

TURNAROUND STRATEGIES

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EXECUTIVE SUMMARY

- In a crisis situation, the leader of a business tends to be the first casualty and outsiders are brought in to sort out the situation.
- However, remedies are usually best applied by those already within the organization.
- A turnaround situation is one of pointing out a new direction.
- The reason many companies find themselves in trouble is almost always due to problems right at the top.
- Any solution must be one to which all parties (particularly within the company) can offer their support.
- You only get one shot at trying to turn around a business.
- Everything has to be up for grabs, and fear and tradition must not be allowed to inhibit action.

INTRODUCTION

The area of business which, mercifully, few business professionals have any experience of is turning a business around before it goes under – but when the rocks ahead are clearly visible. In these situations, the first casualty tends to be the current leader. He or she is usually replaced by a hired-in “hard man” to do the dirty work (sometimes replaced by a key investor – protecting his investment). The result is all too often far below what could be achieved by someone already within the organization, who would have been aware of the culture which has led to the decline in the first place. This fact alone clearly requires the presence of seasoned “outside” turnaround professionals if the internal “key” man is not present.

The in-house candidate (a role many of us have personally filled) is desirable because he or she has the best chance of saving the largest proportion of what may be salvageable. The greatest difficulty the in-house employee faces is the problem of analyzing the causes of the downfall with sufficient clarity and over a long enough time. The elapsed time from the first business mistake to eventual collapse varies enormously. Very large organizations can carry on for a surprising time before events overwhelm them, while in the case of the small business, retribution tends to strike much more quickly. What is certain is that both the stock market and the banks (investors in the embryonic to adolescent organization) have less and less tolerance of business mistakes, and the time available to demonstrate an effective recovery plan is becoming ever shorter. Moreover the judgment of the chances of success is often made by business analysts and the press, who probably have very little knowledge of the real situation which has led to the visible signs of failure. In reality, these are all too often symptoms rather than causes.

It is the people within the organization itself who know the myriad problems which must be overcome and the actions to be taken. Therefore the turnaround problem becomes one of pointing out the new direction. This is where being able to call on the knowledge, drive, and enthusiasm of existing employees can be so valuable. This is obviously far more difficult when all of your employees are worrying about the future, and the best and most self-confident are voting

with their feet for a safer environment. The reason many companies find themselves in trouble is almost always due to problems right at the top. I have yet to meet such a situation which was caused by the employees. Employee dissatisfaction is largely caused by mismanagement or frustration. No employee actually wants to do a bad job, or to be seen to be doing one. Obviously no employee actually wants his company to fail or to find themselves faced with enforced redundancy on minimal terms.

Diagnosis and Solution

If you find yourself managing a turnaround, the first two points on which you have to concentrate are your diagnosis of the problem and endeavoring to ensure that you have a reasonable time gap in which to implement your chosen solution. For the diagnosis, you need every scrap of information, opinion, and statistical analysis you can lay your hands on. The views and openness of those on the shop floor are as – or in some cases, more – important than those at the top. Individuals in these situations are astonishingly honest with themselves, and it is from this apparently inchoate mass of opinion and fact that a first “rough cut” analysis will appear. The strategy has to be concise and simple, for it is essential that everyone inside or outside the company should understand the aims. The detail is best left to those who will have to deliver it.

Self-evidently you cannot turnaround a company by doing more of what has already landed you in trouble. It is extraordinary how often the existing management blame their own ineffectiveness and not the strategy has so obviously failed.

Few individuals are so closed-minded that they won't give you a chance if you explain your thinking, and in any case, no recovery plan is a single unique solution. The eventual solution you decide upon can, and must, be one to which all parties (particularly within the company) can offer their support.

Remember that your advent has kindled hope in those who work for you, coupled with what are probably unrealistic assumptions of a miraculous and speedy change in the situation.

WHERE DOES EVERYBODY STAND?

A positive strategy with clear delegation for action and a lot of trust in your team can change things surprisingly quickly. The next, and very difficult, action is entirely within your own outfit. It is absolutely vital that everyone knows where they stand. Start with the key 10% - 20%, who you are sure need to be on board. Make clear that as long as you have a business, you need them and they are as secure as anyone in the year 2003 can be. Then address the 10%-15% most at risk. It is almost certain you will have to reduce cash, but generally a pay-out of under 20% will do the trick. Remember that starting at the top involves fewer people and releases more money. Those most at risk deserve the earliest warning and the most help. Sharing the task of helping them to find alternatives eases the pain, as does the maximum affordable financial aid.

The remainder should be told that they are not at immediate risk, and that the risk to them depends almost entirely on the success of the turnaround.

The financial state of the company should be known to everyone, as should the direction and amount of change which will be required. Don't be trapped by the fear of lack of security on data. Bad news travels like lightning and all too often is far exceeded by the rumors and ill-concealed "schadenfreude" of those in the outside world. You only get one shot at trying to turn around a business, and concealment of the reality is not a help.

DELEGATION AND TRUST

Once you have decided on the strategy, the aim and the team, delegate furiously. People have to know they are trusted and that all depends upon them.

Do not allow the inevitable attempts to "delegate upwards." You must keep on pushing the problem back to employees, while reiterating your commitment and support for their actions. The world is littered with examples of individuals who have achieved what you and others felt was impossible. Problems are only, and can only be, solved by those who "own" them, and your leadership role is to reinforce that ownership.

LEADING BY EXAMPLE

You now enter what is probably the most personally difficult phase of all. Both inside and outside the company, you have to radiate confidence and realism while encouraging people to increase their speed of activity. This is helped by removing the brakes,

simplifying the structure, reducing the senior management numbers and levels, and increasing the tempo.

Example is all, execution is everything. You cannot expect everyone else to throw themselves at the problem if you arrive late and go off early to enjoy a liquid lunch. The drum beat is taken from the top. It may be necessary to reduce your pay and to give back money previously awarded until the business results turn. You need a few dramatic examples from the top. Don't expect that stopping tea and biscuits will be greeted with anything other than cynicism. Selling the headquarters or the executive limo is more likely to hit a responsive chord.

It is the board and senior management that has led the business into the mess, and it is the board and senior management who must be seen to take the medicine and be totally committed to the change. In point of fact there must be the realization at all levels that there are no sacred cows. Everything has to be up for grabs, and fear and tradition must not be allowed to inhibit action.

The whole of the problem is to achieve ownership of a new plan and a new pace of action – and all must be results oriented. Turnarounds are difficult and test the imagination and courage, but once it is evident you have started on the way up again there is no limit to how far and how fast you can go.

MAKING IT HAPPEN!

- Act in the certainty that people within the organization itself know the myriad problems which must be overcome and the actions to be taken.
- Concentrate first on the diagnosis of the problem and ensure a reasonable time to execute the chosen solution.
- Ensure that the solution is one which all parties, particularly within the company, can support.
- Start your program by telling the key players that you need them on board. Then address those whose jobs are most at risk.
- Once you have decided the strategy, the aim, and the team, delegate intensively to people who know they are trusted and that all depends upon them.
- Remove the brakes, simplify the structure, reduce senior management numbers and levels, increase the tempo – and implement a few dramatic examples from the top.

"No one has ever accused us of lagging behind. In fact, I am willing to turn an entire company upside down if it's time to do that. We're in perpetual evolution."

Richard Branson
Chairman the Virgin Group