How to Manage a Turnaround

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The word *turnaround means to produce a noticeable and durable improvement in performance, to turn around the trend of results from down to up, from not good enough to clearly better, from underachieving to acceptable, from losing to winning.*

When a company, either as a whole or in one of its divisions or departments, is consistently performing below the average or midpoint in its industry group, then for that portion of its business or for the total company its report card is below the average for its class.

What it takes to set the stage for a turnaround are high standards, a freedom from self-delusion and defensiveness, and an appetite for challenges, accompanied by energy and determination.

Far from being seen as a calamity or disgrace, the turnaround opportunity should be recognized as a normal part of everyday business life.

The time span of a turnaround begins with the recognition of the need and the opportunity, and continues with the development of a total program of action, which in time leads to the achievement of consistent performance improvement and an upgrading of position in the industry.

We must recognize, therefore, that most major turnarounds take about five years to get through the tunnel and move onto solid ground—one to three years to bottom out, then two years of improved earnings taking the company toward its desired level of performance.

The Enemies of a Turnaround

The Rear-View Mirror

Retro-thinking management doing the things that worked in the past buy don't seem to work anymore. Management is driving with its eye on the rear-view mirror.

Enjoying Low Executive Turnover

Management prides itself on not losing its people and on having a wealth of experience in its management, thanks to long-time incumbency.

The sacred cows that inhabit such a company have gained the lasting affection not only of their own management but also of their competitors, who love them just where they are.

Little Self-Criticism

The prevalence of a defensive posture in the top management.

The Regularly Missing Plan

If results over the last three years are tracked, it will have achieved these plans no more than one or two months out of the year.

A House Divided

A poor flow of communication between the functional divisions of the organization.

The combination of hostility and low achievement leads to entrenched management enclaves with little constructive communication with others.

Little Delegation

Instead of decision making being spread throughout the organization, it is confined to the top echelon.

Meetings as an Avoidance Technique

Much time is taken up with regular and specially called meetings that go on for hours.

What are the results of these meetings? Usually few decisions, plus a prevailing state of mind that the meetings themselves seem to matter more than agreed-upon action.

CEO Monologues

The dictatorial chief executive officer surrounded by submissive managers whose main objective is staying on the payroll by doing the boss's bidding.

Samuel Goldwyn's dictum, "I don't want any yes-men around here. I want everyone to tell me the truth even if it cost him his job."

Crying "Wolf!" Too Often

The management is given to sounding dire warnings that are not accompanied by a program of action. People get used to hearing that calamity is on the way and yet nothing seems to be done about it.

Lack of Bold Action

When decisions are made in a climate of underachievement, they are apt to be cautious and limited by fear of change.

Preconditions for a Successful Turnaround

First, Turn Around Your Mind

1. *Management determination*

   With a firm resolve management must stand ready to pay the price of a turnaround by being willing to do the things which will be difficult.

2. *Dispose of the enemies*

   We must be ready to dig ourselves out of habit-ridden grooves, to remove incorrigible under-performers, to let in the fresh air of participative management, and to move the business toward first-rate professional standards.

3. *General parameters of the shortfall*

   We must quantify our overall performance shortfall so that we begin with a clear understanding on the part of all concerned of the distance between us and our objectives.

   It is helpful to agree at the outset as to where we are on the industry performance curve on profit margins, expense, pretax profit percent to sales, return on equity, and the debt to asset ratio, so that the general parameters of our shortfall are understood and recognized.

4. *Identify underlying causes*

   Identify the underlying causes of the shortfall, not in great detail, but the key factors that have brought us to where we are.

5. *Establish standards and timetable*

   We must screen out unwarranted optimism and pie-in-the-sky euphoria.

   Nothing will kill our undertaking quicker than destroying credibility by making campaign promises of a turnaround backed by hope alone.

   Durable turnarounds are rarely accomplished as quickly as expected.

   Even in the best-managed turnarounds, things will often get worse before they get better, because the remedial steps may temporarily have a negative effect that is unavoidable as part of the transition.

6. *Milestone communication to the organization*

   We are ready to make a milestone announcement to the entire organization to the effect that the company will be taking a new direction, that a comprehensive renewal program will occupy center stage for the next few years, aimed at moving company performance ultimately into the upper echelon of the industry where it belongs.

Experience has shown that the resultant surge in morale and will to win have a positive effect on results almost at once.

Sixteen Key Principles

The Magic Questions:

What do the franchisees need? What do their customers want?

1. **The Perpetual Contest**

   In our competitive industry environment, each member of your team should be thought of as being in a contest with his/her counterparts on your competitor's teams.

   This principle suggests you develop an industry-wide yardstick in appraising your people and a heightened awareness of each team member's opposite number in the competition.

2. **Growth a Must**

   In a turnaround situation, you must move toward better-than-industry average sales growth. In effect, you must *gain share-of-market from your competitors* in order to pass them in earnings improvement.

3. **Spotlight on Results**

   Another characteristic of high-achieving management is that it is *results-oriented*. It starts with the CEO convincing all layers of management that the team is out to win and will live by the score, with each team member being responsible for his/her results. Bottom-line responsibility is spread down into middle management ranks, and bottom-line results receive great emphasis and wide currency throughout the organization. Results achievement then becomes the key to individual advancement as well as company growth.

4. **The Power of Planning**

   Superior performance begins with superior planning. The cause and effect relationship of planning skills to results is so strong as to make it a competitive factor in any industry. Short-range achievement of plans should not be allowed to overshadow the vital importance of long-range planning. A durable turnaround cannot be achieved without a five-year road map to provide guidance for the management in its long and difficult mission.

5. **Use Your Competitors**

   Make a real effort to get as much detailed information as possible about your competitor's performance. There is no better group motivator toward bold action than the cold facts about how your competitor has outstripped you in a segment of the business.

6. Correctable Errors

Everyone is expected to make mistakes, though not to repeat them.

7. Success as an Enemy

In the necessary pursuit of success, remember that success itself can be destructive.

Complacency marches in to take the place of questioning, self-criticism, seeking fruitful change. Before long you become vulnerable to the upstart competitor who is pursuing success with open-end vigor.

8. Law

One in four things is apt to go wrong.

9. Managing Change

Pursuit of growth requires bold action, but always tempered by a sensible appraisal of the risks.

1. Avoid bold moves in an area of the business where you are weak.
2. If it is a big change involving hard-to-measure risks, test it in a small part of the business.
3. the soundest growth is organic, that is, related to the nature of the organization, its strengths, natural tendencies, and characteristics.

10. Authority Versus Initiative

If you want initiative in the pursuit of objectives, authority is a bad word because it becomes an excuse of turning off energy, of foregoing an opportunity to move toward constructive goals simply because the activity is not in your job description and you could not be blamed for not doing it. Management is getting results through people, only some of whom report to you.

11. Delegate But Don't Abdicate

The effective manager has a multifaceted leadership role that includes direct supervision of the people reporting to him/her and a constructive awareness of how lower levels in the hierarchy are doing. Don't be a prisoner of your organization chart, insulating yourself against contact with different levels of your pyramid. What is known as skip-level communication involves a top executive's skill in keeping in touch with, inspiring, and monitoring people in middle management without undermining reporting lines.

12. How Versus What

Too often the general concept of any undertaking gets most of the thought, the execution less.

13. Activity Versus Achievement

"Don't confuse activity with achievement" is a useful maxim that is unfortunately not observed enough in the ominously growing public sector. When results orientation is weak in a business, management's consciousness tends to be filled with process instead of goals, and this is reflected throughout the organization.

14. Participative Management

Advances in the behavioral sciences applied to business have thrown much light on the dynamics of leadership and teamwork and are an important resource for the professionally managed company. One of the most important if these, especially in managing a turnaround is: *"People need to be involved in the changes and decisions that will affect them and which they must implement."*

This is made clear in the following: Involvement leads to commitment [intellectual understanding], which leads to conviction [emotional buy-in], which leads to implementation [new processes], which leads to improved results. On the other hand, where there is no involvement there is no commitment, which leads to no conviction, which leads to no implementation, which leads to no changes and improved results. Turnarounds Require Management Changes.

What we are looking for as the underlying cause is the thing that, if it were removed, would cure the problem.

All too often management ducks the issue by trying to get better results through replacing subordinates.

Moreover, better people poorly led may do worse than average people under gifted leadership.

15. Recasting Management

In recasting management, what we are looking for are skills that are in short supply, skills that make for winning the competitive battle, in short, the classic skills of the entrepreneur; and instinct for risk taking, sure decision making, the habit of leadership, and being at home with difficulty.

Qualities To Look For

In addition to the entrepreneurial skills mentioned, these are some of the turnaround-effective qualities to be sought in a manager:

1. A *good team builder* with the knack of finding people with strength in them, and the ability to make these people grow through getting results.
2. A *sure hand on priorities,* the ability to manage time so as to get results in a difficult situation, and to avoid squandering energy by developing cures for which there is no know disease.
3. The *ability to handle failure* by putting it to work for him/her through exploiting the power of correctable errors.
4. *Intensity and urgency* to get to the heart of the problem and absorb enough details to plot a sure-footed course to the goal.
5. The ability to *set the right standards and motivate* his/her team toward their achievement.
6. The sensitivity to *work with the existing management* firmly but considerately and without causing them to lose face.

Measure Your Present Team

Six Evaluation Suggestions

1. In-depth *knowledge of competitive performance* at each job level.
2. If necessary to fill out gaps in information, a special effort should be made to gather *input from search firms and consultants.*
3. Obviously, this special appraisal of the team must be a departure from past annual performance ratings. What is needed here is *a new objectivity* that takes a fresh look at each team member's performance as well as a professional consistency in the use of the same yardstick throughout the organization.
4. There must be an understanding from the beginning that in this evaluation there are *no sacred cows,* and that past favorites, friends, and relatives will be rated on the same basis as all others.
5. It goes without saying that the most important source of *input* for the evaluation is ***within the organization*** itself. It needs to be gathered from both line and staff people who work with the team member, and the information needs to be tempered by the credibility of the source.
6. An excellent source of candid, un-slanted information is the *employee opinion survey,* and the franchisee climate audit.

CEO Role

Personal Contact with CEO

Identifying Management Needs

Strengthen the Personnel Function

Seven Things to Look for in a Personnel Head

1. In addition to a thorough grounding in the whole procedural side, which we need not go into here, the personnel head should develop a good working *knowledge of how the business functions,* what its major strengths and weaknesses are, and what kind of talent it takes to achieve top results in the various phases of the organization.

2. Through interviews in the field and work with the most competent search firms, he/she should develop informative *files on the outstanding performers among the competition,* their state of mind, and approximate compensation.

3. This should provide the background for judgment about the *profile of requirements for each major job* in the company as well as the range of compensation.

4. His/her *personal characteristics* ought to include self-confidence, warmth, enthusiasm, persuasiveness, and tact.

5. He/she should be fearless about *taking strong positions with the chief executive* and the other pyramid heads. He/she should furnish independent thinking about casting people in management roles and should come up with imaginative selections that the boss would not have thought of.

6. He/she should *read widely in management literature* and know how to use the help of the behavioral sciences in management building.

7. Finally, he/she should *cultivate action skills* and develop a sense of urgency.

Seven Suggestions for an Effective CEO to Work with His/Her Personnel Head

1. First of all, the kind of personnel executive we are describing should *report directly to the chief executive.*

2. The CEO should not have the person in the job unless he/she *respects their judgment* and will not make personnel decisions without their input.

3. He/she *relies on the professional skills* he/she has hired to come up with the best possible design to achieve the objectives.

4. The boss should expect the personnel head to keep his/her *finger on the pulse of employee morale* in the company.

5. The CEO should look to the personnel head for *counsel on compensation standards* and methods at all management layers in the company.

6. The CEO should expect the personnel head to *lead the motivational programs* of the company, especially Management by Objectives and Performance Appraisal.

7. Although this is not as prevalent in management circles as it might be, there is much to be said about a final key role for the personnel head: that of the *"manager of the CEO"* himself/herself.

Growing Your Own Management

Why Building Management From Within Is Better

In the long run, a company will perform more consistently and have more staying power if it does a superior job of building management from within, for the following reasons:

1. There is less risk of miscasting because you know your own people better.

2. It creates an atmosphere of personal growth, a big help in recruiting top beginner talent.

3. It results in better morale and team spirit.

4. You wind up with a more reasonable, balanced compensation level, less distorted by the high price of luring outside talent.

Rethink Your Organization Structure

Guidelines for Building Superior Teamwork

1. *Leadership is an essential ingredient.* In any case, the responsibility of the leader of the team is all-important: to see that the group is functioning participatively and is doing its job well.

2. Size

3. Meeting technique

4. Task-force strategy

5. Self-appraisal

6. Line vs. staff

7. Tandem top management

He/she needs to communicate to the executive team that the company is embarking on a new planning process that will become a major force in improving performance, and that he/she expects full support and participation throughout the company in making it work.

Improving Current Performance

Commitment to Timetable

Get everyone into the act

Employee suggestion program

Spend money to make money

Clarify objectives

Eliminate roadblocks

Streamline programs

Go after sales

Expense reduction program

Modernize methods

Managing time

Use task forces

Talk bottom line

The Profit Plan

The plan must include all of the profit components from sales and revenues down to the bottom line of pretax and after-tax profit.

Planning Procedure

These are suggested steps in developing the short-range, or tactical, profit plan:

1. In a turnaround situation, begin by reviewing the existing plans and laying bare the reasons why the company has not been achieving them. The determination must be to break the destructive chain of unachieved plans by adopting a firm policy of conservative planning that will be achieved and exceeded.
2. As in all planning, *the process should be top down and bottom up.*

3. The economic outlook as it affects the industry, and the level of total company sales for the planned period.
4. This overall company sales profile is then reflected in *each profit center's planning.*
5. In *putting the component plans together* into a total company plan, top management frequently finds that the bottom line is shockingly disappointing.