Enterprise Turnarounds:

A Sustainable, Staged Approach

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Introduction

Turnarounds are not easy. They require careful planning and excellent leadership. They need trust between the turnaround leader and the change sponsors – the people who provide the financial resources required and make the ultimate stop / continue decisions.

The key critical success factors: leadership – a turnaround leader with experience, smarts and courage – and growing and deepening trust between the turnaround leader and the change sponsors sound straight forward. They are not.

There are few truly excellent organizations. Jim Collins has made that clear in his book "Good to Great: Why Some Companies Make the Leap… And Others Don't". (http://www.jimcollins.com/lib/books.html) Creating an excellent organization out of an enterprise in trouble takes exceptional leadership.

Level 5 Leaders are far easier to talk and to read about than find. Level 5 leaders who are experienced at enterprise transformation are even rarer. That is why so many small to medium companies languish in the world of almost or never returning their investors' hoped for financial rewards.

The framework in the following pages presents a staged approach to enterprise turnaround. It is intended a starting point for shaping the dialogue between a potential turnaround leader and the change sponsors. Based on practical experience, reflected against some best management writing about leadership and enterprise change, it says "Yes, turnaround can succeed. But they are not easy."

This framework is intended to help the investors in such companies identify experienced turnaround leaders. Such individuals may not have articulated a similar framework, but they will take to it and use a basis for discussing how they will go about turning around a specific organization.

Table of Contents

1.0 Succeeding at Enterprise Turnarounds

Substantial organizational turnarounds, especially when driven by an interim executive, by an internal change leader supported by an outside strategic change consultant or by a newly hired turnaround leader, work best if the change is implemented in a staged approach.

Regardless of whether or not the change is directed at the whole organization, or at part of the organization, (e.g. a business unit, or a major operating division or group), the steps in the process are much the same.

The nature and role of the person **who leads the change** may lead to minor variations in the detail of the steps. But the things that need to be done, and the sequence in which they need to occur, remain much the same.

What follows is the result of deep reflection on practice, based on more than 15 years experience in the role of change leader or change consultant. The result has gained deeply from the insights of widely respected organizational change and leadership authors such as:

1. Jim Collins (http://www.jimcollins.com/),
2. John Gabarro (http://dor.hbs.edu/fi_redirect.jhtml?facInfo=bio&facEmId=jgabarro),
3. Ronald Heifetz (http://ksgfaculty.harvard.edu/ronald_heifetz),
4. John Kotter (http://www.johnkotter.com/bio.html),
5. Robert Kegan (http://www.harvardmacy.org/pdf/kegan.pdf),
6. Michael Lombardo (http://www.lominger.com/60_64.htm and http://www.ccl.org/leadership/forms/publications/publicationProductDetail.aspx?pageId=1263&productId=0-669-18095-5).

The result is a **script** that serves as the starting point for individuals who need to make such enterprise change.

This specific version of this script makes the following assumptions:

1. The **enterprise in difficulty** is an operating unit, which functions as an independent entity, as opposed to an operating division or a business unit of a larger organization.
2. The **turnaround leader** is an external individual brought in to act as change leader for a period, with the responsibility to hire or to develop and

leave in place an operating team who will then carry the organization forward once the majority of the turnaround is complete.

3. The **change sponsor** is a small group of external stakeholders who have a major financial interest in the organization (as opposed to a more senior member of a larger organization or an executive in a holding company).

Enterprise change which is personality driven may be appropriate and work as long as the change leader becomes the long term operational leader of the organization. **But it is often not sustainable beyond the tenure of this "personality".** To make it sustainable, the change must be embedded in the **processes**, the **people** (particularly their skills and motivations) and the **tools** that shape the day to day business of the organization. Improvements in each of these three areas must be coordinated with modifications in the others.

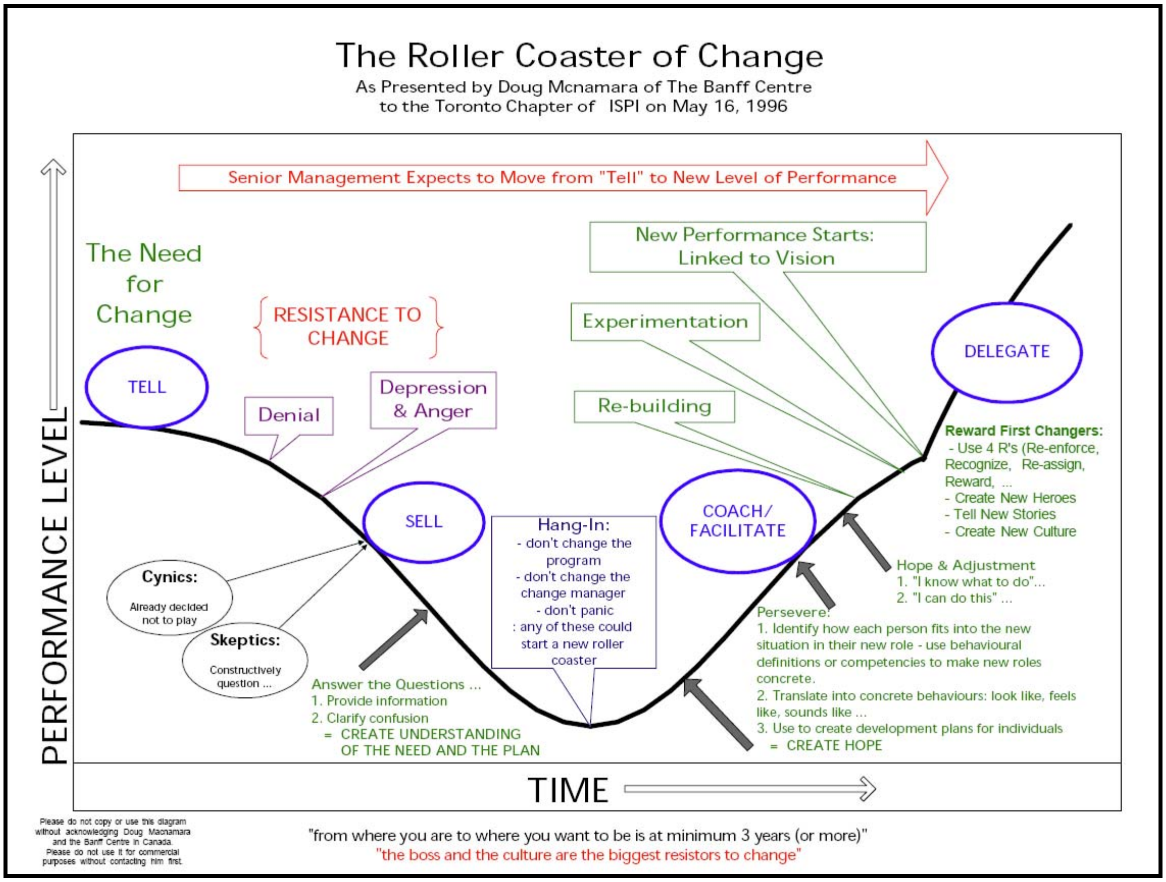
By the time the change is through, the people in the organization must find the new way of doing things so compelling that they have no desire to go back to their old ways. Such a turnaround lasts even if the turnaround leader leaves. People are inspired by a better way of doing things that brings about results that they value. They are not mesmerized by the personality of the change leader, even though they respect it. They know that the impact of the turnaround leader is not simply a function of personality. Instead, they experience the new way of doing things as something they have contributed to, and are capable of continuing to do. Without this, change to please to align with the personality strength of a change leader often reverts as soon as that person is no longer present.

Turnaround and day-to-day operations are two very different enterprise environments. The people who good at implementing change are often not as effective at maximizing operations (and vice versa). Often, the wisest thing that effective turnaround leaders do to replace themselves with effective operating leaders, once the change is embedded in the new people, processes and tools used by the organization.

This strategy also has a profound psychological benefit for the organization. Turnarounds require hard decisions that often result in people leaving the organization, even when they have been contributing. Right sizing an organization is often an important component of successful turnarounds.

The turnaround leader is associated with the pain of such people issues in the minds of the people who are left. The new operating leader is not. This allows the people in the organization to get beyond this pain, since the person associated with it leaves.

Turnarounds do not move forward linearly. More likely, they follow the pattern depicted in the "The Roller Coaster of Change".



As you can see, things might get worse before they get better. That is why trust between the turnaround leader and the change sponsors are so crucial. Unless they have a shared understanding of where the change is heading, and agree on metrics that signal improvement, this trust can erode on the down slope and in the valley depicted above. These interpersonal dynamics are not easy. But they are beyond the scope of this article.

Using the framework which follows on the following pages as a base for discussion and planning can go a long way to starting the interpersonal exchange which builds this trust. Component turnaround leaders may approach the need in different ways. They may not have articulated their approach to turnaround in the same detail as follows in the following pages. But turnaround leaders who are seeking to do more than move the organization through the strength of their personality will address the need to move through a number of stages in a clear and understandable way.

2.0 The Staged Approach

Step One – Investigation and Diagnosis

Done by an individual experienced at enterprise turnaround

(Takes from 1 to 4 weeks)

Purpose: To under stand the problem and the facts of this particular change situation. To investigate **what is the case**.
To ensure that the potential turnaround leader forms a personal understanding of the current situation.

An in-depth look at the existing situation – meaning;

- A review of the books and the records, including any key contracts, patents, copyrights etc.,
- A review of any strategic or operating plans that exist,
- One or more walk around of the facilities,
- One on one meetings with the key internal players (technical and management),
- One-on-one meetings with the key "financial" stakeholders and decision maker (i.e. the change sponsors).

Step Two – Dialogue – Scope and Objective Setting

Led by an individual Experienced in Enterprise Turnarounds
Involves the Future Enterprise Turnaround Leader
May involve other potential Turnaround Experts (function heads)
(Takes from 1 to 2 weeks)

Purpose: To vet the findings from Step One with the change sponsors. To understand and to "repeat back" the long terms objectives of the change sponsors in a way that ensures that the potential turnaround leader is completely clear on them.

A few short intense sessions are required (1 to 3). They may last from several hours to a half a day each.

1. They start with the presentation of the results of the investigation and diagnose in Step One. The change sponsors agree with these findings, or articulate their disagreement. When differences exist, dialog about them continues until they are resolved and alignment is achieved.

2. Once this is complete, the Step One leader "repeats back" the initial impression of the change sponsors' long term goals for the turnaround. This impression is based on the meetings with these individuals in Step One. The change sponsors agree with this presentation or articulate their disagreement. When differences exist, dialog about them continues until they are resolved and alignment is achieved.

    ◦ Allowing a certain amount of time to pass between these two discussions and the next one is often a very useful thing. It allows both sides to reflect.

3. The final stage is the Step One leader's initial impression of the possibility of achieving the change sponsors' goals, given what is the case. This is a high level, intuitive FEASIBILITY judgment at this stage. It does not address how. It simply amounts to a "Yes, I think that it can be done, and that it is worth formulating a more detailed plan" or a "No, the odds are so against succeeding that it is best not to put any more effort into thinking into this."

Step Three- Initial Action Planning: How Can It be Done?

Facilitated by the Step One Leader
Completed by the Turnaround Leader
(They may be the same person.)
(Takes 1 to 2 weeks)

Purpose: To lay out the general approach to the change, the financial targets, the calendar time frame and the metrics which will be used to measure the success of the on-going turnaround.
To indicate what it will take, what it will cost, at least on a high level.

Delivery of a plan (10 to 25 pages) done in a "dense" presentation format, with supporting material as required.

This requires both a written document and a formal presentation by the potential turnaround leader, so that the change sponsors use their rational analytical and intuitive, experienced based to judge the capabilities of the potential turnaround leader.

A go/no go decision comes shortly there after.

This document contains:

1. An statement of **what is the case**
    - a repeat of what has already been delivered, but now written up based on the alignment achieved in the previous step
2. An assessment of what's possible – **what could be the case**
    - the long term turnaround objectives, including the exit strategy, if that is part of this scenario
    - based on the alignment achieved in the previous step
3. An outline of the turnaround approach – **closing the gap**
    - a way of closing the gap between what is and what could be
    - a high level plan with more detail closer in, and less farther into the future
    - this plan cannot be complete, since not enough is known
4. The critical success factors (3 to 5) for the turnaround that must be addressed

- Each CSFs needs to have 1 or 2 key measures or metrics that tells everyone that it is being met

5. A statement of the turnaround leader's commitment

   - "Yes, I am willing to take it on … … "
   - or "No, I am not, and here is what I think that you should do … … "
   - or "Yes, it can be turned around but I am not the one to do it - … you need to look for someone like this and here is how I suggest you find this person and how I can help."

4. What the change sponsors must provide

   - resources it will take (dollars, knowledge and personal time)

5. What the turnaround leader will cost

   - On a month by month basis
   - In the long term, stake in success or the exit

Step Four – Starting Up

(usually 3 months)

Led by the Turnaround Leader

With Regular Meetings with Change Sponsors
(at least every 2 weeks)

Purpose: to get the turnaround started.

1. Get turnaround leader in place.

2. Implement the short term action plan.

    a. Stop the bleeding (if any).

    b. Make sure any disruptive "people" issues which support the bleeding are addressed quickly.

    c. Meet any key "external" stakeholders who could "negate" the turnaround and explain what will happen (as appropriate) –

        i. customers,
        ii. suppliers,
        iii. partners,
        iv. investors,
        v. lenders,
        vi. … … .

    d. Start building the first key (but small) short term successes that are the beginning of needed confidence that the future can be different.

    e. Start constant visible progress process rolling - something is always getting better.

3. Get to know the "key internal players" in more depth and assess how they will respond to the change:

    a. Keepers with potential to grow;

    b. Keepers who are good contributors but have no potential to grow;

    c. "Hidden" possible contributors;

    d. Lost "sheep" who will not keep up with the change;

e. Resistors who will do whatever they can to undermine the change;

f. The "Holes" – key needed functional skills where none exist internally, which could damage the forward movement of the turnaround.

4. Bring in the key "short term" outsiders to do specific things:

    a. Specific functional skill sets and experience;

    b. Measurable results;

    c. Fill in the "critical holes" short term while working out the longer term way to fill them;

    d. Sunrise and sunset contracting for these individuals – force the longer term "people" fix.

5. Carry out regular reviews with the "other" key financial stakeholders and decisions makers (outside change sponsors) – as required and as agreed with them. Turn around the reputation and the image of the organization as not doing what it takes to succeed.

Step Five – Deepening the Change / Building the Team

(4 to 36 months)

Led by the Turnaround Leader

With Regular Meetings with the Change Sponsor (probably every month, not less than every quarter)

Purpose: to implement and to stabilize the turn-around.

1. Create and broadcast the vision for the future – the "believe-able myth" and the yard stick by which people can measure progress, particularly to the internal staff. Create a sense of urgency, a feeling that "we must get on and do this if we are going to survive, and even better, excel."

2. Make the key people changes at the leader level, or if right sizing must be done, at the staff level. Define the time period in which they will be made. Tell the staff this, so that the anxiety last only for so long. Once it is done, let people move forward positively.

3. Clean up the functional areas that need clean up on both process and tooling levels – take a time box approach: what needs to be done in the next 30 to 60 days, then in the next 30 to 60 days and so on … …).

4. Improve the functional areas that need improvement (on both processes and tooling levels – take a time box approach: what needs to be done in the next 30 to 60 days, then in the next 30 to 60 days and so on … …).

5. Build, build, build the management team (use both personal and team compensation and bonus schemes).

6. Do whatever it takes to make sure that there is constant visible progress.

7. Deal with the inevitable hick ups and mistakes – limit their impact. Have an articulated risk management plan that identifies the possible risks, provides early indicators for them, lays out mitigation tactics and use it to frame action. However, communicate parts of it on a "need to know" basis.

8. Create a culture of thoughtful performance.

    - Set long term financial incentives for everyone from top to bottom (give them a reason to benefit from the change).

    - Reward results (against plans).

    - Reward initiative (that is communicated and planned).

- Reward “thoughtful” risk-taking (carefully weighted and communicated before hand).

- Reward team playing (particularly when people contribute to the success of others at the expense of their own).

- Negatively re-enforce:

    i. non-performance,
    ii. lack of initiative,
    iii. reckless risk taking,
    iv. promotion of self at the expense of the team,
    v. non-communicators - blind-siders,
    vi. communication that is calculated game playing – i.e. the “gamesmen” and “gameswomen”.

9. Message the long term change cycle:

    - Change now,

    - Then growing stability,

    - Then reap the rewards.

10. Build the operating team that will take over the stability and deliver the long term results. The change leader leads by doing the following.

    - Leading the change effort in a way that is not personality based – focusing on **substantial and coordinated process, people and tooling changes** that everyone comes to understand and to support.

Process – the procedures and the business rules that define how the organization must do its’ work.

People - the folks who are members, the skills they bring or have an opportunity to develop, and the personal motivations and values that allow them to preserve through the change period and become effective contributors to the new culture of the changed organization.

Tools - the **physical plant** – buildings and their fixtures and furniture;

the **computer technology platform** – the hardware and software used to do the organization’s work – much of the detailed “how know” that make up the procedures and the business rules of the organization are embedded in these tools and require “change” if the organization is to change;

the **communication platform** – the telecommunications tools, these days inevitably tied to the technology platform, that allows people to work together in which that often eliminate the constraints of physical space and shared time.

- Managing conflict among key players – turn it creative, or effectively suppressing it when it is destructive without also being creative.

- Taking responsibility for the inevitable mistakes – helping the organization and the people in it to “recover gracefully”, and treat them as “learnings” rather than failures.

- Growing key individuals (the future leaders) to the limit of their potential possible in this time frame through mentoring and coaching, always remembering people in the organization interpret the messages inherent in **who gets hired, fired and promoted as the “real truth” about what change is really wanted here**.

11. Communicate, communicate, communicate a “believe-able” myth or story about the future that allows people lower down in the organization (and partners outside the organization) to align their efforts, resolve their differences, and take pride in their contribution to the change that will define the organization in the future. Take surveys to ensure that it perceived as “fair” even if it contains hard or painful elements.

12. Carry out regular reviews with the “other” key financial stakeholders and decisions makers (outside change sponsors) – as required and as agreed with them. Solidify the reputation and the image of the organization as having a bright future which everyone is working hard to achieve.

Step Six – Executing the Exit

(12 to 36 Months)

**Led by the Turnaround Leader at first,
but more and more by the new Operating Leader**

**With Regular Meetings with the Change Sponsors
(Probably every month, not less than every quarter)**

Purpose: to reap the rewards of the turnaround.

1. To put in place and to make sure that everyone understands the legitimate role of the new operating leader as head of the organization that has been turned around, both inside and outside the organization.

2. To execute the financial strategy that rewards the change sponsors (and the turn around leader) for their successful turnaround.