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## Hitting the 'reset button': The role of digital reorientation in successful turnarounds

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## Hitting the ‘Reset Button’: The Role of Digital Reorientation in Successful Turnarounds

### ABSTRACT

Seismic shifts in industries brought about by radical technological innovations usually lead to a misalignment between the capabilities of many incumbent firms and the requisites of their new environment, and eventually, organizational decline. The current turnaround literature, while emphasizing operating and strategic responses to organizational decline that focus on efficiency and fine tuning product/market strategy respectively, ignores such organizational decline that requires fundamental reengineering of the whole firm and its value chain. This paper introduces the concept of digital reorientation as a long term turnaround strategy to respond to situations in which a firm’s environment has been fundamentally restructured. Digital reorientation is a technology-enabled, simultaneous and multilevel change that transforms the organization’s core architecture and the way it serves its customers. We develop a framework to understand this turnaround strategy relative to traditional operational and strategic options and formulate propositions on internal and external contingencies that will likely influence the effectiveness of its implementation. Finally, using the newspaper publishing industry as an example of an environment that has undergone such disruptive change driven by digital technological innovations, we examine how the use of digital reorientation could help declining firms in that industry successfully turnaround their performance.

*Keywords: Organizational turnaround, Decline, digitalization, Punctuated equilibrium, Digital dynamic capabilities, Business model innovation, Newspaper publishing industry*

## INTRODUCTION

Invariably, most if not all firms face organizational decline at some point. Consequently, how firms manage such decline and turnaround their performance is of fundamental importance to management scholars. Indeed the question of what strategies drive successful performance turnarounds has been a central issue for turnaround researchers. Early turnaround researchers (e.g. Schendel, Patton, and Riggs, 1976) established the two distinct strategies for turning around performance: operating and strategic actions. Operating actions for turnaround focus on short-run cost reduction actions to increase operational efficiency, such as asset and employee reduction (Ndofor, Vanevenhoven & Barker, 2013). Strategic actions on the other hand focus on changing a firm's product markets, or how it competes within those product markets (Barker & Duhaime, 1997).

An underlying, often implicit assumption in the discussion of turnaround strategies is a contingency perspective and a temporal element. The optimal response to turnaround performance depends on the cause of organizational decline (Arogyaswamy, Barker, and Yasai-Ardekani, 1995; Ndofor et al, 2013) and time horizon (Trahms, Ndofor & Sirmon, 2013; Tangpong, Abebe & Li, 2015). When a firm is declining due to misalignment with its environment, strategic actions present the optimal response as it enables the firm to adjust its products and functional strategies to realign with the environment. This is a midrange response as it takes several quarters or years for firms to adjust their strategic posture. However, if a firm is experiencing severe performance decline, operating actions are the optimal short term response as retrenchment activities are the quickest way to 'stop the bleeding' and achieve a positive cash flow (Pearce & Robbins, 1993; Arogyaswamy et al., 1995). Lost in this debate is the long term. What happens when there is a seismic change within a firm's industry that

requires a long term response that goes beyond adjusting the firm's strategic posture to fundamentally re-engineering the firm and its capabilities?

This paper introduces the concept of digital reorientation as a long term turnaround strategy to respond to situations in which a firm's environment has been fundamentally restructured. Digital reorientation is a technology-enabled, simultaneous and multilevel change that transforms the organization's core architecture and the way it serves its customers. We argue that digital reorientation necessitates the revamping of both the firm's supply and demand side value chains in addition to developing new digital-oriented dynamic capabilities. We further formulate propositions on internal and external contingencies that would affect the ability of declining firms to successfully turnaround their performance based on a digital reorientation strategy. Finally, using the newspaper industry an example of an industry that experienced technology induced digital transformation, we discuss how declining firms in such industries could turnaround their performance by pursuing digital reorientation.

In addressing these research questions, we seek to make a number of theoretical contributions to the research on corporate decline and turnaround. First, we introduce digital reorientation as technology-enabled, emerging form of turnaround strategy extending the literature on retrenchment and strategic (innovation-oriented) turnaround. As we will explain later on in the paper, digital reorientation is significantly different from established turnaround strategies both in its scope and objectives. Established turnaround strategies seek to achieve successful turnaround following a performance decline by, for the most part, building on (retaining) the firm's current competencies, capabilities and product market portfolio. Furthermore, these conventional turnaround strategies tend to emphasize short and medium term in their implementation time horizon. Digital reorientation on the other hand, requires a

fundamental re-alignment of the firm's mission, strategy, structure and processes. It involves the development of new capabilities or the redeployment of current ones in novel ways. Given the large-scale nature, it often involves a medium/long term implementation time horizon.

Accordingly, by introducing digital reorientation as a viable turnaround strategy for firms facing fundamental business model disruption, we expand insights on the possible strategic alternatives that are available for declining firms in the corporate turnaround literature. Second, we extend current understanding of the turnaround process by incorporating insights from the punctuated equilibrium theory. The strategic reorientation concept has been widely used and applied to various organizational change studies (e.g. Gersick, 1991; Romanelli & Tushman, 1994) but is yet to be fully incorporated in the corporate turnaround literature. Finally, we contribute to corporate turnaround research by shedding some light on how digital reorientation, as a turnaround strategy, can be applied to firms in the newspaper industry facing major disruptions due to digitalization. In the next section, we will begin our discussion with a conceptualization of digital reorientation.

### **Conceptualizing Digital Reorientation-A Demand and Supply Perspective**

To better understand the impact of digitalization on organizational turnaround, we focus on digital reorientation as a central concept in this paper. We define digital reorientation as a technology-enabled, simultaneous and multilevel change that transforms the organization's core architecture and the way it serves its customers. Our discussion of this concept builds on strategic reorientation, which is a well-established concept in strategic management (Miller & Friesen, 1982; Tushman & Romanelli, 1985). In this section, we first discuss some of the core theoretical foundations underlying the concept of digital reorientation drawing from the punctuated equilibrium model. In so doing, we show that digital reorientation is a conceptual

extension of the strategic reorientation model and shares a number of key attributes related to the depth and breadth of organizational transformation. Next, beyond outlining the shared conceptual domains between digital and strategic reorientation, we also describe how these two concepts differ by highlighting specific dimensions in digital reorientation that are not necessarily present in strategic reorientation. We draw insight from the business model innovation and dynamic capabilities literatures to support our discussion of the conceptual distinctions between digital and strategic reorientation. Specifically, we adopt a demand (firm) and supply (customer) perspective to contrast the conceptual distinction between these two concepts. We note that the primary focus in strategic reorientation is a supply side transformation of the firm to adapt to changing environmental conditions. Such a transformation entails an overhaul of the mission, strategy, structure and processes of the firm.

In contrast, we propose that digital reorientation involves deep transformation both from the firm (supply) and customer (demand) perspectives. In addition to featuring changes in organizational mission, strategy, structure and processes, we propose that digital reorientation involves a substantial overhaul in the way the firm serves its customers. Such demand side changes in customer experience are primarily technology-enabled transformations that are manifesting in the growth of personalized consumption as well as the prevalence of on-demand, multiplatform access to the firm's products/services. Accordingly, by using the demand and supply perspective as a conceptual lens in discussing digital reorientation, we provide a comprehensive account of the effect digitalization has on the firm's ability to undergo transformative changes, the success of which will influence the extent of decline and turnaround. Figure 1 below presents the demand and supply side components of digital reorientation.

## ***Supply Side Transformation and Digital Reorientation***

In this paper, we propose that for declining firms operating in industries that have experienced profound technological disruptions, a successful turnaround is most likely to be associated with a digital reorientation. As illustrated in figure 1 below, supply side components of digital reorientation include shift in firm's core architecture (mission, strategy, structure and processes), revenue model and value propositions as well as the development of digital dynamic capabilities. We will discuss each component below.

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**Insert Figure 1 Here**  
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### ***Shift in Firm's Core Architecture***

In making our case, we rely on theoretical insights from the punctuated equilibrium model (PEM) of organizational transformation (Miller & Friesen, 1982; Tushman & Romanelli, 1985; Gersick, 1991). According to the proponents of PEM, organizational lifecycle unfolds in the form of significant shifts between periods of stability and change. For most of their existence, organizations operate in an extended period of relative stability and incremental change that is characterized by well-established strategy, structure and control systems. Such a stability period is referred to as a period of convergence. Tushman and Romanelli (1985, p. 178) defined convergence as the “process of incremental and interdependent change activities and decisions which work to achieve a greater consistency of internal activities with a strategic orientation, and which operate to impede radical or discontinuous change.” This period can be understood as an equilibrium state in which various organizational attributes (strategy, structure, control systems) are found to be well synchronized not only with each other but also with external environmental demands (Miller & Friesen, 1982; 1984).

PEM scholars further propose that such long periods of organizational convergence tend to be interrupted or "...punctuated by relatively short bursts of fundamental change (revolutionary periods)." (Romanelli & Tushman, 1994, p. 1141). Organizations undergoing such a punctuated period experience a fundamental and discontinuous change in all aspects of the organizational activities including strategy, structure and power distribution (Tushman & Romanelli, 1985). PEM scholars refer to these times in organizational life cycle as periods of reorientation (Lant & Mezias, 1992) as the organization is most likely to undergo substantial changes in its core identity (mission), strategy, structure and processes. Reorientation has been defined as "simultaneous and discontinuous shifts in strategy (defined by products, markets and/or technology), the distribution of power, the firm's core structure, and the nature and pervasiveness of control systems." (Tushman & Romanelli, 1985, p. 179). Periods of reorientation have also been closely associated with revolutionary changes (Gersick, 1991) to organizations that lead to a new equilibrium overtime. Scholars have discussed several drivers of large-scale organizational transformation through a period of reorientation including severe performance crisis, significant changes in the external environment and executive succession (Tushman & Romanelli, 1985; Virany, Tushman & Romanelli, 1992; Romanelli & Tushman, 1994). While periods of convergence and reorientation significantly differ in their contrasting implications for organizational adaptation, most PEM scholars agree that periods of stability and convergence often follow the substantial upheaval associated with undergoing periods of reorientation and revolutionary changes. The transition from a period of reorientation to one of convergence is often facilitated by various institutional processes that cast the components of the reorientation (changes in strategy, structure, process and control systems) as the new equilibrium (Gersick, 1991; Lant & Mezias, 1992; Mezias & Glynn, 1993). In the following sections, we



will discuss in detail three core dimensions of organizational transformation (changes in business strategy, structure and executive leadership) that also underlie supply side components of digital reorientation.

An important component of organizational transformation articulated in the punctuated equilibrium model is drastic shift in business strategy. The organization's business strategy often reflects the core values and organizational philosophies espoused by its senior leadership team. It guides the pattern of resource allocations, as well as important decisions on what markets to serve and products/services to offer (Hitt et al., 2012). Furthermore, business strategies provide a framework for the selection of appropriate business models (including specific value creation and appropriation schemes) that are likely to lead to competitive advantage. Accordingly, a fundamental shift in business strategy invariably requires not only a deep level re-examination of the organization's core values and mission, but also a sweeping re-assessment of existing business models along with products/services offered and markets served. The second attribute of organizational transformation under PEM is a significant shift in organizational structure. Strategy scholars (e.g. Child, 1972; Miller, 1992) and organizational theorists (Burns & Stalker, 1961; Lawrence & Lorsch, 1967; Donaldson, 2001) have long established that fundamental changes in organizational structure often follow deep level changes in the organization's core values, goals and strategies.

When organizations undergo fundamental reorientation such as the one suggested in PEM, their formal structure becomes one of the core organizational features that will face major overhaul. Fundamental changes in organizational structure often entails significant alterations in the number and type of subunits, re-definitions of roles and positions as well as reporting relationships. Additionally, a fundamental change in organizational structure can also lead to the

establishment of new sub-units, formal positions and roles that may not have existed in the organization's past. PEM scholars suggest that fundamental shifts in organizational structure are more likely to occur under reorientations because such profound changes are more likely to be aligned with the redefinition of organizational mission and strategy (Tushman & Romanelli, 1985). Scholars also suggest that achieving fundamental changes in organizational structure, sometimes referred to as "quantum" changes (Miller & Friesen, 1984), is difficult to achieve in an incremental fashion since doing so may create inconsistency and internal misfit among various sub-units within the organization which will subsequently leads to poor performance (Miller & Friesen, 1982; 1984). Furthermore, incremental changes are also less effective in achieving fundamental changes in structure due to established inertia and interdependencies as well as strong resistance to change among organizational members (Romanelli & Tushman, 1994; Gersick, 1991).

The third component of organizational transformation espoused by PEM scholars is changes in executive leadership. The organization's senior leaders play a critical role in initiating fundamental reorientation (Tushman & Romanelli, 1985; Virany et al., 1992). By virtue of their position, executive leaders (especially the Chief Executive Officer) have a responsibility in developing and communicating a comprehensive assessment of what they perceive as prominent opportunities and challenges in the organizational environment and offer a strategic vision to lead the organization to the future (Mackey, 2008; Whittington, Yakis-Douglas & Ahn, 2016). Newly appointed executives-especially those that came from outside the organization and industry- are more likely to engage in aggressive organizational initiatives including large-scale reorientation soon after their appointment as a response to a 'change mandate' from stakeholders (Virany et al., 1992). Furthermore, newly appointed executives are also in a strong position to

launch organizational transformation efforts because they are more likely to possess a robust social capital and good will from various stakeholder groups given their outsider status.

### *Shifts in Revenue Model and Value Propositions*

In addition to fundamental changes to the firm's core architecture, another supply side component of digital reorientation is shift in the firm's revenue model (i.e. how the firm makes money) and its associated value propositions. The firm's revenue model and value propositions are critical components of its business model (Teece, 2010; Zott, Amit & Masa, 2011). The increasing prevalence of digitalization has introduced several challenges to traditional (non-digital) revenue models and value propositions (Chesbrough, 2010). Firms operating in industries that have been significantly affected by digitalization are grappling with understanding and exploiting the dynamic nature of customer value propositions. As internet-based business models become more prevalent, firms are confronted with the challenge of rethinking and redefining the meaning of their value propositions for customers. Unlike the traditional paradigm of defining value propositions based on the assumptions of stable industry membership and technological predictability, newer internet-based models often require firms to account for the dynamic nature technological change and the blurring of industry boundaries in identifying their value propositions (Afuah & Tucci, 2001; Afuah, 2018).

In addition to shifts in value propositions, the growth of internet-based business models is also rendering traditional revenue models obsolete (Afuah & Tucci, 2001). Specifically, firms that rely on physical (brick-and-mortar) outlets for the sale of their products/services have experienced severe decline in sales and profitability given the popularity of e-commerce. Furthermore, the growth of internet-based business models has also introduced various new revenue models such as 'freemium' subscription (which involves free consumption of basic

product/service with an option of premium consumption for a fee) (Rietveld, 2018), metered consumption (e.g. ‘paywalls’ in newspapers) and sharing/collaborative models (Richter et al., 2017). For many firms, an important part of their embrace of digitalization has been the adoption of these emerging revenue models (Afuah & Tucci, 2001). For instance, many newspaper publishers have adopted the ‘paywall’ revenue model which involves offering free online content on a limited basis with a requirement for digital subscription to access premium content (Grueskin, Seave & Graves, 2011). The Wall Street Journal, for example, has been charging for its online content for more than a decade. Similarly, the New York Times has also launched its digital subscription program in early 2011. Its initial plan involved offering 20 free articles for its online readers per month and requiring for subscription for additional access to its various online contents. Collectively, these new models are posing significant challenges to firms that have not yet fully embraced digitalization and exclusively rely on a traditional revenue model.

#### *Development of Digital Dynamic Capabilities*

The last supply side component of digital reorientation is the development of digital dynamic capabilities. When industry leaders and incumbents fail to adapt to disruptive technologies threatening their competitive spheres, it is rarely because they are resource or capability poor. Indeed quite to the contrary. Many incumbents in threatened industries have vastly more superior resources and capabilities than the upstarts that threaten them (Christensen and Bower, 1996). Yet it is this superior endowment of resources and capabilities that engender inertia and make them vulnerable to environmental disruptions. There are two possible explanations for this apparent paradox. First, incumbent firm’s focus on exploiting current resources and capabilities to maximize value for mainstream customers leads to failure to change resource investment patterns to explore breakthrough capabilities (Christensen and Bower,

1996). And, failure by incumbent firms to change the organizational processes that both produce and utilize capabilities. The former type of inertia arises from resource rigidity while the later arises from routine rigidity (Gilbert, 2005). Essentially, changes in environment, in this case driven by digital technology, create a capability gap for incumbents. Capability gaps exist when a firm's current capability profile departs from the ideal profile necessary to be competitive in the industry. It is the distance between a firm's existing configuration of capabilities and the most valuable potential configuration after a technological change (Lavie, 2006).

Capability gaps are more likely to be present among industries that experienced profound digital disruption. For instance, in the newspaper publishing industry, the advent of online media has created capability gaps along the entire news value chain from production to distribution of content and the management of the whole process (Karimi & Walter, 2015). For example, while it is possible for newspapers to simply transfer content from paper media to online, such a strategy is unlikely to be successful. Online media requires real time updates, less reliance on traditional journalistic sources for breaking news and greater reliance on crowd sourcing stories (Grueskin et al., 2011). It entails writing news and captions suitable for social media platforms and mobile devices which are quite dissimilar to print paper. The capability gap becomes a gorge with distribution capabilities. The ability to get physical papers to customer doorsteps before breakfast becomes redundant in the digital space. It is all about the look and feel of the online interface. Traditional newspapers functioned with a push demand strategy. Editors decided on what news and stories to cover and their salience within the print paper (Ryfe, 2012). Online news rather functions on a pull demand model. Readers decide what news and stories they are interested in reading then link to that content (Paskin, 2018).

Underlying the ability to foment a digital reorientation strategy is the ability to reconfigure or develop new dynamic digital capabilities to overcome the capability gap. Overcoming the capability gap created by resource inertia begins by breaking routine inertia, i.e. changing the organizational processes that determine which capabilities are developed or acquired. Lavie (2006) proposed three mechanisms incumbents facing technological discontinuities (such as occurring in the newspaper industry) could use to reconfigure their capabilities: Capability substitution, capability evolution and capability transformation. Capability substitution occurs over the incumbent's entire portfolio while capability evolution requires experimentation at the level of routines and capability transformation focuses on an individual capability.

We argue that successful use of reorientation strategy to turnaround performance will also entail utilizing capability substitution (as opposed to capability evolution or transformation) to overcome resource and routine inertia. Technological innovations that underlie digital disruptions are usually exogenous to affected industries. Incumbent firms facing decline were likely not involved in the development of the underlying technology and therefore none of the capabilities contemporaneously held by declining firms could logically evolve into digital strategy oriented capabilities. This means the capability gap created by this technological discontinuity cannot be bridged by continuous innovation or modification of current capabilities but rather by outright acquisition or development of new capabilities. In the next section, we will turn our discussion to the demand side components of digital reorientation.

### ***Demand Side Transformation and Digital Reorientation***

In addition to the supply side transformational changes that focus on the firm per se, digital reorientation also involves extensive changes to how firms serve their customers. These

transformative changes are closely associated with the growing influence of digitalization across the business landscape. The prevalence of digitalization does not just affect the firm's core architecture (i.e. mission, strategy and structure); but it is increasingly permeating into how customers experience the firm's products/services (Van Bommel, Edelman & Ungerman, 2014). While there might be several areas of change, in this paper we particularly discuss two prominent components of digital reorientation from customers' (demand side) perspective.

### *Product/Service Customization*

The first demand side component of digital reorientation is the growing technology-enabled personalized consumption. As more and more firms embrace digitalization, they consider product/service customization as an essential part of customers' digital experience. In contrast to the conventional supply-driven approach that emphasizes on mass production ("if you build it, they will come" approach), firms are increasingly turning to personalizing their product/services to better serve their customers' unique needs. While product/service customization has arguably been around as a concept, it has become a strategic priority for many firms in recent years due to competitive intensity and growing ubiquity of technological innovation (Van Bommel et al., 2014). Indeed the growing customization trend has been considerably enabled by the prevalence of digitalization (Martin & Todorov, 2010). Such a widespread access to technology (particularly the internet) has meant that customers are demanding a more personalized digital experience in their use of the firms' products/services (Martin & Todorov, 2010; Van Bommel et al., 2014). Firms that have undergone digital reorientation are better positioned to meet the growing demand for personalized customer digital experiences. Digital reorientation allows firms to develop specific dynamic capabilities based on

digital technologies (such as digital platforms). These capabilities in turn enable firms to provide highly customized product/service consumption (Martin & Todorov, 2010).

### *Customer Convenience and Access*

The second demand side component of digital reorientation is expanded customer convenience and access. In addition to providing a technology-enabled personalized consumption, firms that have undergone digital reorientation are also capable of meeting their customers' demand for a more flexible access to their products/services. One implication of the prevalence of internet technology is that customers are increasingly demanding unrestricted access to products/services (Van Bommel et al., 2014). Such expectation for "anytime, anywhere" consumption requires firms to possess both physical and digital capabilities in distribution and supply chain management. Given their emphasis on and investment in technology-enabled dynamic capabilities, firms that fully embrace digital reorientation are more likely to meet this challenge from customers. In addition to the growing "anytime, anywhere" consumption pattern, customers are also increasingly demanding access to the firm's products/services in an on-demand, multiplatform channels of distribution (Doyle, 2015). This demand is primarily due to the ubiquitous use of the internet and technological devices such as mobile phones, tablets and laptop computers as well as hybrid (brick-and-mortar stores and online) sales strategies. While these trends are putting significant pressure on businesses as a whole, those firms that have undergone digital reorientation are likely to be in a better position to meet these customer demands.

### **Beyond Retrenchment and Strategic Turnaround Strategies**

Corporate decline and turnaround scholars have identified two distinct strategies- retrenchment and strategic turnaround-that are often used by firms in reversing their performance



decline and achieve successful turnaround (Hambrick & Schechter, 1983; Ketchen & Palmer, 1999; Trahms et al., 2013). Retrenchment strategies, often taking either cost or asset retrenchment (Pearce & Robbins, 1993), refer to “the reduction of costs and/or the elimination of assets as a means of increasing firm efficiency” (Morrow, Johnson, Busenitz, 2013, p. 189-190). Strategic turnarounds, on the other hand, refer to “...those actions undertaken to change or adjust a firm’s domains and how it competes within those domains (Trahms et al., 2013, p. 1279). These strategic actions often involve new product introductions, new market entry, strategic alliances as well as mergers and acquisitions (Barker & Duhaime, 1997; Ndofor et al., 2013). Scholars have extensively examined the effectiveness of these two major turnaround strategies under various organizational and industry contingencies (Hambrick & Schechter, 1983; Morrow et al., 2004; Ndofor et al., 2013).

In this paper, we propose that a successful turnaround among declining firms operating in industries that experienced significant technological disruption (such as the newspaper publishing industry) is likely to require a long term digital reorientation strategy beyond retrenchment and strategic turnaround. While these conventional strategies have been shown to influence turnaround success, we argue that their scope and range of actions simply do not go far enough to effectively address the cause of decline and provide a path for successful recovery in such industries. Specifically, we propose that conventional (i.e. retrenchment and strategic actions) and digital reorientation strategies differ significantly in their scope, objectives, time horizon, and resource/capability development needs. We contrast these differences in Table 1 below.

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Conventional turnaround strategies primarily employ cost and/or asset reduction as well as the exploration of new product-market opportunities in order to achieve successful turnaround. A digital reorientation strategy, on the other hand, involves several actions that have noticeably broader scope. These actions include a fundamental overhaul of the firm's core architecture (mission, strategy, structure and processes). A digital reorientation also differs significantly in its objectives. Compared to 'traditional' strategies that emphasize a "stop the bleeding" approach (Arogyaswamy et al., 1995), the goal of a digital reorientation strategy is more expansive, including the strategic renewal and transformation of the declining firm beyond merely achieving short-term performance recovery. With regards to temporal commitment, digital reorientations are more likely to unfold over the medium and long term in contrast to the short-term window often employed by conventional turnaround strategies (Tangpong et al., 2015).

Finally, we argue that conventional and digital reorientation strategies differ significantly in their resource/capability requirements. While conventional turnaround strategies emphasize resource and capability development that primarily improve existing businesses, digital reorientation strategies focus on the development of new resources and capabilities that support emerging business models and subsequently lead to successful organizational transformation. For declining newspaper publishers, this implies a systematic disinvestment in 'legacy' (paper) news operations coupled with aggressive investment in digital news platform to boost online readership and digital advertising. Furthermore, digital reorientation strategy among declining newspaper publishers is likely to involve the development of new set of skills and capabilities necessary to effectively manage a digital news platform and associated operation (e.g. hiring staff with online editorial experience, multimedia skills, social media competence).

## **The Role of Digital Reorientation Strategy in Organizational Turnaround**

Having discussed the characteristics and distinctive features of digital reorientation strategy, we now turn our discussion to the role digital reorientation plays in achieving successful turnaround. Figure 2 below presents a conceptual model and corresponding propositions depicting the relationship between digital reorientation and the likelihood of successful turnaround among declining firms. Additionally, the model also presents internal (organizational) and external (stakeholder) contingencies that serve as boundary conditions for the link between digital reorientation and the likelihood of successful turnaround. We will discuss these specific relationships in the section below.

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### *Digital Reorientation and Likelihood of Successful Turnaround*

Declining firms adopting a digital reorientation strategy are more likely to achieve successful turnaround for two related reasons. First, from the firm (supply side) perspective, digital reorientation strategy, encompassing the development of digital dynamic capabilities (i.e., recombination and reconfiguration of existing resources and capabilities with those enabled by digital technology), creates an opportunity for declining firms to overhaul their business model (De Jong & van Dijk, 2015; Loebbecke & Picot, 2015; Rachinger, Rauter, Müller, Vorraber, & Schirgi, 2018). Digital reorientation strategy often requires capability substitution (Lavie, 2006), which involves replacing a substantial part of the existing business model with a new one in attempt to bridge the capability gap created by digitalization. New capability building blocks, that are driven by digital technology and acquired within the framework of digital reorientation, can thus enable declining firms to not only provide enhanced value propositions to customers

(Clauss, Abebe, Tangpong, & Hock, 2019; Zott & Amit, 2010), but also to create alternative distribution outlets and new revenue streams. Consider the case of The New York Times newspaper. In early 2011, to harness emerging digital technologies, The New York Times retooled its capabilities and launched a digital subscription program. Through this digital subscription program, the newspaper was able to present a new value proposition to its readers by offering access to twenty free articles per month on its website and positioning this digital subscription as a gateway for offering premium online contents for a fee. As this case illustrates, a digital reorientation strategy has a capacity for reshaping declining firms' revenue model, value proposition, and related digital dynamic capabilities needed to strengthen their competitive position.

Second, on the customer (demand-side) perspective, such a strategic overhaul of their business model through a digital reorientation strategy can also better position declining firms to address the root cause of their decline, which in most cases tends to be the socio-technological shifts in customer taste, lifestyle, and preferences. Within the digital reorientation framework, product/service customization and flexible/convenient access enabled by the newly overhauled business model can help declining firms better meet the changing customer demands, particularly the "anytime, anywhere" customer expectations fueled by digital technology (Doyle, 2015). Compared to conventional turnaround strategies (such as cost/asset retrenchment or product/market reorientation), a digital reorientation strategy alters the nature of the firm's business model and leads to the development of digital dynamic capabilities. Consequently, such changes make the firm more capable of reducing costs, creating new revenue streams, and improving the value propositions of its product/service offerings concurrently. The focus of retrenchment strategies is mainly on near-term efficiency gains and cost or asset reduction to

stabilize the financial conditions of declining firms (Barker & Mone, 1994; Schmitt & Raisch, 2013; Tangpong et al., 2015). Similarly, strategic (market-based) turnaround largely focuses on long-term revenue generation through changing the product-market mix, which can involve introducing new products/services and entering new markets typically through mergers/acquisitions and strategic alliances (e.g., Pearce & Robbins, 2008; Tangpong et al., 2015). When the cause of decline is primarily due to a fundamental shift in the industry, conventional (i.e. retrenchment and market-based) turnaround strategies may not be adequate in effectively addressing the cause of decline (e.g., Castrogiovanni & Bruton, 2000; Ndofor et al., 2013). As a turnaround strategy, digital reorientation initiates multilevel changes in declining firms and realigns their business model and underlying capabilities to address the fundamental shifts in customer trends and technological transformation. Thus, from both (supply-side) organizational and the (demand-side) customer perspectives, the adoption of digital reorientation among declining firms is likely to strengthen their competitive position, enhance their likelihood of attaining successful turnaround and ensure long term strategic renewal. The above lines of reasoning suggest the following proposition:

*Proposition 1: For declining firms operating in industries that are impacted by digitalization, the adoption of a digital reorientation strategy will be positively related to the likelihood of successful turnaround.*

The above argument for the positive impact of digital reorientation on successful turnaround notwithstanding, it reasonable to expect such a positive link may not equally be observed across all firms and industries. Given that the adoption of a digital reorientation strategy by declining firms can be a rather complex and far-reaching strategic decision, there are various external and internal contingency factors that may facilitate or hinder the effectiveness of this strategy. In the following section, we will discuss four boundary conditions that are likely to

strengthen or weaken the relationship between the adoption of digital reorientation strategy and successful turnaround. In identifying these boundary conditions (moderators), we rely on two critical assumptions. First, insights from organizational turnaround and strategic change literature suggest that the effectiveness of large scale organizational transformations (such as digital reorientation in this case) are to a great extent dependent on the level of existing slack resources. Firms that are in a relatively stronger position in their resource endowments are more likely to be capable of initiating and effectively implementing such large scale initiatives. Given this observation, we introduce two organizational moderators that may play a role in strengthening or weakening the role of digital reorientation on successful turnaround: firm ex-ante R&D intensity and severity of performance decline. Ex-ante R&D intensity provides declining firms with an absorptive capacity (Cohen & Levinthal, 1990) and knowledge base that enhances their ability to effectively adopt large scale, complex organizational initiative such as digital reorientation. On the other hand, the severity of performance decline can be a proxy for the lack of slack resources that is necessary to effectively adopt digital reorientation.

Our second assumption pertains to the role of external stakeholders. There is an established theoretical argument and empirical evidence in the organizational turnaround and strategic change literatures on the critical role external stakeholders play in achieving successful turnaround (Arogyaswamy et al., 1995; Pajunen, 2006). External stakeholders often control key resource support (e.g. financial resources, legitimacy) that the declining firm needs to successfully turnaround (Arogyaswamy et al., 1995; Filatotchev & Toms, 2006). Achieving successful turnaround, and by extension the effective adoption of a digital reorientation strategy will most likely be difficult without the support of external stakeholders' support. Furthermore, external stakeholders play an important role in shaping the firm's reputation as a social actor

(Rindova, Williamson, Petkova & Sever, 2005). Accordingly, we introduce the degree of external stakeholder support and ex-ante firm reputation as important external moderators of the digital reorientation-turnaround relationship. We will discuss these moderators in the following sections.

### **Firm Ex-Ante R&D Intensity and Decline Severity as Moderators**

With significant multilevel changes and realignment efforts needed to implement a digital reorientation strategy, declining firms' R&D intensity prior to experiencing the decline can serve an important organizational contingency moderating the relationship between the adoption of a digital reorientation strategy and successful turnaround. From an organizational architecture standpoint, the efforts needed in retooling and rebuilding the firm's operational processes that are necessary in the adoption of a digital reorientation strategy can be substantial (Hagey, Alpert & Serkez, 2019). Such efforts could arguably be more manageable if declining firms possess high R&D intensity, which reflects their absorptive capacity to internalize new knowledge and expertise (e.g., Cohen & Levinthal, 1990; Omidvar, Edler & Malik, 2017). Robust R&D capabilities also indicate the firms' inherent organizational readiness to explore and incorporate new initiatives (e.g., Chen & Miller, 2007; Monteiro, Mol & Birkinshaw, 2017). Put differently, such ex-ante R&D capability can help lay the groundwork for the adoption of a digital reorientation strategy, which requires substantial organizational changes including the reconfiguration of the firm's existing business model and underlying capabilities. Without such a foundation that ex-ante R&D capability provides, the successful implementation of a digital reorientation strategy will be more difficult to realize.

Declining firms with low levels of ex-ante R&D intensity are more likely to pursue exploitative rather than explorative initiatives (e.g., Kim & Zhu, 2018; Mudambi & Swift, 2014). Exploitation-oriented firms tend to be efficiency-focused, and organizational processes and

routines are heavily formalized and standardized (e.g., Gilbert, 2005; Sinkula, 2002). In such instances, the resources needed for implementing a digital reorientation strategy are likely to come from the resource allocation away from existing organizational processes and routines, since the needed resources and the costs involved in implementing a digital reorientation strategy are typically high (Hagey et al., 2019). As such, the adoption of a digital reorientation strategy is likely to strain the resources needed for existing exploitation-oriented organizational processes and routines. Consequently, the internal competition for resources, intra-organizational conflicts between the guards of the old processes and routines and the champions for the new ones may progressively ensue as the turnaround process unfolds, making the successful turnaround less likely. Overall, the lack of ex-ante R&D intensity can foster organizational conditions that are more prone to a managerial dilemma between resource rigidity and routine rigidity, to put in Gilbert's (2005) terms. In other words, under such conditions, the executive decision on resource allocation for a digital reorientation strategy could provoke the routine rigidity and resistance, thus undermining the turnaround effort. Not making such a resource allocation decision, declining firms may suffer from resource rigidity and the continuation of a capability gap, making the implementation of a digital reorientation strategy and the turnaround effort less likely to be successful. The above discussion leads us to the following proposition:

*Proposition 2: For declining firms operating in industries that are impacted by digitalization, firm ex-ante R&D intensity positively moderates the relationship between the adoption of a digital reorientation strategy and the likelihood of successful turnaround, such that the relationship is stronger for declining firms with high ex-ante R&D intensity.*

The relationship between the adoption of a digital reorientation strategy and successful turnaround can also be contingent on the severity of performance decline facing firms attempting turnaround. Specifically, severity of performance decline is likely to make digital reorientation a



less successful turnaround strategy for a two reasons. First, the severity of performance decline is likely to deplete and devoid the requisite slack resources needed to achieve successful turnaround (e.g., Francis & Desai, 2005; Robbins & Pearce, 1992; Schmitt & Raisch, 2013). Effectively implementing a digital reorientation strategy can be difficult for firms experiencing severe performance decline. As organizational turnaround scholars observed, severe performance decline drastically reduces or eliminates the organization's resource base. Without such resource 'cushion', the declining firm will be left with little or no capacity to implement a large scale organizational transformation such as a digital reorientation strategy. Second, beyond the challenge of resource scarcity, the severity of performance decline is also associated with various organizational pathologies that constrain the quality of managerial decision-making (Weitzel & Jonsson, 1989). In particular, insights from threat-rigidity theory (Staw, Sandelands & Dutton, 1981) suggest that organizational crises such as severe performance decline lead to limited information-processing, centralization of decision-making, scapegoating and an overall cognitive rigidity among the organization's senior leaders (e.g., Rudolph & Reppenning, 2002; Sutton, 1990; Tangpong et al., 2015). These dysfunctional organizational dynamics along with the resource depletion is likely to hamper the implementation of a digital reorientation strategy. Under such condition, it is less likely that the adoption of a digital reorientation strategy would lead to a successful turnaround among declining firms. The above discussion leads us to the following proposition:

*Proposition 3: For declining firms operating in industries that are impacted by digitalization, the severity of firm performance decline negatively moderates the relationship between the adoption of a digital reorientation strategy and likelihood of successful turnaround, such that the relationship is weaker for declining firms with more severe performance decline.*

### **Firm Ex-Ante Reputation and External Stakeholder Support as Moderators**

Prior to experiencing the decline, firms often vary in their reputation, reflecting their relative importance to various stakeholders in the industry environment. Ex-ante reputation of declining firms can determine to what extent the adoption of a digital reorientation strategy results in successful turnaround. Analogous to the “too big to fail” phenomenon in banking and insurance sectors (e.g., Afonso, Santos, & Traina, 2015; O’Hara, M., & Shaw, 1990; Stern & Feldman, 2004), when highly reputable firms face decline, the commitment level from external stakeholders to the turnaround effort tends to be stronger than would be the case among less reputable firms. Consequently, the strength of the relationship between the adoption of a digital reorientation strategy and successful turnaround may hinge on declining firms’ ex-ante reputation. Declining firms that have a better reputation are often well-positioned to obtain the needed resources because of the substantial social capital and legitimacy they have garnered over the years (Abratt & Kleyn, 2012; Helm, 2007; McMillan & Joshi, 1997). Accordingly, they are in a better position to effectively implement a digital reorientation strategy and subsequently achieve a successful turnaround. The above discussion leads us to the following proposition:

*Proposition 4: For declining firms operating in industries that are impacted by digitalization, firm ex-ante reputation positively moderates the relationship between the adoption of a digital reorientation strategy and the likelihood of successful turnaround, such that the relationship is stronger for declining firms with favorable ex-ante reputation.*

Likewise, the degree of external stakeholder support can be another important moderator of the relationship between the adoption of a digital reorientation strategy and successful turnaround among declining firms. External stakeholder support, in this case, refers to the intensity of support and identification key stakeholders may have for the firm (Arogyaswamy et al., 1995). As noted in the turnaround literature, stakeholders play an important role in the successful turnaround process (e.g., Arogyaswamy et al., 1995; Pajunen, 2006; Trahms et al.,

2013). In the context of effective adoption of a digital reorientation strategy, a strong support from key stakeholders (e.g., major customers, suppliers, creditors, and community partners) is likely to enable declining firms to attract the needed resource support during the turnaround process. External stakeholders often have a vested interest in ensuring the continued success of the firm and are likely to engage in the turnaround process. They can provide valuable input in the adoption of a digital orientation strategy as the turnaround process unfolds (Lohrke, Bedeian, & Palmer, 2004; Pajunen, 2006; Slatter, 2011). However, external stakeholders' support for a digital reorientation strategy may not be taken for granted. While some stakeholders may view digital reorientation as an inevitable strategy in the face of growing digitalization, others may be more skeptical of the capacity of the declining firm to effectively adopt this strategy given the extensive scope and profound transformation it entails. As such, declining firms with strong support from stakeholders, particularly as it pertains to the adoption of a digital reorientation strategy, are more likely to make the necessary changes to their business model and operations and achieve a successful turnaround. The above discussion leads us to the following proposition:

*Proposition 5: For declining firms operating in industries that are impacted by digitalization, the degree of external stakeholder support positively moderates the relationship between the adoption of a digital reorientation strategy and the likelihood of successful turnaround, such that the relationship is stronger for declining firms with strong external stakeholder support.*

### **Digital Reorientation among U.S. Newspaper Publishers**

The U.S. newspaper industry consist of publishers with more than 2000 daily and non-daily newspaper titles. Daily newspapers are the dominant type of newspaper in the market holding roughly 61% of the market share compared to 39% share of the non-daily newspapers (Datamonitor, 2011). Subscription (circulation) and advertising are the two main sources of revenue for newspapers. According to the Pew Research Center (The Pew Research Center, 2010), the U.S. newspaper industry is estimated to be worth around \$25 billion. In 2018, the

industry had an estimated \$14.3 billion in advertising revenue and another \$11 billion in circulation revenue from paper-based newspapers. While there is considerable consolidation at the national level with fewer major newspapers, the industry is highly fragmented with several thousands of local/regional newspapers serving relatively smaller markets (Datamonitor, 2011). The industry is characterized by intense competition fueled by sluggish growth in revenues and high fixed costs as well as strong barriers to entry such as economies of scale and brand loyalty (Mierzejewska et al., 2017). Print operation is the prevailing business model in the newspaper industry with a strong reliance on reader subscription and classified and other types of advertisements as revenue sources. As such, newspapers with high circulation (more subscribing readers) tend to attract more advertisers and charge more for their advertising spaces. However, as we will discuss later in the paper, this business model is rapidly becoming unsustainable for most newspapers due to the growing dominance of the internet and corresponding shift in customer preferences. The paper-based (print) business model is increasingly being replaced by the emerging digital news platforms that often include digital circulation and digital advertising as alternative revenue sources (The Pew Research Center, 2016).

In this paper, we draw from PEM's core concepts to argue that a successful turnaround among declining newspaper publishers requires a fundamental digital reorientation including changes in business models (revenue model and value capture) as well as the development of new capabilities in digital news operation. Further, we propose that the conventional turnaround strategies of retrenchment and strategic turnaround are less likely to be successful in this industry given the profound nature of technological and competitive disruption that is taking place in this industry. We conceptualize the period of digital reorientation as one that involves a large-scale shift toward the adoption of a digital news platform and digital business model including the

development of new sets of skills and resources to support a digital news operation. Furthermore, consistent with PEM's tenets, we propose that such a period of digital reorientation among U.S. newspaper publishing industry may be followed by a period of convergence. Convergence in this industry may involve a period of time when newspaper publishers develop and refine important internal processes, structures and systems in order to improve internal fit with the growing importance of digital news platform. Digital reorientation in the U.S. newspaper publishing industry may not always imply a complete migration of the newspaper's operation to exclusive digital news platforms, but it rather suggests a conscious and deliberate attempt on the part of strategic leaders to incorporate these emerging opportunities into existing business model. The illustrative examples of the digital reorientation attempts by U.S. newspaper publishers are provided in Table 2.

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**Insert Table 2 Here**  
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An important component of supply-side digital reorientation is changes in business strategy. Among U.S. newspaper publishers, fundamental changes in business strategy take numerous forms. At the most basic level, a fundamental shift in business strategy intertwines with newspaper publishers re-examining their core values and missions. For most of their existence, newspapers have been thought of as a form of "public good" (Hamilton, 2016). This designation often meant that the primary emphasis on upholding high-quality journalism (even with its high costs). Less attention was paid towards the business decisions that needed to be made in order to keep the publisher as a profitable entity with sound financial standing. Additionally, this designation fostered the overwhelming dominance of the paper-based subscription and advertising-based business model. With the advent of the internet, changes in

the public's news consumption habits and alternative news sources (e.g. Cable TV), these established core beliefs and business model have faced a steep challenge, given the across the board decline in both newspaper subscription and advertising revenues coupled with the rise of digital newspaper platforms. Consequently, it has become increasingly important for U.S. newspaper publishers to find ways of successfully adapting to these changing realities.

What does shifts in business strategy entail among U.S. newspaper publishers? First, significant shifts in business strategy in this industry begins with the re-examination of the existing business paper-based business model. Given the changes in news consumption patterns among their readers, newspapers are facing precipitous decline in their circulation and advertising revenues. Consequently, the digital news platform is increasingly emerging as an alternative business model (Karimi & Walter, 2016). it involves not only offering news content online via the newspaper's website, but also a strategic approach to cultivate online readership and digital subscriptions in order to subsequently monetize the newspaper's presence via digital advertising. Second, a significant shift in business strategy in this industry also entails a notable shift in resource allocation. With the emergence of the digital newspaper platform, substantial financial resources and attention is likely to be diverted to this emerging platform away from the traditional paper-based news operation. Developing a digital news platform involves significant resource investment in people (e.g. digital editors, reporters and multimedia specialists) and technology (e.g. website, blogs, social media presence etc.). The magnitude of such resource allocation decisions can vary across different newspaper publishers. Some publishers, such as the Christian Science Monitor, have chosen to close their paper-based news operation and transition to a digital newspaper (Cook, 2008). Others (most major newspapers such as the New York Times, Washington Post, USA Today and Wall Street Journal) have opted to developing their

digital platform alongside their paper-based operations. Finally, a significant shift in business strategy among U.S. newspaper publishers also involves strategic decisions on their product-market offerings. Given the growing momentum towards a digital news platform, U.S. newspaper publishers are likely to focus on multimedia rich content and news aggregation approaches in order to offer their readers with more choices in general interest stories from various media outlets. In the next section, we will discuss major structural changes that are taking place in the U.S. newspaper publishing industry.

Beyond changes to business strategy, supply-side digital reorientation calls for an overhaul of the firm's organizational structure. In the context of the U.S. newspaper publishing industry, we argue that fundamental changes in organizational structure is a critical component of digital reorientation. Among newspaper publishers, significant shifts in structure entail not only the re-definition of roles and responsibilities, but also the introduction of entirely new work units, positions and responsibilities across the hierarchy. Digital reorientation among declining newspaper publishers may require that they substantially overhaul their fledgling legacy (paper-based) division (Grueskin et al., 2011). The legacy news operation and structure that is prevalent among most newspaper publishers is characterized by the relatively high fixed cost of operation in terms of both physical assets (e.g. printing press, delivery fleets) and personnel costs (e.g. editors and reporter pay) (Grueskin et al, 2011; Hamilton, 2016). In addition, creating original content (such as investigative journalism) often requires substantial resource commitment (Hamilton, 2016). Given these considerable and costly resource commitments, newspaper publishers undergoing digital reorientation are more likely to make substantive changes to this paper-based news operation in an effort to improve their financial position (Cawley, 2019).

In addition to major changes in the legacy news divisions, declining newspaper publishers are also more likely to create a new digital news platform consisting of new positions, roles and responsibilities. As scholars in journalism and media economics (Grueskin et al., 2011; Casero-Ripollés & Izquierdo-Castillo, 2013) pointed out, creating such a new division is highly justified given the notable differences between print and digital news operation. Grueskin and colleagues (2011) for instance observed that digital news platforms and “...digital journalism requires an entirely different mind-set, one that recognizes the plethora of new options available to consumers” (p. 11). As we argued earlier in the paper, digital news platforms require markedly different skills and capabilities. As such, the establishment of these platforms is likely to give rise to new positions (such as digital editors, multimedia specialists and social media managers etc.) and responsibilities (Ryfe, 2012).

Finally, supply-side digital reorientation requires firms to consider changes in executive leadership. Given the profound changes that are taking place in the newspaper publishing industry, it is highly likely that changes in executive leadership will take place. Newspaper publishers may face a strong pressure from key stakeholders such as investors, creditors and community groups to change course in light of precipitous performance decline (Soloski, 2015). Additionally, the desire for executive leadership changes may also arise due to the increasing demand for leaders with a more contemporary understanding and competency in digital news operations (Soloski, 2015). Given these and other factors, it seems likely that declining newspaper publishers pursuing digital reorientation and subsequent successful turnaround pursue executive leadership changes.



## Discussion and Implications

In this paper, we sought to achieve three objectives. First, we proposed the concept of digital reorientation as an important firm level response to the growing prevalence of digitalization and its implications for organizational decline and turnaround. Second, in addition to outlining the conceptual domain and corresponding dimensions of digital reorientation, we also provided a set of internal and external contingencies that serve as boundary conditions that shape the effectiveness of a digital reorientation strategy. Finally, we used the U.S. newspaper publishers to illustrate our theoretical framework given the profound changes that are taking place in the newspaper industry.

In doing so, the paper makes a number of contributions to research on corporate decline and turnaround. First, this paper expands current scholarly insights in the turnaround literature by introducing digital reorientation as alternative and viable turnaround strategy especially in light of the growing trend of digitalization. We believe this strategy significantly differs from established turnaround strategies such as retrenchment and strategic turnaround in its objectives, scope, temporal orientation and resource requirements. By conceptualizing it as comprising of both supply (firm level) and demand (customer level) side changes, we propose that digital reorientation is a far more comprehensive and consequential turnaround strategy in its breadth and depth compared to the conventional retrenchment and market-based turnaround strategies. While conventional turnaround strategies aim to reverse performance decline (by cutting costs and/or reducing asset base) and achieve market adjustments (by introducing new products/services) in the short and medium term, they tend to fall short of addressing the fundamental strategic challenges (such as digitalization or business model obsolescence) firms face that contribute to their decline in the first place. We propose that, for firms facing such fundamental challenges, digital reorientation, not just retrenchment or market-based turnaround,

provides them with a viable strategic roadmap towards successful turnaround. Second, this paper also advances research on corporate turnaround by proposing certain boundary conditions that either strengthen or weaken the digital reorientation-successful turnaround relationship. We believe that doing so advances theoretical insights by articulating why some declining firms are more likely to achieve successful turnaround than others.

Third, this paper contributes to on-going research on corporate turnaround by expanding the theoretical “tool kit”. We do so by incorporating key insights from the Punctuated Equilibrium Model (PEM). PEM has extensively been used by scholars in understanding organizational change and transformation (Gersick, 1991; Uotila, 2017). However, it has not been sufficiently embraced by turnaround scholars despite its clear relevance to research on corporate turnarounds. Over the years, scholars have employed cognitive (Barr, Stimpert & Huff, 1992; Barker & Barr, 2002), resource-based (Pajunen, 2006; Boyne & Meier, 2009) and leadership (Lohrke et al., 2004; Chen & Hambrick, 2012; Abebe & Tangpong, 2018) approaches as major theoretical perspectives. Consequently, we believe PEM is a useful theoretical addition to the turnaround literature that helps explain the patterns and dynamics of organizational actions. Finally, by specifically discussing the U.S. newspaper publishers, this paper seeks to advance scholarly understanding of the dynamics of successful turnarounds among firms operating in industries that have experienced significant disruption due to digitalization. Our specific theoretical analysis allows us to unpack the challenges and opportunities of successful turnaround among firms operating in sectors that are disproportionately facing the brunt of digital disruption and revolutionary changes in internet-based business models. Further, industry specific analysis, with its focus on radical and discontinuous change, complements current

scholarly work in corporate turnaround that predominantly focuses on industries dealing with less profound, incremental changes (Morrow et al., 2004; Ndofor et al., 2013).

Beyond its theoretical contributions, the model we proposed also presents a number of empirical research opportunities. First, building on our discussion of the supply and demand side components of digital reorientation, scholars can develop a multi-item scale that can be used to examine the antecedents and consequences of this concept. The development of a digital reorientation scale can also help advance research in the areas of organizational change and innovation. Second, future empirical work can test our proposed theoretical relationships between digital reorientation and successful turnaround including the organizational and stakeholder contingencies that we outlined in our model. Such an endeavor can provide empirical evidence for our proposed relationship between digital reorientation and successful turnaround. Finally, we believe there are also empirical opportunities to study the influence of digital reorientation specifically in industries that experienced profound changes in their business model as a consequence of the growing digitalization trend. In particular, our discussion on the impact of digital reorientation in the U.S. newspaper publishers provides a foundation upon which in-depth industry specific empirical studies can be conducted.

In addition to the scholarly insights, we believe the paper also has some practical implications particularly for declining firms operating in industries that experienced the profound impact of digitalization such as newspaper publishers. As senior leaders of declining firms (such as newspaper publishers) may contemplate various strategic actions, our discussion suggests that a digital reorientation approach may indeed be a useful and relevant turnaround strategy. Our discussion further implies that the simultaneous changes in supply (strategy, structure, business model and dynamic capabilities) and demand (product/service customization and on-demand,

multiplatform consumption) sides, as conceptualized in digital reorientation, is more likely to lead declining firms to successful turnaround. Furthermore, our discussion of boundary conditions on the effectiveness of digital reorientation strategy provides some practical insights on when and under what conditions such a strategy might lead to successful turnaround. Accordingly, these boundary conditions may help senior leaders determine if such a strategy is particularly appropriate for their firms. Finally, senior leaders may also benefit from our discussion of dynamic capabilities that underlie the development of digital platforms. Specifically, our discussion highlights the critical need for developing new resources and capabilities as well as reconfiguring existing ones during the turnaround process. Thus, one practical takeaway from in this regard is for senior leaders of declining firms to consider what resources and capabilities to cultivate and when to do so to mitigate the adverse effects of digitalization and achieve a successful turnaround.

## **CONCLUSION**

Technological innovation (in particular digitalization) is creating drastic changes to many industries in ways that go beyond expected Schumpeterian shocks to patterns more reflective of chaotic systems (Ndofor, Fabian & Michel, 2018). Without having resources, capabilities and orientation to deal with such discontinuous change, many incumbent firms are likely to suffer from organizational decline as witnessed in the newspaper industry. We argue that for firms facing such decline, successful turnaround would entail a complete overhaul of both the supply (strategy, structure, business model and dynamic capabilities) and demand (product/service customization and on-demand, multiplatform consumption) side considerations. We therefore take a step towards arming organization scholars and managers with a new turnaround strategy

(i.e. digital reorientation) that firms can use in reversing their decline that is caused by a discontinuous technological change.

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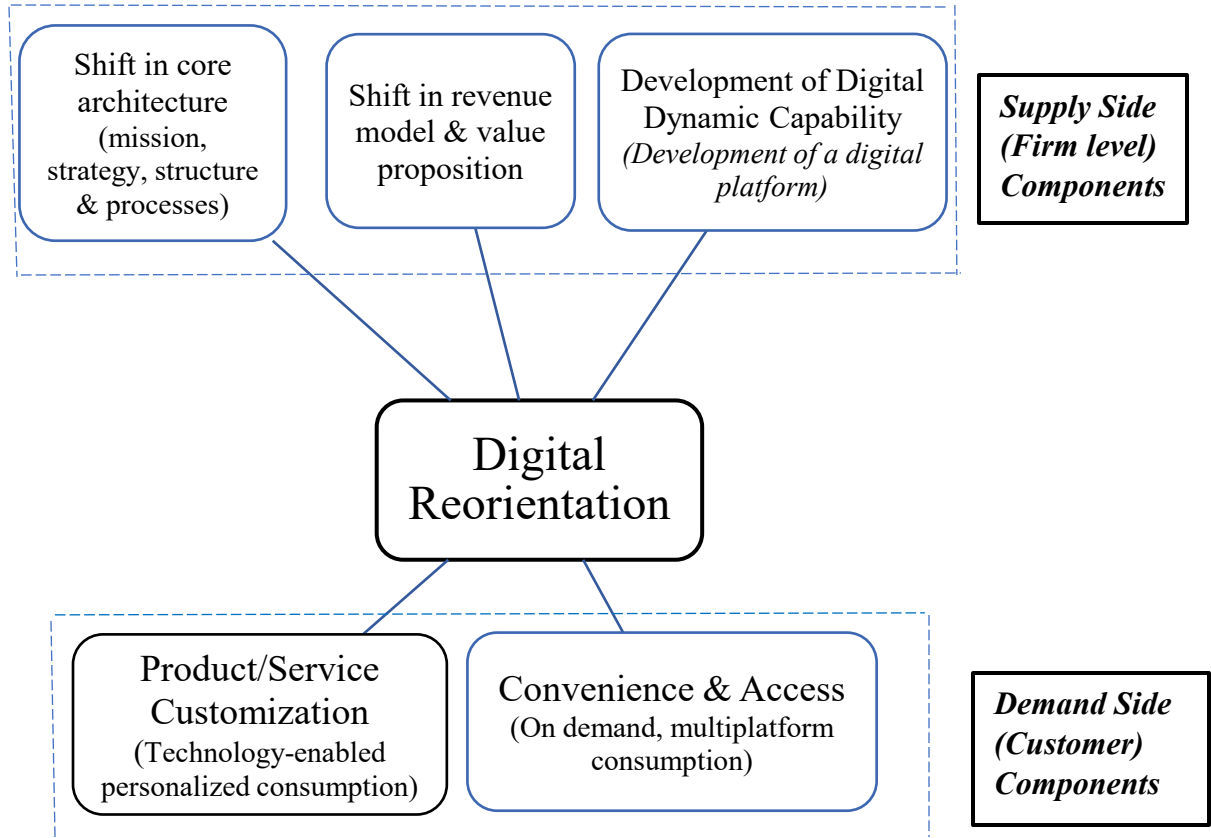
**Table 1. Conventional and Digital Reorientation Turnaround Strategies**

	<b>‘Traditional’ Turnaround Strategies</b>	<b>Turnaround as Digital Reorientation</b>	<b>Implications for Newspaper Publishers</b>
Turnaround strategies employed	Both retrenchment and strategic turnaround strategies	Reorientation (multifaceted and interrelated actions at the macro/organizational level that are aimed to re-define the firm’s product/services and market position)	<p><b>Retrenchment:</b></p> <ul style="list-style-type: none"> <li>- Reduction of newsroom staff</li> <li>- Closure of newsroom offices</li> </ul> <p>- Switch to less frequent circulation (e.g. daily to weekly)</p> <p><b>Strategic turnaround strategies</b></p> <ul style="list-style-type: none"> <li>- new product/service introduction</li> <li>- new market entry</li> </ul> <p>- new interorganizational partnerships (alliances and joint ventures)</p>
Scope of strategies	<ul style="list-style-type: none"> <li>- Reducing non-essential activities</li> <li>- Launch or invest in new product market opportunities</li> </ul>	<ul style="list-style-type: none"> <li>- Requires a fundamental overhaul of the firm’s core architecture (mission, strategy, structure and processes)</li> <li>- Involves significant transformation of business model</li> <li>- Necessitates the development of digital dynamic capabilities</li> </ul>	<ul style="list-style-type: none"> <li>- Systematic disinvestment (scale back) in ‘legacy’ (paper) news operations</li> <li>- Aggressive investment in digital news platform to boost online readership and digital advertising</li> </ul>
Objective	Primary goal is achieving financial recovery after decline	Primary goal focus on the realignment of the firm’s business model by incorporating new (emerging) business models (such as the digital news platform)	<ul style="list-style-type: none"> <li>- Less emphasis on improving circulation and advertising in ‘legacy’ business</li> <li>- Shift toward development of digital news platform as a standalone business</li> </ul>
Temporal Commitment	Short term window strategy implementation desired	- Requires medium to long term time commitment to fully achieve reorientation (develop robust digital news platform that compliments or substitutes ‘legacy’ news operation)	<p>Organizational philosophy that transcends “stop the bleeding” approach</p> <p>Emphasis on long term strategic renewal</p>
Resource and capability Development	Resource and capability development that supports existing business (e.g. ‘legacy’ news operation)	- Emphasis on the development of new resources and capabilities that support emerging business models (i.e. digital news platforms and associated operation)	New set of skills and capabilities may be necessary to effectively manage a digital news platform and associated operation (e.g. hiring staff with online editorial experience, multimedia skills, social media competence)

**Table 2. Digital Reorientation Among U.S. Newspaper Publishers**

Digital Reorientation Components	Corresponding Newspaper Actions	Illustrative Examples
Shift in mission, strategy, structure & processes	<ul style="list-style-type: none"> <li>• <i>Discontinue or reduce the frequency of print operation</i></li> <li>• <i>Shift toward 'news aggregation'</i></li> </ul>	<p>The New York Times introduced a digital version of the newspaper, Times Reader, in partnership with Microsoft in 2006</p> <p>The Christian Science Monitor became the first major newspaper to Shift to digital newspaper in October 2008</p>
Shift in revenue model & value proposition (Digital Platforms)	<ul style="list-style-type: none"> <li>• <i>Digital News Platform (robust newspaper website, blogs, social media profile)</i></li> <li>• <i>Digital revenue model (digital advertising and 'paywall')</i></li> </ul>	<p>The New York Times launched a digital subscription program in early 2011, offering 20 free articles for its online readers per month and requiring for subscription for more access to its various online contents.</p> <p>The Wall Street Journal instituted a "hard paywall" on its online content in 1997</p>
Product/service customization (technology-enabled personalized consumption)	<i>Customized news feeds and content delivery</i>	<p>In November 2004, the Wall Street Journal launched a mobile app; In 2007, it updated its website to include global content delivered in multiple foreign language</p>
Development of digital dynamic capabilities	<ul style="list-style-type: none"> <li>• <i>Dedicated staff with online editorial experience</i></li> <li>• <i>Multimedia skills,</i></li> <li>• <i>Social media competence</i></li> </ul>	<p>The Times-Picayune, New Orleans' daily newspaper, became digital first in 2012. As a first step, a decision was made to merge print and online newsrooms. Also, there was a focus on having the right mix of veteran journalists and digital savvy reporters. Finally, more emphasis was placed on creating content directly on social media (e.g. Facebook).</p>
Expanded customer digital access	<i>Multiplatform subscription access</i>	<p>The Wall Street Journal Integrated digital and print content to subscribers</p>

**Figure 1. Demand and Supply Components of Digital Reorientation**



**Figure 2. Digital Reorientation and Successful Turnaround Among Declining Firms**

