]. Organizational restructuring involved work reduction such as lay-offs but it is essential in determining the difference in changes which made in administrative structure than the reduction of workforce.

The outcomes of organizational restructuring can be seen in the form of productivity improvement, reduction of cost, increased shareholder value or better organization alignment in turbulence environment [26][27]. Restructuring has positive effects on organization's income and shareholder value but it also could affect negatively if poor implementation during restructuring [26]. There were also few reports on corporate restructuring which it has affected firm by emphasizing the benefits but weakening the revenue streams (Donaldson, 1994). On top of that, organizational restructuring are beneficial as restructuring has an effect on performance improvement and financial in the higher

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education industry and film studios [28]. In addition, employee reaction is essential especially their reaction on change initiatives which will lead to positive reactions to the organization [29].

Financial Restructuring

Cash generation strategies is a method to overcome financial problem which occurred in the organization by improving cash flow, pay down borrowings, reduce interest cost and overcome financial distress [30]. Financial restructuring associated with the banks and institutional investors through exchange offer whilst it is a situation that private lenders exchange debt for equity and reduced the cost of agency between creditors and stockholders [31]. Financial restructuring is a method of reorganization the ownership and capital of the organization in order to improve performance and stabilizing financial of the organization. It is also a way to reorganize existing company financing and secure future organization financing.

Financial restructuring can be defined as a way to avoid insolvency in the company and it will helps in exploiting the liquidity sources efficiently, increase non-operating assets sale and help to align the stakeholder's interest. It also contributes to turnaround successfully by applying in accordance significantly by creating necessary headroom by creating investments and avoid destroying actions. According to [32], he defined financial restructuring as macroeconomic, microeconomic, institutional and regulatory package which helps in problem banking system and restore it to financial solvency and health. Financial restructuring have four stages; (1) diagnosis, (2) damage control, (3) loss allocation and rebuilding profitability and (4) creating incentives.

Change Leadership

As the world changing in our daily life, organizations need to prepare for some challenges and encounter each obstacle with specific strategies. The revolution of industry or organization can be seen through the changes which occur inside the organization and change is a must for organization in order to adapt with the turbulence environment nowadays [33]. Nonetheless, change does not guarantee it would bring greater impact to the organization as it has some possibilities in disturbance inside the organization [34]. In addition, change is an element which hard for employees to accept and resistance that lies in themselves could reject all the changes that have been planned for the organization although change has huge impact on the organizational members as well nevertheless the complexity of resistance involves all the factors inside the organization (individual, collective action and interpretation) [35][33].

According to [36][37], previous literature on the change shows that resistance has been seen as cliché in the management science and organizational behaviour thus they look it as barrier or obstacles to change however change agent plays vital roles in making it as successful plan for the organization [38]. Previous literatures also show that resistance has been re-defined repeatedly and it involves all the elements in the change process whilst it has been labelled as resistance process because it required consideration for some elements such as motivating the resister, helping change management in encountering the resistance and impact of resistance as well [33].

3. Resistance to Change

Organizational Inertia

Organizational inertia is a state of organization in idle or stagnant organization phenomenon which it reflects on products of organization, method of production and policies whilst it is also as an element of organizational behavior and the storage of ability that caused the organization resists to change[39][40]. Some scholars claimed the organizational are bounded to the rules and habits as it has become fixed within the organization itself and then it repeated even becomes the daily activities characterization as well as it turned out to be the source of inertia [41][42][39].

In addition, negative influences of organizational inertia were found in the previous studies because rigidity always exists in any innovative organization and it is hard to overcome the inertia although they had triggered the attention on the value of the innovation [43][44]. Furthermore, some of the successful companies cannot adapt in the new way of conducting business as they faced some difficulties due to the inertia although they have records on past successful business models [45][46][47]. The continuity in using wisdom knowledge in finding sustained competitive advantages and failure to adapt to environment as possible will cause inertia to the organization [48][49]. As a result from the inertia, organization tends to resist to have any changes within the organization because of past successful and having difficulties in responding to the external changes in order to compete with other competitors.

Organizational Performance

The term of organization performance has many meanings for everyone and each of them has different understanding on this term thus uncertainties and difficulties were existed in measuring it. Organization performance can be defined as an ability to obtain and manage the resources (human, financial and physical) properly, as the output of organization strategy as stated in goals and objectives. [50] said the performance of the organization is becoming more complex to measure as the stakeholder expectations are about to change (economic, social and environmental). Organizational performance concepts were based on the productive assets (human, technological, physical and capital resources) by sharing the common purpose in achieving the objectives [51][52][53]. Performance is concept which used in many areas widely and it is measurement in determine how well a mechanism achieves the purpose whilst

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organization performance is how well the firm is manage, fulfilling the customer needs and achieve stakeholders or shareholder interests [54]. According to [55][56], performance dimensions are consist of two fundamental dimension; efficiency (measurement on does the resources have been utilized in order to provide stakeholder satisfaction) and effectiveness (how extent stakeholder requirements are met). In order to achieve superior relative performance, the firm must have greater efficiency and effectiveness than their competitors [55].

4. Proposed Framework

Study by [1] on organizational has increase in the past decades and the focus on this issues has been focused by some researchers in different aspects of organizational decline such as defining organizational inertia, theoretical model in justifying the changes in the environmental which responsible for organizational decline and the studies on the organizational decline impact has been undertaken by some researchers. Hence, this section will discuss on the propose framework which will be the notion of this study as organization seen as one complex systems in responding to the changes due to the turbulence environment [57][58][58]. The theoretical framework of this study consisted of three main variables; turnaround (independent), organizational inertia (mediating) and organizational performance (dependent) as shown in the Figure 1.1 below:

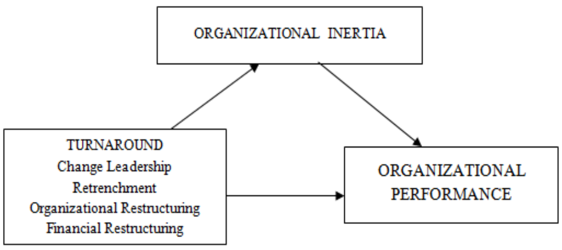

Figure 1: The proposed framework of mediating effect of Organizational Inertia

Based on the theoretical above, the study will scrutinize on the organizational adaptation during organizational decline. Organizational inertia act as mediator variables in this study in order to examine the relationship between turnaround and organizational performance during adapting process and how the organizational inertia will intervene the process of adapting in order to overcome organizational decline. Turnaround process which comprises four types of process such as (1) retrenchment, (2) change leadership, (3) organizational restructuring and (4) financial restructuring in this study will leads to the performance improvement of the organization. Retrenchment strategy will reduce the cost or asset of the firm in order to ensure management of the firm will be more efficient and helps the firm to develop strategies in order to respond to the changes from internal and external [24][59]. This strategy is positively interrelated to the organization performance as the firm need some changes from within the firm itself [60][61][62][63].

Organizational inertia will act as mediating variables in this study due to the impact of inertia which will cause rigidity and resistance to change during the adaptation process as high degree of inertia will cause problems to the organization [64]. The intervene of organizational inertia in this study as mediating effect will show how this variable will hinder the implementation of changes within organization as the necessary changes needed in making the organization and adapting to the environment [65][66]. Furthermore, some of the successful companies cannot adapt in the new way of conducting business as they faced some difficulties due to the inertia although they have records on past successful business models [45][46][47] The continuity in using wisdom knowledge in finding sustained competitive advantages and failure to adapt to environment as possible will cause inertia to the organization [48][49].

Surprisingly, [67] emphasized on effect of organizational inertia that it does not show negative effect to good performance in both tactical and strategic changes whilst organizational inertia can help the organization to prevent from change due to severe resources and pessimistic managerial perception [68]. [66] scrutinized inertia help organization in organizational adaptation which inertia at different level in organization might interact to each other to help organization in adaptation, stability and change [69][70].

Previous study by [66] stated that we should not ignore inertia consequences as the increasing level of inertia in organization accumulate over time will contribute organizational adaptation and success also help organization in keep surviving and maintaining outstanding performance [71][72]. Nonetheless, organization will be missing their opportunities in learning new ideas in executing change effectively if they intend to eliminate all the resistance as they looked it as strategy in achieving desired change.

In addition, resistance can be used as initiative to channel in achieving higher objectives and it can be understood as legitimate response by people who wants to voice something very important to them. It is clearly inertia is important in improving quality, clarity objectives and strategies in enhancing chances for successful implementation in the organization. Regardless of challenging change agents, inertia should be encouraged for better changes in the future for organization [70]

Inertia concept has been applied in the context of organization although not extensively and previous studies on organizational inertia found that resistance to change occurred also the result is significant in terms of decision making aspects in the organization [73]. However, inertia was unspoken and does not been acknowledged in the business organization also it does not being considered as problem [74]) and previous literature stressed there is confusion between inertia and habit [75]. Compare to habit which categorized as subconscious, inertia is categorized under conscious choice in maintaining the status quo yet this is key that separate inertia from habit [74].In addition, SME-sized firms have less flexibility in responding to changes due to limited and temporal financial resources to be allocated other than core business activities also managers of the organization cannot afford to consider in spending more time of changes implementation as long as the old systems are running and implement as usual [73]..

5. Conclusion

As the world facing changes rapidly, organization also need to adapt with current changes within volatile environment which enable them to encounter the blockages or obstacles in the market. However, organization that tends to invest in new business no matter in new technology or not, they will face greater risk by entering new business [74][76]. Hence, organizational inertia will do some favors in assisting organization to maintaining routines in preserving previous victorious practices as their reference in the volatile environment [77].

Furthermore, ones should have better understanding on the change process and considering in assess the readiness of employees or organization in adapting changes in the volatile environment. Top management should acknowledge the needs for change and lacks on the change mechanism would jeopardize organization reputation and resulting into failures between both parties (employees and employers) due to misunderstanding. Moreover, it will lead to high turnover, losses in sales and miscommunication in the decision making within organization. Nevertheless, organization can discover the weaknesses in the change process paying more attention to the critics on the change by reframing resistance as resource to enhance change effectiveness.

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