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How did Brazilian companies in the textile industry deal with decline? A multicase study of causes and strategic actions

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HOW DID BRAZILIAN COMPANIES IN THE TEXTILE INDUSTR DEAL WITH DECLINE? A MULTICASE STUDY OF CAUSES AND STRATEGIC ACTIONS

Resumo

Estudos prévios sobre declínio têm se concentrado em empresas em países desenvolvidos. No entanto, a trajetória do declínio organizacional nas empresas brasileiras enfrenta por uma realidade distinta e muitas questões ainda não foram adequadamente exploradas e respondidas. Este estudo objetiva investigar como empresas brasileiras lidaram com o declínio organizacional, através de um estudo multicaso de empresas na indústria têxtil, durante um período pós-protecionismo. Os resultados mostram que a crise experimentada por essas empresas devido à abertura econômica está relacionada à fragilidade de uma indústria têxtil protegida e ultrapassada; as causas externas de declínio potencializaram as fraquezas internas e as empresas adotaram ações operacionais e estratégicas para lidar com o declínio. O estudo mostra que é possível desenvolver pesquisas sobre declínio através da análise de decisões e ações de empresas ao longo do tempo e que é importante considerar estudos sobre a tomada de decisão para melhor entender esse tópico. Finalmente, este estudo provê informações valiosas para gestores com relação às causas do declínio em empresas, permitindo uma tomada de decisão eficaz em situações de declínio.

Palavras-chave: declínio organizacional; turnaround; indústria têxtil.

Abstract

Previous studies on decline concentrate on companies in developed countries. However, the trajectory of organizational decline in Brazilian companies has a different reality and many questions have still not been adequately explored and answered. This study aims to investigate how Brazilian companies dealt with organizational decline, through a multicase study of companies in the textile sector, during the post-protectionism period. The results show that the crisis faced by these companies due to the process of economic openness is related to the fragility of the protected and outdated textile sector; the external causes of decline outlined the internal weaknesses, and these companies have adopted operational actions and strategies to deal with the decline. This study shows that it is possible to develop studies on decline through the analysis of the decisions and actions of the companies over time. Moreover, it is important to consider studies on decision-making for a better understanding of this topic. Finally, this study contributes valuable information for managers with regard to the causes of decline in companies to enable effective decision-making in times of decline.

Keywords: organizational decline; turnaround, textile industry.

1 Introduction

Organizational decline can be defined as a reduction in the resources of the organization over a certain period of time (Cameron, Kim & Whetten, 1987), and may occur at any time of the development trajectory of the company (Miller & Friesen, 1984). The studies on decline are still incipient in the field of strategy, as researchers generally give emphasis to studies on growth and organizational success with the consideration that this would be the natural course of the companies (Serra, Ferreira, & Almeida, 2013). However, it is important to note that no company is immune to decline, including those that seem healthy and have a defined positioning. According to the Serasa Experian indicator of bankruptcies and judicial recoveries, in 2014, the number of companies located in Brazilian territory that declared bankruptcy was 1,661; another 828 organizations requested judicial recovery.

Despite the importance of the organizational decline issue and the data pointing to high rates of mortality of Brazilian companies, the relevant and significant studies that seek to understand this phenomenon are concentrated on companies in developed countries. The trajectory of the organizational decline in Brazilian companies has some peculiarities that need to be further explored. What are the causes that contribute to organizational decline in the Brazilian industry? What are the strategic actions employed by companies that face decline?

The textile industry in Brazil directly employs 1.7 million people in more than 30 thousand companies, and represents 5.5% of the Brazilian GDP. However, it has been losing competitiveness over the past few years, which is evident from the $4 billion decrease in the 2013 turnover compared to the year 2012. This research aims to examine how Brazilian companies from the textile industry dealt with organizational decline, by studying the causes and strategic actions of textile companies that declined in the period from 1997 to 2009. A multicase study was carried out on the Carlos Renaux, Vicunha Têxtil, and Santanense textile companies. The collection and analysis of data was conducted using the “direct research” approach of Mintzberg & McHugh (1985), which discusses the evolution of the organization over a given historic period, wherein the researcher reconstructs the events after they have occurred, having developed them from a documentary analysis and oral history.

The results of this study show that a protected and outdated sector lacked resources to cope with a more competitive environment in Brazil, when exposed to foreign competition after the trade liberalization occurred in the early 1990s (Torres et al., 2013). The external causes of decline exposed the internal weaknesses, culminating in a reduction in the resource base of the organizations during that period.

This study contributes toward analyzing decline, helping us to understand and predict this event (Whetten, 1980). By identifying the causes of decline in advance, companies would have more time to develop and implement a recovery plan for reversing the decline (Weitzel & Jonsson 1989). In addition, this study points out the importance of conducting studies on decline by analyzing decision-making in organizations, since many of the problems faced by the businesses surveyed were related to the quality of decisions taken.

2 Theoretical background

The studies of organizational decline are relatively recent, primarily developed at the end of the 1970s with the life-cycle studies and the works by Whetten (1980a, 1980b). With the purpose of organizing the main currents of thought on decline, Mckiernan (2003) categorized the concepts of decline found in literature into four distinct groups: 1) deterioration in resources, i.e., authors who treat decline as the degradation/reduction of human and financial resources; 2) deterioration in performance, i.e., decline is defined by the drop in performance; 3) deterioration of the ability to adapt to external and internal pressures; 4) a stage in the organizational life cycle, i.e., decline is part of the organizational life cycle. Despite the multiplicity in the definition, there is a consensus in the literatures that organizations in decline are characterized by a wide range of dysfunctional organizational processes (Whetten, 1987). After experiencing decline, the companies show strategic behavior that is not typical in healthy companies, such as managerial imbalance, centralization, and strategic paralysis (D'Aveni, 1989a). With regard to this study, we will use the definition proposed by Cameron *et al*. (1987), which classified the companies in decline as those that suffer a significant loss of resources and face difficulties that are sufficient to threaten their survival, during a certain period of time.

Studies by Altman (1986) and Hambrick and D'Aveni (1988) on finance and strategy, respectively, present results that indicate that the first signs of decline appear years before it becomes evident; moreover, the literature states that there are stages of decline. In each stage, specific characteristics are identified and as one advances to the next stage, the company's situation becomes more complicated and difficult to reverse.

Organizational decline can originate from either internal factors, external factors or both (Trahms, Ndofor & Sirmon, 2013; Ooghe & Prijcker, 2008; Sutton, 2002; Altman, 1986; Schendel, Patton & Riggs, 1976, Argenti, 1976). Based on the work of Bibeault (1999) and Slatter & Lovett (1999), Table 1 summarizes the main internal and external causes identified by these authors, which will be compared with the causes identified in the companies surveyed.

Table 1: Internal and external causes of organizational decline

Internal Causes	
Weak management	Centralization in decision-making; inactive Board of Directors
Managerial succession	No managerial succession program
Bureaucracy	Excess control
Organizational inertia	Inability to make decisions and/or implement them
Financial management	Lack of financial control; high rate of debt; inadequate use of financing sources
Projects	Development of large projects without planning
Acquisitions	Improper price paid for the acquisition and its poor management
Marketing	Ineffective implementation of marketing actions
External Causes	
Economic changes	Interest rates, inflation, exchange rate variation
Governmental restrictions	Changes in national and international legislation
Competitiveness	Entry of new competitors
Social change	Change in behavior and habits of society influences consumption
Technological evolution	Rapid obsolescence of products and processes

Source: Adapted from Bibeault (1999), Slatter & Lovett (1999)

According to the literature, from the onset of organizational decline, companies must deploy strategic actions to try and reverse the crisis in the company, which is considered a turnaround (Bibeault, 1999; Slatter & Lovett, 1999; Morrow, Sirmon, Hitt & Holcomb, 2007). A successful turnaround is when the company is able to reverse the organizational decline that occurred over a period of years, and restore the ability of the organization to function normally (Barker & Duhaime, 1997; Robbins & Pearce, 1992). Given the effect that the organizational decline has on the internal and external environment of the company, scholars have sought to better understand the process of a turnaround (Lohrke, Ahlstrom & Bruton, 2012). Pioneering work by Schendel et al. (1976) and Hofer (1980) indicated that the strategies for promoting the turnaround would be more effective if they emphasized the central problem of the company, be it a problem of operational efficiency or strategy. Robbins & Pearce (1992), by their turn, propose a model in which the nature of the decline (external or internal) will influence the actions that should be taken in two stages; the first seeking the economic stabilization of the company and the second its recovery. In order to facilitate the understanding of the strategic actions associated with the turnaround of organizations in decline, Table 2 summarizes these actions in accordance with the principal authors of this theme.

Table 2: Actions associated with turnaround

Authors	Actions
Mckinley, Latham & Braun. (2014)	Innovations
Ndofor, Vanevenhoven & Barker (2013)	New product launches; alliances and acquisitions; layoffs; sale of assets; withdrawal of products from the market
Schmitt & Raisch (2013)	Activities geared towards efficiency and innovation
Norman, Butler, & Ranft (2013)	Downsizing
Chen & Hambrick (2012)	Replacement of leadership
Sitlington & Marshall (2011)	Downsizing must be aligned with the culture and organizational climate
Choo (2008)	Gather information widely and objectively evaluate the information; create an open climate for discussion and avoid conformism
Morrow *et al.* (2007)	Combination of existing resources with creation of new products, processes or technologies, acquisitions and strategic alliances
Jas & Skelcher (2005)	Promoting leadership capacity in order to overcome the inertia and problems of collective action
Pajunen (2006)	Frequent and open communication among the managers
Sheppard & Chowdhury (2005)	Recognition of the problems
Chadwick, Hunters & Walston (2004)	Downsizing
Bruton *et al.* (2003)	Reducing costs and assets; disposal of products; reducing expenses in general; replacement of leadership
Filatotchev & Toms (2003)	Organizational diversity; greater institutional involvement; diversity in the Board of Directors
Barker, Patterson, & Mueller (2001)	Replacement of the CEO
Schendel *et al.* (1976)	Reducing costs; increase in investments and sales
Hofer (1980)	Increased revenue; Reduction of assets and costs; combination of these actions
Hambrick & Schecter(1983)	Reduction of expenditure on R&D and marketing; increasing productivity; expansion of the plant and new technologies

Robbins & Pearce (1992)	Settlement; disinvestment; improving efficiency; disposal of products; re-concentration/segmentation; new products and new markets; acquisition
Barker & Duhaime (1997)	Focus on change in functional areas
Bibeault (1999)	Increased efficiency; redefinition of company assets; deceleration in investment; change of leadership; diversification of investment portfolio
Slatter & Lovett (1999)	Increase in financial controls; repositioning of products; acquisitions; replacement of leadership; improvement of management

Source: Prepared by the authors

3 Methodology

The direct research approach of Mintzberg & McHugh (1985) was used in the collection and analysis of data. In this approach, the researcher reconstructs the events after they have occurred, according to the following steps: a) data collection, which comprises identification of facts, events, and relevant actions that occurred in a given period within the organization as well as the external environment; b) inference of strategies, i.e., the information collected is organized in chronological order so as to deduce patterns or consistencies over time; c) analysis of each period, which is an in-depth analysis, with emphasis on the qualitative data collected during interviews to better understand the major strategic changes; (d) theoretical analysis, which includes the interpretation of the conceptual terms, each historical period, and the study as a whole.

The companies were selected for this multicase study from the, Economatica database, which provides information on publicly traded companies. The selected companies should satisfy the requirement that, for three consecutive years, they should present negative return on assets (ROA), return on equity (ROE), and the net profit (NP). These indicators are used by other surveys to measure organizational decline (Audia & Greve, 2006; Wiseman & Bromiley, 1996; O'Neill, 1986).

The period from 1997 to 2009 was selected to be analyzed because it was then that Brazilian companies began to feel the effects of the process of trade liberalization initiated in the 1990s, which intensified from 1994 onward. This research took into consideration all the companies that survived after the period of liberalization at least until the year 2009; a total of 61 companies met these criteria. 39% of such companies were from consumer goods sectors (textiles, clothing and footwear, household appliances, and toys), of which 62% were companies from the textile, clothing, and footwear industry. The textile industry, in our research, is represented by 13 companies, out of which 3 were selected for this multicase study: Carlos Renaux, Vicunha Têxtil, and Santanense.

Secondary research was conducted based on the information available on the companies' websites, on the Economatica database and on the annual financial reports filed on the website of the CVM (Securities and Exchange Commission of Brazil), and BM&F Bovespa (Securities, Commodities, and Futures Exchange, Brazil). The financial reports from the period from 1998 to 2009 for Carlos Renaux and Vicunha were accessed, whereas for Santanense, the period consulted was from 1997 to 2009.

Oral History can be used in research on themes that occurred recently, so that people can still retain facts, thus making it possible to interview people, who took part in them, either as direct participants or as witnesses (Alberti, 2005). The interview is the most common way of performing an oral history; therefore, in this research, semi-structured interviews were

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conducted with people who participated in the history of the businesses under study, such as employees, former employees, suppliers, and consultants, with a script adapted from Três (2010). To access these people, we used LinkedIn (social network for business contacts) and sent e-mails to people whose resume showed that they had some link with the companies being researched. We interviewed these people after they agreed to participate in the research. In total, 13 interviews were conducted: 5 with people involved with Carlos Renaux, 4 for Vicunha, 3 for Santanense and one with a representative of the ABIT (Brazilian Association for the Textile and Apparel Industry) aimed to understand the landscape of this industry and the strategic actions of the companies in this industry to remain competitive, but from the point of view of the textile industry. Table 3 describes the relationship that the participants have or had with the company under study and the period in which this relationship occurred. We have preserved the anonymity of those people, who are identified by acronyms.

Table 3: Participants in the study

Companies	Position	Period	Total
Carlos Renaux	Former employee: -Administrative area staff (F1)	F1- 2001 to 2003	05
	Former suppliers: -financial department (Q1); -sales department (Q2) -engineering department (Q3) -consultant (E1)	Q1- 1999 to 2004 Q2- 1997 to 2001 Q3- 1996 to 1998 E1- 2005	
Vicunha	Former employees: - administrative sales department (E2); - marketing manager (E3)	E2- 2005 to 2008 E3- 2001 to 2006	04
	Former suppliers: - financial department (Q4) - sales department (Q5)	Q4- 1994 to present day Q5- 1999 to 2007	
Santanense	Employee (E4) -administrative department	E4- 2000 to present day	03
	Former suppliers: - quality department (Q6) - sales department (Q7)	Q6- 2002 to 2005 Q7- 1996 to 2003	
ABIT	Economics department head (E5)	E5- Present day	01
Total			**13**

Source: Prepared by the authors

The data collected in this study was analyzed in the light of the "direct research" method. This entails the chronological organization of all the material collected, and the classification of the data into strategic periods, which would be analyzed by searching for relations and inferences between them. The discussion of the results sought to relate the research findings, causes and strategic actions of the turnaround pointed out in the literature, particularly advocated by Bibeault (1999), Slatter & Lovett (1999), and Torres (2013).

4 Results and discussion

4.1 Fábrica de Tecidos Carlos Renaux S.A.

The Carlos Renaux textile company began its activities in 1892, in the city of Brusque-SC, and was the first industry in the region known today as a "textile hub." It played a predominant role in the local textile industry, primarily in the production of cotton fabric. In 1990, the company, run by Carlos Renaux and his two sons, was listed on the São Paulo Stock Exchange, and reached more than 1200 employees.

a) External threats - 1997 to 1999

Until 1999, Carlos Renaux had made major investments in imported equipment to increase production of fabrics with cotton, a raw material that was almost entirely imported from the United States at that time. With the devaluation of the Brazilian Real in 1999, the company reported a loss of R$ 9.2 million due to the exchange rate variation. The respondents in this study attributed the exchange rate devaluation as one of the reasons that led the company to the crisis. *"Management decided to import ready-made fabrics and cotton, closed this contract in dollars without making the necessary exchange protection, the dollar rose and the debt more than doubled"* (Interviewee E1).

In addition, the financial report for 1999 showed a decline in sales as an important occurrence during this period, due to a change in consumer preference for products produced in dyed thread. There was also a decrease in demand for 100% cotton products, which were produced by the company. The report pointed out that *"it impacted sales performance since the substitutes dictated by fashion were items in synthetic fibers and mixtures thereof, for which, at the time, the company was acquiring equipment to process other fibers other than cotton"*. With regard to the Q2 interviewee, the company was always late in relation to product launches; *"it was a step behind the market trends"*.

b) Organizational restructuring - 2000 to 2005

In 2000, organizational restructuring was initiated to make the company more competitive, to reorganize the debt, and to diversify from the domestic market. The Financial Report of the company highlighted *"the suffering of influences, from external factors or by internal problems (such as the rationing of electrical energy and reduced purchasing power of the population), the internal market has proven to be quite retracted by our 100% cotton products, causing a drop in revenue."* The restructuring process began with the replacement of the CEO. In 2001, as part of the restructuring, there was strong pressure to increase exports: *"efforts to gain new customers in foreign markets would be continuous and doubled, either through increased sales for the current importers as well as through structured business with new partners for export of the product already manufactured"* (Financial Report, 2001). According to this report, the restructuring should be integral, involving the control of costs, marketing in specialized magazines, quality of products, launching of new products, and expansion of the market. A consultancy was hired to support the restructuring process. Interviewee Q1 emphasized the export strategy to the Chilean and Argentinean markets as an alternative adopted by the company to exit the crisis that somehow fostered sales for a given period.

c) The focus on the brand - 2006 to 2009

The company focused on the brand and higher value products that used innovative technologies. Interviewee Q3 commented on this innovation: *"the company was going through a very complicated and uncertain period; then I found out that there were some attempts to work with new technologies. I don't know if I was ready to work with this focus, it seemed that I didn't know which path to follow"*. The company also invested in other products in the women's and children's lines (F1, Q1, and Q2). The interviewees were unanimous in assigning the reduction in the number of employees as one of the strategic actions used by the company for the turnaround, in addition to the reduction in costs. All interviewees assumed that the textile industry was experiencing difficulties, and the entry of Asian products was majorly responsible. However, Interviewees E1 and Q3 argued that even in the face of competition from Asian products, there are successful companies, although quality management is essential.

d) The aftermath

In 2011 the company filed for judicial recovery, in order to facilitate overcoming a financial crisis. In 2013 the company declared bankruptcy due to its inability to execute its judicial recovery plan.

4.2 Vicunha Têxtil S.A.

Vicunha Têxtil was founded in 1967 after an agreement between the Steinbruch brothers, owners of Têxtil Elizabeth, a company with a strong position in the Brazilian market of fabrics since the 1960s, and the Rabinovich family, who also owned textile companies. In 1971 Vicunha Têxtil listed their equity shares. The group had become a leader in the textile sector in Brazil, with approximately 30 companies that manufactured thread, fabrics, and clothing, in a market protected from international competition. In the late 1980s, some of their units had a profitability of nearly 40%. In the 1990s, the company opened representative offices in Europe and the United States, continuing its expansion plan. Over the years, it acquired new textile companies until it owned the entire textile industry production chain.

a) The expansion - 1997 to 2001

The company initiated an expansion plan, which comprised the acquisition of other companies in the textile chain, thus becoming vertically integrated in all the production processes. In 1998, the group had shares in more than 10 companies in the textile chain. Furthermore, with the aim of achieving greater economies of scale, it incorporated its controlled companies - CB Textil, Elizabeth Nordeste S. A., and Vicunha Nordeste S. A. The growth, based on the fusion of companies belonging to different families, led to some problems, according to Interviewee E2, who reported a struggle for managerial and board positions. At the end of 2001, Vicunha Têxtil had incorporated the following companies: Fibras S.A., Fibra Nordeste S.A., Vine Têxtil S.A., and Fibrasil Têxtil S.A. Moreover, it deactivated six industrial units, eliminating idle capacity and consequently reducing costs, and concentrated production in a smaller number of plants. With regard to these actions, Interviewee E3 commented that the merging of companies generated a power struggle; the environment was dominated by political disputes, and people feared downsizings. Furthermore, according to this interviewee, the company did not have a long-term strategy and the decisions were immediate and short-term. *"We had the entry of external directors (from other markets), but (they) always unsuccessfully held the position for a short time, so the instability was huge. Vicunha was a very complex and confusing company, as they were buying and selling companies, it all seemed very disorganized and out of control"* (Interviewee E3).

The economic environment also affected this period, marked by the devaluation of the currency by 48%, which made the group replace imported fabrics and apparel by Brazilian products. *"When I began working for Vicunha in 1999, the company was going in the opposite direction in comparison to other companies. Despite the difficult moment with the devaluation of the currency, they managed to survive by investing in domestic products and synthetic fibers"* (Interviewee Q5). In addition, it leveraged its sales abroad, creating partnerships in the United States and Europe with companies, such as GAP, J.C. Penney, Zara, and Polo, among others. In this period, Vicunha Têxtil worked with a large mix of products and continuously sought for products that would best meet the fashion market.

b) Strategic repositioning - 2002 to 2009

After two consecutive years of considerable problems, the company initiated a strategic plan to reverse the crisis. According to the Financial Report (2002), the company sought to reposition itself in the market and defined its "core business". Therefore, the businesses that were not part of the core business were deactivated or sold, to generate resources for investment in the main business of the company, as well as the release of working capital, particularly, debt reduction. *"An external consultant was hired to define which products would be more profitable and strategic"* (Interviewee Q5). A year after the definition of the core business, some businesses remained, while others were sold due to unsatisfactory results. According to Interviewee E2, the strengthening of operations of some lines was initiated, while the others that were affected by lack of investment and reduction in capacity were later sold and part of the staff relocated or downsized.

The moments of uncertainty experienced by the company are highlighted by Interviewee Q4*,"I've been in this company for years, we have been through uncertainties, mass layoffs, cost reductions, and even the coffee was cut for some time. In short, we went through a really strong environment of instability. But now, in spite of the textile market still being a very difficult market, I believe that we have got the focus right and despite the instability that still exists, it is not as it was before. Focusing on only one business was a wise decision."* With regard to the strategy of repositioning in the market, the interviewees were quite positive. *"The previous company that was such a big monster, realized that shooting in all directions was not successful and decided to focus on a specific market, and in spite of the difficult years, I think that today the company must be doing well"* (Interviewee E2). This opinion was shared by E3, *"The company cut everything that was not profitable, despite hurting the ego of the Steinbruch family, through a drastic reduction in the size of the company; they had courage to reduce, even when the philosophy of the company was to expand. They were humble enough to go back and realize that it does not always work well this way."* This period of strategic repositioning was also marked by corporate reorganization. After many years together, the Steinbruch and Rabinovich families separated in the control of Vicunha Têxtil. In 2002, Ricardo Steinbruch, assumed the presidency of the Board of Directors of the Vicunha Têxtil, and in 2005, bought out the Rabinovich family's shares.

c) The aftermath

In 2013, after intense restructuring, with purchases and sales of assets that had been ongoing since 2001, and although profitable, the company claimed low liquidity and high costs for maintenance of registration as a publicly-held company, and thus officially delisted Vicunha Têxtil S.A. from the CVM.

4.3 Companhia de Tecidos Santanense

Companhia de Tecidos Santanense was founded in 1895 in Itaúna-MG, initially manufacturing calico and duck material, intended for the growing market of new post-slavery employees. From the year 1950, the company has invested in modern facilities and purchases of other manufacturing units. To deal with energy scarcity, dams and hydroelectric plants were built for internal consumption. In 1967 Santanense became a publicly traded company, and continued its expansion by acquiring Fiação Santa Helena S. A. (spinning) in Montes Claros-MG in 1976.

(a) Modernization - 1997 to 2000

According to the Financial Report published in 1998, the difficulties faced by the textile sector in 1997 were the result of predatory competition of illegal imports, combined with technological backwardness of the industry. As commented on by Interviewee Q6, *"There was no company in the 1990s that did not suffer as a result of the commercial opening; nobody was* *prepared to compete with Asian products and those from other countries. The Brazilian industry was obsolete; companies that survived were the ones that had enough cash to modernize and become competitive."*

To address this situation, during the 1990s, the company began a process of modernization, deactivating factories that were obsolete, such as the one from São João Del Rey (1993) and the factory in Pitangui (1997); new investments were made in the units of Itaúna and Pará de Minas. For Interviewee E4, who has worked in the company since 2000, *"Santanense differed from the other companies because it believed and invested in its modernization. It is clear that until you reached this point, it was not simple; there were mass layoffs, the fight for power among the family members, who were the owners of the company, about which decision to take in respect of investments; at least that was what was heard in the corridors..."*.

b) The crisis - 2001 to 2003

In 2004 the company was acquired by Coteminas, which was one of the largest and most reputed textile companies in Brazil and worldwide. This strategy resulted in a large insertion of capital, with capital inflows of R$34.0 million. For Interviewee E4, the acquisition leveraged the company, helping their recovery, since Coteminas was a well-established company in the market; although initially, there was a certain fear about the benefits that this acquisition would bring. This acquisition promoted the company's recovery with the adequacy of capital structure and reduction in production costs, mainly linked to the purchase of raw materials and other inputs. According to Interviewee Q7, the acquisition gave bargaining power to the company to negotiate prices, deadlines, and payments to suppliers. Interviewee Q6 highlighted the acquisition as positive, with regard to the fact that Coteminas was a capitalized and professional company.

In 2006, a new plant was inaugurated in Argentina. According to the Financial Report, the investments as well as the financial results were consistent, as the acquisition by Coteminas had been positive.

4.4 Discussion

a) Causes of organizational decline and turnaround actions

The exchange rate devaluation, the entry of Asian products, and the dispute for power are the common causes established in the three companies under study; although it is worth noting that each of these companies have specific causes that stand out from the others. In Carlos Renaux, poor management and the lack of awareness about the changes and trends in the market contributed strongly to the decline of the organization. Vicunha Têxtil accelerated their growth through acquisitions, and a complex hierarchical structure encouraged the organizational decline, according to the interviewees. At Santanense, the economic downturn and bank debts were the causes of decline that stood out, as per the interviewees. This debt situation was a consequence of the investments that began in the 1990s and affected the cash flow of the company.

Table 4 summarizes the causes of the organizational decline found in the surveyed companies, and connects these causes to those identified in the studies of Bibeault (1999), Slatter & Lovett (1999), and Torres et al. (2013).

Table 4: Causes associated with organizational decline

Torres *et al.* (2013)	Bibeault (1999); Slatter & Lovett (1999)	Carlos Renaux	Vicunha Têxtil	Santanense
Inertia	Organizational inertia	Not anticipating trends	Not anticipating threats	Not anticipating threats
Turbulence	Economic changes	Change in consumer behavior; Currency devaluation	Currency devaluation	Currency devaluation; Energy crisis; Retraction of the economy; Change in consumer behavior
Limited orga nizational resources	Inappropriate policies and financial control	Bank indebtedness; Limited financial resources	Limited technol ogical resources	Bank debt; Limited financial resources; Limited technological resources
Failed action	Poor management	Ineffective management; Centralization of power; Dispute for power	Ungoverned growth; Dispute for power; Inefficient management; Constant changes of trade and business policies	Dispute for power
Competition	Competitiveness	Asian products at a lower price	Asian products with high technology and lower prices	Asian Products

Source: Prepared by the authors

This study also sought to examine the actions associated with the turnaround undertaken by the companies under study. These actions were not effective in all three companies, since the Carlos Renaux textile company, even after having adopted several actions, could not overcome the threats and terminated its activities in 2013. Table 5 shows the actions that were undertaken by the three companies, among which exports, cost reduction, and reduction of staff are highlighted for being commonly pursued.

Table 5: Turnaround actions

Carlos Renaux	VicunhaTêxtil	Santanense
- Replacement of the CEO	- Asset Sales	- Modernization of plants

- Verticalization of operations - External Consultants - **Exports** - **Cost Reduction** - Marketing - New Products - Focus on the market - Products of higher value/innovation - Focus on the fashion market **- Reduction of staff**	- Entry of external directors - **Cost Reduction** - Replacement of imported fabrics and garments for national products - **Exports** - Partnership with major manufacturing customers and chains of shops - Corporate Reorganization **- Reduction of staff**	- Sale of assets - Higher quality products and value-added services **- Reducing staff** **- Cost Reduction** **- Exports** - Capital inflows through its sale to the group Coteminas

Source: Prepared by the authors

b) Comparing and contrasting with the literature on organizational decline and turnaround

The companies under study, which previously had survived within a protected environment, had their weaknesses exposed when faced with the liberalization of trade. After that, the companies initiated actions to tackle the competitiveness deficit with Asian products, the impact of exchange rate variations and changes in consumer behavior. The companies were not prepared to deal with this new economic and commercial conjuncture, and took too long to undertake measures to deal with this situation, making the decline inevitable. Therefore, it is worth mentioning that the trade liberalization was not the cause of the decline itself, but it was through it that the existing inefficiencies became evident.

When analyzing the possible causes of decline associated with the businesses surveyed, we identified a direct relationship with the model of Bibeault (1999), Slatter & Lovett (1999), and Torres (2013). Bibeault (1999) and Slatter & Lovett (1999) have pointed out economic changes, such as the exchange rate variation, as one of the possible external causes of organizational decline; it is also related to the turbulence presented by Torres (2013). The companies selected for this study imported a considerable part of the raw materials and equipment. The high dollar rate increased the debt significantly, thereby impacting cash flow and financial leverage. The exchange rate devaluation and competition are external threats to the company; although it may not be possible to control them (Levy, 1986; Schendel et al., 1976; Bibeault, 1999; Slatter & Lovett 1999, Ooghe & Prijcker, 2008; Trahms et al., 2013), managers must develop tools to identify trends, opportunities, and changes that may ensue.

The competitiveness deficit with Asian products was very evidently one of the causes of the decline in the surveyed businesses. The intense rivalry with other companies in the industry is an issue that could lead the company to decline (Trahms et al., 2013). However, in the three surveyed companies, it was shown that their management was stuck in past successes and displayed a marked rigidity in decision-making. Staw, Sanderlands & Dutton (1981) analyzed how individuals or groups make decisions in situations of threat, and pointed out that the crisis leads to stiffness in the decision-making process (threat-rigidity), narrowing the scope of attention and simplification of the information, which are manifested in the ability to process information, and the search for the centralization of power. These authors opine that when companies feel threatened, instead of streamlining their processes to deal with the problem, they enter a process of standardization, centralization, routinization, efficiency, and restriction of decisions. This theory, to a certain extent, may explain the decline in the Carlos Renaux textile company, since the causes cited point in that direction.

The dispute for power marked the crisis in the three companies under study, involving conflicts in decision-making in a familiar management model, which was characteristic of these companies. There was an absence of a well-defined management succession plan, resulting in internal crises between the leadership and the rest of the organization, which, in a way, was one of the causes of decline (Altman,1986; Sutton, 2002). Disorganized growth also affected the companies studied, since they made acquisitions and expanded plants at the onset or even after the growth of textile imports.

With reference to the strategic actions adopted by the companies surveyed during the turnaround, it is possible to classify them as operational and strategic, as pointed out in the literature on turnaround. The retrenchment process is a set of operational actions that seek to reduce costs and free capital by the sale of assets, seeking to stabilize the company at the stage of decline (Trahms et al., 2013; Robins & Pearce, 1992). These operational actions were found in the surveyed companies, since they have reduced their costs, assets, and employees, as well as disposed of unprofitable products, activities are often associated with the recovery of companies (Baker & Mone, 1994; Hambrick & Schecter, 1983; Bruton, Ahlstrom & Wan, 2003). In relation to the strategic actions, the researched companies replaced management, implemented strategic alliances/acquisitions and used exports as an attempt to boost sales. Authors such as Ndofor et al. (2013) and Morrow et al. (2007) argue that turnarounds can involve the conquest of new markets, launch of new products, and acquisition of new businesses. Thus, we consider exports as an attempt to conquer new markets. The companies also sought to introduce new products with higher added value and new process technologies. The strategy of innovation and new technologies was also highlighted in studies such as the Mckinley *et al*. (2014), Norman et al. (2013), Morrow et al. (2007), and Hambrick & Schecter (1983).

The companies studied experienced a delay in recognizing the challenges they were facing. Although trade liberalization was initiated at the end of 1980, these companies did not take measures to make the products more competitive before the entry of imported products in the domestic market. It is important to highlight that the time taken by the company to recognize that they are going through a decline will reflect on the success of the actions implemented during the turnaround. Businesses in decline that implemented early actions of retrenchment have a higher probability of success (Tangpong et al., 2015). The formal acceptance by managers that the company is in decline is important, and the time taken to accept this failure has been fundamental in reversing the decline (Trahms et al., 2013). Managers should diagnose the problem and stabilize the company, recognize that the company is facing a crisis, and then identify the strategic issues that have caused the decline (Lohrke *et al*., 2012).

However, an important element in the recognition of the severity of the decline of a company is the perception of the strategic leaders, which plays an important role in the recommendations of activities for retrenchment in response to the decline. However, they vary substantially among the decision-makers (Musteen, Liang & Barker, 2011).

5 Conclusion

The multicase study developed in this research allowed a deeper analysis of the causes of decline and strategic actions taken by the businesses studied that led to a better understanding of organizational decline in the context of Brazilian companies. Although the results presented focus on the period from 1997 to 2009, the decline of the businesses under study has a relationship with the actions that these companies have taken in the past, thus confirming the logic proposed in the study by Hambrick and D'Aveni (1988), wherein the authors draw attention to the fact that companies that go bankrupt, show signs of decline well before they declare bankruptcy. There is scope for future studies on the background history of companies facing organizational decline.

The structural properties and internal processes observed in organizations of rapid growth are very different from those found in the organizations in decline (McKinley, Latham & Braun, 2014); by providing managers with information on the causes and actions related to the decline of companies, this study aims to help them help them create effective strategies to prevent or deal with bankruptcy in the future (Wilkinson & Mellahi, 2005).

As implications for future studies, the causes that have been raised in this study can be seen as a set of hypotheses to be tested in other organizational contexts. In this sense, future studies could test the causes of the decline in Brazilian companies, based on a quantitative study performed with a larger sample of firm. Future studies could also investigate the aspects of threat-rigidity (Sandelands & Dutton, 1981) and the actions of executives in this process (Trahms et al., 2013). The management decisions were a cause of impact on the companies under study, which shows us the need to develop more studies related to this aspect and the skills of the managers needed for the formulation and implementation of the operational and strategic changes needed by turnaourns (Lohrke et al., 2012).

The data that was analyzed to understand decline were based on events that had already occurred, making the recovery of the information difficult to achieve, and such information could be subject to distortion, which represents a limitation of this study. To minimize these limitations, the triangulation of data was conducted, wherein several sources were consulted, including people internally or externally linked to the companies, as well as various sources of documental information. To ensure that the perception of respondents was not biased, interviews were conducted with people who had different roles in the companies under study. Furthermore, the entire period of decline and turnaround of these companies was covered by the effective participation of a particular respondent during this period, which means that he/she had an active relationship with the company researched for all the periods relevant to the analysis.

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