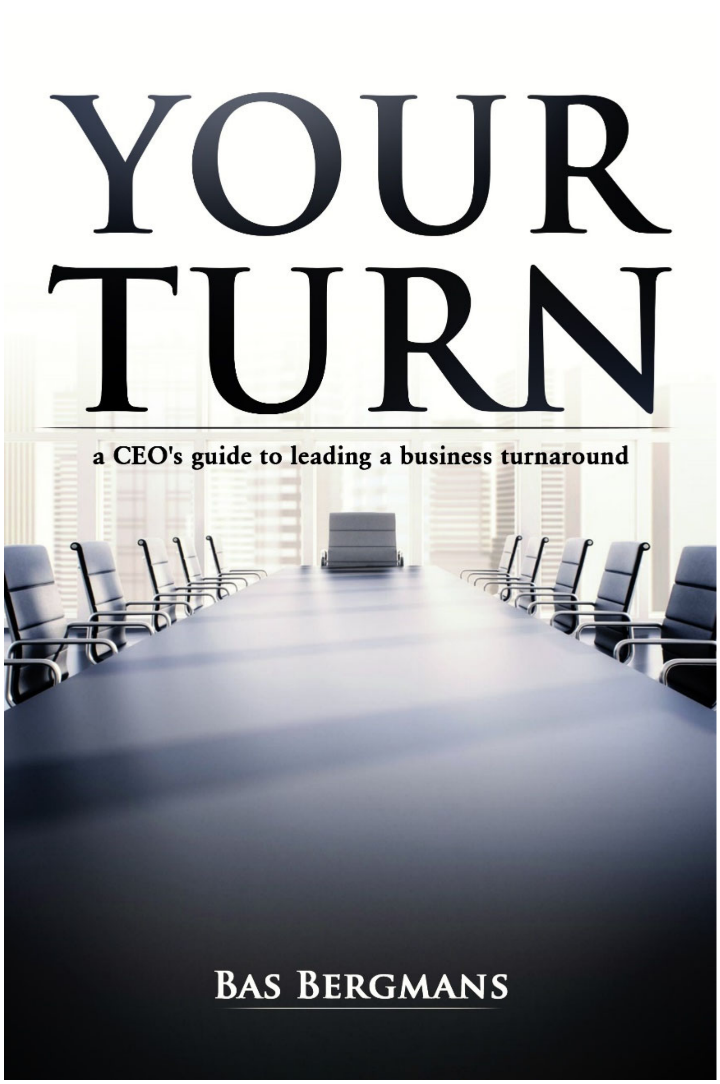
Your Turn

A CEO’s Guide to Leading a Business Turnaround



Book details

Title: Your Turn
Subtitle: A Board's Guide to Leading a Business Turnaround
Content: A practical step-by-step guide for boards, CEOs and senior leadership on how to lead a business turnaround
Author: Bas Bergmans
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CEO 'insight' interviews: 100+
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Context of the book

A turnaround pulls failing companies back from the brink of disaster and – like most life-saving procedures – it's a swift, brutal and often bloody business. This book serves as a practical guide for boards, CEOs and senior leadership members looking to drag their company out of a distressed situation and back into a thriving, growing enterprise.

Primarily written by Bas Bergmans – a businessman and entrepreneur who has spent the past 22 years performing in a variety of leadership roles in transaction services, business turnarounds and M&As – 'Your Turn' also draws on the incredible experience and knowledge of more than 100 international CEOs and high-profile consultants who have been instrumental in the success of thousands, if not ten thousands, of turnarounds and turnaround situations.

Over the years, the author has listened to many people describe turnarounds as prolonged and complicated processes. While there is some consensus that a comprehensive process underlies every turnaround approach, the author prefers to describe a business turnaround as 'a rapid event with a clear completion date.' A 'prolonged process' suggests some kind of continuity; a link in the chain of progress and development. Whereas a turnaround is a one-chance-only experience. It's 'do or die,' and if you understand that in time, and act accordingly by following a robust, comprehensive, all-inclusive yet simple, data-driven approach to survival, your company stands a good chance of staying the course to enjoy future development and prosperity. Once you're back on your feet, the turnaround is done. Your business now has to thrive, grow and develop again. When change is required that needs to be managed and controlled differently.

During the author's impressive career, he developed a view on how a turnaround is best led. From the inception of the process to the end result, when the company is back on its feet and flourishing again, there are four simple steps to follow. These steps might be applicable to many change programmes, but it is the granularity of the detail behind these steps, coupled with the required level of leadership and the timeframe needed, that makes a turnaround successful.

Therefore, using meticulous detail intertwined with respected leadership advice, the author has created within the following pages a pragmatic guide on how to build an integrated model capable of leading a turnaround.

The objective is to provide a practical, proven and academically-backed handbook that will enable executives to lead their own business turnarounds The product of a very clear and specific model, Your Turn is intended to show the way for those that want to do things right. If your company is in trouble, this is the help you need.

Chapter summary

Chapter 1: 90 Days to Save Your World

At the very start of a turnaround, the CEO needs to have a clear overview of the company's cash position, global footprint, departments, FTE structure, products and product market propositions, customers, employees, competitors and control systems as well as the IT landscape. In a turnaround situation, this information needs to come at lightning speed. Only then can any decisions be made that will give the company a fighting chance of survival. This might seem obvious, but it's surprising how many CEOs and executive team members don't know these basic details.

In time of crisis, boards and CEOs need a step-by-step plan to save the business. A turnaround isn't rocket science; it's a brutally honest evaluation of a business so that the right analysis can be made for data-driven decision-making leading to successful implementation. 'Your Turn' essentially walks you through a 90-day turnaround approach that has been used to salvage some of the world's most troubled businesses.

Chapter 2: What is a Turnaround?

The terms 'turnaround' and 'restructuring' are fairly new concepts in business, and they both deal with rescuing distressed companies. However, there are technical differences between the two. Companies that fall into the restructuring category will have less than 90 days of cash at their disposal – they have reached a stage of insolvency and they are now working to prevent liquidation. In a turnaround, there is enough cash remaining in the business to last between 90 and 180 days. While monetary losses might be above normal rates, with no current clue as to how to stem the tide, the company has enough cash to make it through the next 90 days without needing a capital injection. In a restructuring case, a cash injection has become a necessity so the focus tends to be on the financial structure of a business rather than the operational structure, which is the main concern of turnaround processes.

While insolvency might seem a straight forward concept, there are two forms to be aware of; technical and actual. Technical insolvency means that the company has some money, but the balance sheet reveals the company's liabilities are bigger than its assets. Actual insolvency is the inability to pay bills; the money has gone. When a company is insolvent and in need of restructuring, it will go into administration and be put under the management of a licensed insolvency practitioner, a specific consultant who is more a lawyer or an accountant than a strategist or operations consultant. This consultant will be in charge of the restructuring and he or she will take the title CRO. They will also be assigned to the role externally, by a lender for example. In contrast, a CRO in a turnaround is appointed internally, by the CEO or the board. There is no discussion with creditors or lenders, a business turnaround is operational and strategical. In a turnaround, a business has not reached insolvency and still enjoys the bandwidth to prevent insolvency. In a restructuring the aim is to prevent liquidation while in a turnaround the aim is to prevent insolvency.

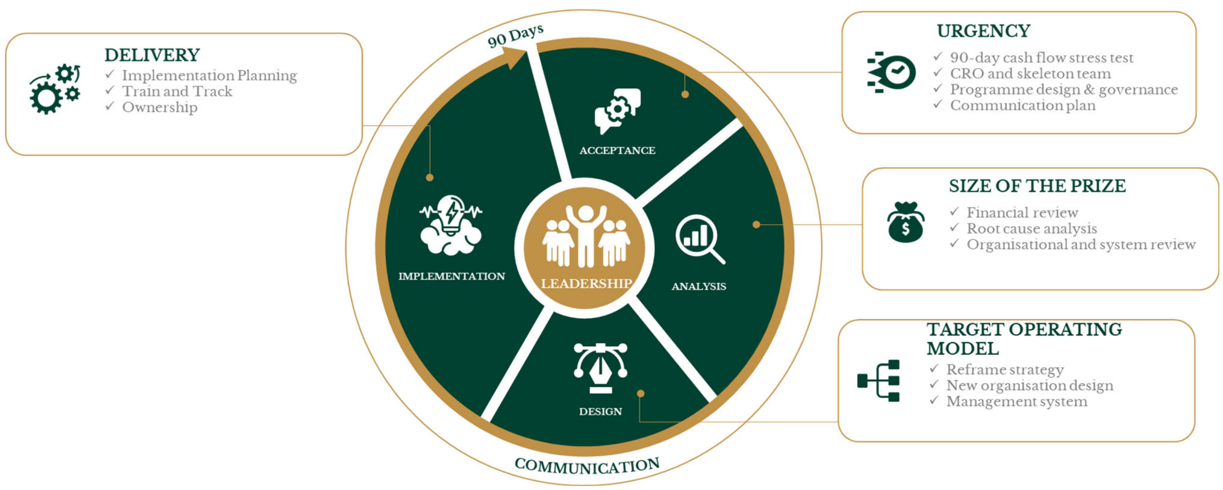
Chapter 3: An Integrated Model for Turnarounds

There is no magic or trickery behind a successful turnaround; it is a methodical process with clear procedures to follow and actions to take, covered by the overarching principles that clarity of purpose, control and speed are of the essence. These three themes or 'areas of focus' are relevant at every stage of a turnaround and should always hold attention.

While leadership and communication, in all their forms, are a constant throughout the event, there are four major phases to go through in a successful turnaround approach. The first phase may not even feel deliberate because at some stage it becomes apparent to a CEO or a board or executive team member, that if action isn't taken immediately the business will be in deep trouble within 90 days. The four phases are:

1. Acceptance – the process of fully understanding the magnitude of the problem;
2. Analysis – the detailed examination and root cause analysis of problems within the business;
3. Design – the plan showing the look, function and working of the new organisation;
4. And Implementation – putting the plan into effect and transitioning the business to a 'new normal'.

Within your indicative 90-day window period, each of these four steps ticks to a different clock. The acceptance period should keep your attention for ten days, analysis for 20 days and design for another 20 days, leaving implementation to take the lion's share of 40 days. These are, of course, best case scenarios, and 40 days for an implementation is, by all accounts, ambitious. In many cases it might also be unrealistic, but the point is that it is imperative for businesses to be this strict and to stick to this schedule because there really isn't much time. After 90 days, the business needs to have gained momentum and turned away from insolvency, thereby finding itself in a much better state in which it can once again thrive.



Model 3.05: Approach to turnarounds

Of course, these four steps are generic terms in business that will often be applied to a restructuring programme that could take up to a year to finalise or a general business change programme that might take as long as it takes. The difference here, or the specific here, is the time period and the clarity of what needs to be done in every phase. This is not about gradually changing a business, redefining it, creating new strategies or tweaking parts of it, this is about saving it – and you have 90 days to do it.

Chapter 4: Leadership

Leadership either comes naturally or you have to work at it, but in times of crisis, especially when you have to turnaround a business, every CEO is put to the test whether they possess a God-given gift for the role or dogged determination.

While a CEO needs to be genuine, sincere and empathetic – it pays to walk in the shoes of your employees and customers with compassion – there are a lot of rational decisions that need to be made during a business turnaround, decisions that may benefit the group, but not the individual and therefore not all of them will be welcomed.

A good and resilient leader looks after the welfare of the group as a whole rather than the individual, and in many cases this group will shrink considerably by the end of a turnaround. It's inevitable. And there's no easy way around it. Not in a turnaround.

If you don't make the tough decisions, and this very often happens in distressed companies, it is a sign of not only weakness, but mediocrity, and these are not two qualities a leader needs in his or her arsenal. The fact is, if you don't take the tough decisions, you won't confront the real issues that have put livelihoods at stake, and you won't reap the end rewards that you need to achieve. Unfortunately, this happens all too often

However, most CEOs who struggle to gain or retain influence within the distressed company usually do so because they are inconsistent, disorganised, selfish or dishonest.

Model 4.11: Leadership focus model

Chapter 5: Communication

Turnaround communication is perceived to be difficult and, as a result, and some CEOs tend to dismiss it as being of little importance, handing over the job to their PR or communication managers. This is a mistake.

The CEO needs to be seen to be in charge, especially when things have gone horribly wrong, and he or she needs to be the one offering calm reassurance when people are worried about the future of the business and ultimately their jobs. And to do this with any semblance of authority, a CEO must be seen at the helm or 'sit at the head of the table', speaking out loud with a well-defined narrative supported by a comprehensive plan of action.

A communication plan needs to be drawn up during the acceptance stage of a turnaround, once the 90-day cash flow projections have been calculated and everyone has a better understanding of what they are dealing with. This is the point at which communication starts.

Drafting of the plan will almost certainly take a couple of days out of the scheduled ten-day window because every single step needs to be put down on paper. At this stage, no one will know the entire story, but the aim should be to have it told and done in 90 days. There should to be an outline available for the message the CEO needs to give as well as scripts for several possible scenarios to come. Remember, nothing is certain at this stage and a CEO has to be ready for the unknown.

Chapter 6: The CRO and Skeleton team

One of the first and most important steps that need to be taken during the assimilation stage is to appoint a Chief Restructuring Officer (CRO). The CRO is the turnaround expert charged with the task of restructuring operations (Karol, 2019). He or she is the strategist and head of the turnaround. However, the role is temporary. Although the CRO supervises the turnaround of the business, he or she only stays long enough to stabilise the changes the CRO has initiated (Schnelling & Yap 2008). The CRO's position can be filled internally or externally, and this decision is largely down to the board and the CEO.

While there is some benefit to be had from appointing from within the company – the CRO will know the business well and have relationships within the business, meaning he or she should be able to hit the ground running – the downside is that an internal appointment can result in a CRO being blind to a lot of the problems plaguing the company. Sometimes you can be too close and too involved to see all the issues clearly, and that's probably why most boards bring in an external CRO because they come with a vast amount of experience to successfully turnaround a business, but they have not been part of the problem and carry none of the baggage.

In economic terms, a skeleton team is the smallest number of people that can feasibly run a business – and they're running businesses more than you realise. For example, it's not uncommon during holiday periods to have skeleton teams in place to cover for staff members taking annual leave. Incidentally, businesses often run more efficiently under skeleton teams because when the whole team is operating, there are more interactions, often creating more problems. Of course, in a turnaround the skeleton team is not so fluid and it will be a fixed line-up of the most elite members of staff who have the ability to support and run a turnaround successfully and smoothly. This team believes in the company and the board believes in them and, as such, they know their jobs are safe so long as the company is safe. The CRO must assess all managers he or she will work with to implement the changes that are necessary to accomplish a turnaround. The process of identifying this go-forward leadership team occurs concurrently with the initial phase of implementing the change process (Schnelling & Yap, 2008). This is what we call the 'acceptance phase.'

Chapter 7: Programme Design and Governance

Preparation is probably the least exciting aspect of a turnaround process, but it's important and it needs thinking about. When we say 'programme design and governance' the book refers to the turnaround project's structure and governance. The infrastructure upon which a business is built is not necessarily the infrastructure that is going to help a business survive, which is why this chapter is about the programme structure and governance of a turnaround i.e. the arrangement of different projects and the control of these projects that together form a programme capable of delivering a successful new organisation that will turn the business away from disaster. This is not the new business structure or the governance needed to survive a distressed situation. That will be discussed in detail at the design phase of the project.

Managing a turnaround, and all the programmes and projects related with it, needs a defined construction as it's very different from managing an organisation. It is something everyone needs to think of as a separate entity because not only is there a different structure to a turnaround, there's also a very different kind of discipline required that bears little resemblance to the planning, evaluation and control that enables and delivers results in normal business circumstances. Also, if the current governance of the company was any good, it wouldn't be in trouble in the first place. So, it's important to set all of that aside and invest in understanding the programme ahead; a programme with its own rules of design and governance.

By coordinating the sequence and pace of business change as a project, it becomes something entirely separate from 'business as usual'. This is about finding a different approach that will deliver maximum results because the business as it is clearly doesn't have the structure to do that. Developing the programme management aspect of governance helps to give direction to bring immediate results.

Chapter 8: The 90-Day Cash Flow Stress Test

Given the devastation caused by Covid on many of the world's businesses, and the continuing repercussions of this or any other crisis, cash has never been more important than it is today. While firms can afford to make mistakes concerning products or strategy, when it comes to cash, no company can simply do without it. In distressed companies, a lot of attention is paid to profit and loss statements, but it is cash, pure and simple, that is of the utmost importance. Cash is the life blood of a business and you have to have cash in the bank to be able to run a business.

In short, if there is cash, a company can operate. If there's no cash, everything stops, including payments to suppliers, staff wages, the lot. That's why, the first thing to do when in a turnaround – and this is something that takes place very early on in the acceptance phase – is create a 90-day cash flow stress test to understand what the cash position is, how it will develop in the coming 90 days and what the maximum negative impact might be that the drivers of cash can resist in order to prevent the company from defaulting.

An overview of short-term liquidity that covers 90 days is the key ingredient to a turnaround as it reveals how urgent the situation is, what immediate changes need to be made and how much time there is to do them. A 90-day projection of cash flow can also create an enormous support base for a turnaround, within the board and the business as a whole, because it explains the necessities of the decisions to come. If everyone has a clear view of how the short-term liquidity is going to develop, it makes a great case for everyone to get behind.

Chapter 9: The Size of the Prize

The 'size of the prize' is a term used to identify a company's overall potential for success, although when a company is in a turnaround it identifies the value that can be created if changes are implemented within a short period of time in a distressed situation. In a turnaround situation, the 'size of the prize' is the ability to determine what the potential upside for a business is – and it's this you want to present to the board. It is the end result of the financial review, the organisational review and the root cause analysis where you can tell the board, with authority, why the business is failing, what can be done and what the potential upside is, while presenting a plan of action.

During the acceptance period of a turnaround, we come to an understanding of how bad the situation is. This next stage – the analysis phase – is about understanding the root cause of why a business is distressed, how the overall business performs, how it compares internally between product lines, functions and departments, and how it compares externally within industry standards and other industry peers, all of which gives a very quantitative appreciation of what improvement potential there is to be had, how the organisation operates, and what is critical within the infrastructure to support operations.

The outcome of the analysis stage will show improvement potential by pinpointing all the best aspects of a business from the most profitable products and the most attractive customer group to the most efficient and effective organisational design as well as the best process maps together with the most enabling set of IT infrastructure and systems to work with. More importantly, it is the starting point at which to acknowledge the level of change and potential investment needed to realise this potential.

Chapter 10: Building the Target Operating Model

Organisations are complex systems designed to deliver some sort of value and, like any other complex structure, they are made up of a number of very different components, all of which makes the design of a Target Operating Model a complicated affair.

At its most rudimentary level, an organisation is a system of people and processes, products and services, all using different kinds of technology, that are 'organised' in a multitude of different ways in order to manage or lead the 'operating model' or organisation so it can deliver its goals, results or vision.

When we refer to an 'operating model', we talk about how a business works in order to create value for customers, staff, shareholders and all other stakeholders and how it is managed, governed or led.

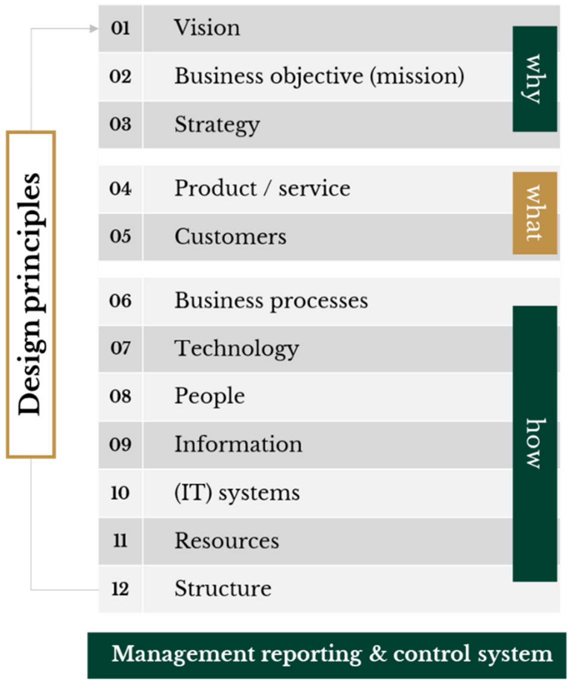
This is why there needs to be a very clear distinction made between 'business model' and 'operating model' before we even consider moving on to the 'Target Operating Model'.

The outcome of the analysis, which is very quantifiable, gives the metrics needed to understand the future needs of a business – whether it's reframing the strategy or increasing revenues and lowering costs or simplifying the organisational structure and rationalising suppliers or customers. All of it will likely have an impact on a current operating model. So, from the output of the analysis, and subsequent review of the operating model, a Target Operating Model (TOM) will be defined with a clear understanding of the gap between 'as-is' and 'to-be'.

Called the 'change path' or 'opportunities for change', every adjustment made to the current 'as-is' model in order to transform it to the 'to-be' or Target Operating Model is a consequential change affecting people, processes, structure or systems, and all that needs to be calculated for.

The TOM is the blueprint for a new organisation and it will remain a dynamic source of information well into the future because if you manage your organisation correctly you will revise and look at your operating model regularly. It's common for companies in distress not to have looked at their operating model in a while – they might even have forgotten about it – and, as a result, the business loses it way and grows messy. In a turnaround, this mess needs to be cleaned up. That's why the 12 steps or building blocks need to be established – they are the only way to fully understand the current operating model and, from that understanding, define the Target Operating Model.

While there are multiple schools of thought when it comes to TOMs, with some being better than others, it is my belief that they are all incomplete to some extent. While there are no guarantees, my definition bucks this trend. The following 12 building blocks of assessment are key to reviewing and potentially redefining operational systems in order to ensure as complete as possible solutions that will enable distressed companies to reach the 'to-be' organisational goal.



Chapter 11: The Management Control and Reporting System

Businesses don't run by themselves; they need to be controlled in order to run effectively, and if you lose sight of this very simple concept, ultimately, you won't be running a business, you'll be running into trouble. Successful businesses require rules and they require discipline. In short, they need a management control and reporting system.

The management control and reporting system is not, in itself, especially complex or necessarily IT related; it's chiefly the process of looking at how the company works and how and why all of its elements fit together, i.e. business objectives, process, people, information, structure and reporting. It is a very logical way of looking at how a business performs and this performance is reported and acted on

Interestingly, the word 'system' comes from the Ancient Greek word *systēma* meaning 'a whole concept made of several parts or members.' In short, it's the whole picture; the sum of all the parts put together.

One of the most critical aspects of the management control system is that it provides a positive feedback loop across the entire business. So, where you have a plan for your business objectives – derived from your vision, mission and strategy – and you do the work to deliver the plan after deciding on agreed processes, you can measure the quality of the output of the process because it comes in the form of information. You then report this back to decide how best to improve.

The management control and reporting system is how you keep making gains in business. It's the fundamental principle of continuous improvement; a closed-loop system, comprising of information, documents and meetings that are used to deliver quantifiable business performance improvements. The system is in place to activate actions and evaluate or measure the output and effectiveness of the business through the provision of the kind of information needed to make decisions. By doing this, everyone understands, on a weekly basis, where the company wants to be, where it is and what actions are needed to stay on track. Very often, in a distressed organisation this concept of monitor and control got lost a long time ago.

Chapter 12: Implementation – The Final Frontier

The real success of a turnaround lies in its implementation. If you skip this step, then everything that has gone before it was pretty much a waste of everyone's time and money. There can only be any value in a turnaround plan if there is a concerted effort to put that plan into place. And yet it's amazing how often this fails to materialise.

The success of the turnaround depends on the implementation. The rest is really prework, with the target operating model, along with the potential operational and financial improvements, being only an idea at this point. Now, is the time to convert this prework into a tangible result in order to ensure the company is no longer failing, but recovering from the state it was in. That's why the order, speed and quality of the implementation is critical.

Implementation is about successfully managing transformation to get a business working differently, in a more coordinated, efficient, profitable and sustainable way, as defined in the target operating model. I believe there are three stages to go through before this transformation actually happens, all of which come with three enabling factors.

After going through the processes of acceptance, analysis and design – in which a company comes to realise what is going on before understanding why it is going on and how it should be going on – it is time to activate the three stages of implementation:

Install – get whatever is needed in place, ready to access and use

Apply – this involves a new way of working, so it's behaviour change

Sustain – accepting a 'new' level of ownership

Implementation is difficult because much of it involves accountability, and real accountability in a distressed business is a rare thing. I don't say that lightly, and I have also been guilty of this, but people are pretty good at determining what needs to be changed right up to the point when it comes to taking responsibility for those changes. This is also a good reason for consultants not to hang around for the implementation of their plans, or to only 'assist' in the implementation, because, as outsiders in an organisation, they don't have the power – or the skill set – to enforce real change.#

Chapter 13: Turnaround Driven Digital Transformation

Digital transformation is a very important part of today's business agenda, even for distressed companies, and there's much more to it than buying in technology. As John Chambers, former CEO of Cisco Systems, correctly observed; if businesses don't make technology and innovation part of their business culture and way of working it's likely they will fail because they will be unable to compete with their peers and – like all dinosaurs – will eventually become extinct.

From a high digital framework overview, there are a few things that are immediately apparent: technology will always be present; it will never leave our lives or our businesses; and the way to successfully deliver a digital transformation requires defining a digital transformation strategy. All of which connects pretty well with our Target Operating Model, in terms of looking at the 'what' and the 'how' and the 'why' and the 'when'. During the course of a digital transformation, you run into the same questions we have covered in the previous 12 chapters: what processes will change; what people need to be kept in terms of capabilities and understanding and ownership; how much can the business be aligned to fit into a digital strategy; and how much can you build on the existing business?

Digital transformation is about organisational change and that requires different methods of communication. In a turnaround situation, there is a clearly defined communication approach, and that's a very good situation to be in to take on any digital transformation because the steps are not too different – you need to understand your digital strategy, you need to understand the organisational strategy, how this aligns with capability, culture, process, organisational structure and hierarchies. You have to know the capabilities and understand the change requirements with the same thoroughness as the implementation plan or turnaround handbook. So, what are the typical top 100 changes that need to be made to achieve digital transformation? It's all in the turnaround handbook.

If implementing a digital transformation in a distressed situation, you have to be especially careful of two things:

1. having a very clear strategy aligned with the current situation to ensure that it is realistic;

2. the depth of any digital transformation – knowing to what level you want to digitise the organisation, something that needs to be thought through well in advance, and what the budget is.

Then, if you decide to do something because it will bring benefits, don't waste any turnaround time on software or applications or ERP selection. The fact is, this will never be a slam dunk decision; companies take a lot of time selecting software, selecting technology and working out how to deploy it before doing it. In a distressed situation, you don't have the luxury of time. You have to pick a few really good solutions, make sure you can afford them and then go for it. If you wait too long or you take too long to decide, it messes up the turnaround. So, don't do it.

About the Author

Having graduated in Corporate Finance at Erasmus University Rotterdam in the Netherlands, Bas Bergmans started out working for PricewaterhouseCoopers in London as part of their 'strategic change group' focussing on value-based management, and investigating how to define and implement value improvement strategies.

After PriceWaterhouseCoopers he moved on to operational restructuring with Celerant Consulting, which ultimately led to his turnaround baptism of fire with DSM Elastomer. In those days, Celerant was a boutique firm based in London. His role in the team was to drag distressed companies back onto their feet by increasing profitably through operational improvements. This largely involved looking at: activity and information flow; where people were positioned within the activity flow; how they contributed to it; and how to move, change or retrain them to improve the operational excellence of the company. In business terms, this was essentially 'lean manufacturing,' using methods like Six Sigma and Kaizen to provide the organisational tools needed to improve the capability of business processes in order to maximise profits and improve employee morale, along with the quality of products or services. In basic terms, it was all about achieving operational excellence. The business turnaround of DSM Elastomer was a huge moment for Bergmans because it was no lean manufacturing mission, but rather a full-blown business turnaround that reached well beyond the normal standards of operational excellence.

With his star in the ascendency at Celerant Consulting, Bergmans next career step took him to Deloitte, which largely involved planning and implementing synergies to achieve successful mergers when two businesses join forces. As post-merger integration is a restructuring-related process, it was inevitable that he would again end up with blood on his hands because there's always some aspect of crossover with mergers. As a rule, business infrastructures need to be integrated and optimised, processes need to be aligned and improved and, in almost all instances, people will be laid off because synergies are very often found in 'people costs,' and that's also where the majority of cost gains are to be made. Some studies conducted by Deloitte revealed that 70% of M&A transaction require a turnaround due to poor implementation and a lack of success in realising anticipated synergies. Bergmans went on to become the second member of the team at Deloitte's PMI practice in Shanghai, China. He then established the company's PMI practice in the Netherlands before starting his own business back in China.

Starting his own company was possibly one of the best business schools Bergmans could ever have attended, not least because he went through three turnarounds himself. In 2008, his company had 50 people on the payroll. By 2011 it had 250 people. And in 2018 there were 750. Naturally, there was continuous pressure on money and process improvement, but the result was a $90 million lamp manufacturing business built from scratch in Lin'an on the outskirts of Zhenjiang province in east China. In fact, it became one of the fastest growing Sino-American LED technology companies in the industry. By the time it was acquired by the Silicon Valley start-up Katterra Inc in 2016, the company was the 5th largest LED lamp exporter to the US.

After selling the business, Mr. Bergmans joined Alvarez and Marsal, a firm that primarily dealt with business turnarounds, business restructuring and highly aggressive profit improvement programmes. After Alverez and Marsal, he further enriched his professional career by working with Tata Consultancy Services (TCS) where he joined the M&A team, and dived into the exciting world of digital transformation. TCS is at the forefront of enabling businesses to adopt and adapt to new technologies in order to stay ahead of the game. They work to support the entire digital transformation journey that all businesses around the globe are currently undertaking in one way or another.