

## **A successful turnaround requires structured thinking and rigorous execution on all fronts**

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Based on our work with SME companies, we have come across multiple paths that lead to a need for a drastic transformation - turnaround. Although the turnaround situation is never deliberately targeted there are some positive aspects that may cause the company to emerge stronger from the challenging situation. We have noticed that managers are lacking tools and a process to complete a successful turnaround. In this article we introduce a systematic approach which is complemented with analytical tools and framework to manage a turnaround.

### **Financial planning and loss of strategic focus - recipe for disaster**

Fast, unsustainable growth, combined with growing overheads in advance to accommodate future growth may leave a company in a cash trap. The cash trap effect is multiplied when growth focused subsidiaries, expand their overheads in advance, and prolonged by slow and inadequate financial reporting. This development has been rather common during the past couple of years when the effects of the financial downturn have reached companies. Distress may also be a result of other things such as poorly executed acquisition or continued financial underperformance.

According to several studies well performing companies have at least one thing in common: good financial planning and reporting. In distressed companies, financial planning and reporting is often poor, and sometimes even deliberately misleading. When reporting is inadequate or misleading, companies fail to detect the problems that occur along their growth path. This has caused companies to take on overheads that they are not able to bare in the long run. Especially for an SME that has independent foreign subsidiaries, financial planning and reporting is crucial as well as systems and processes to support them. Since the parent cannot monitor its subsidiaries continuously, it must be certain that financial plans and reported results reflect reality.

At this point one may argue that the real problem is not on the process and system level but even deeper inside the organization. We have often noticed that the root cause is the management team's emphasis on growth and chasing lucrative opportunities. Instead of focusing its limited resources on executing its core strategy, the organization may start to look for additional expansion opportunities. Instead of building a solid platform that enables long term sustainable growth the organization spreads itself too thinly along different business areas. Although we recognize the importance of growth, we argue that when the growth is not constructed on a solid platform and is not carefully executed, the risks involved tend to be overlooked. One must also emphasize that the problem is not growth itself, it's the execution. Doing too many things at once is a recipe for disaster.

### **The way out - identify, prioritize, plan and execute**

The basics of a successful turnaround are simple: identify the problems, prioritize the problems, plan a step-by-step execution plan, execute and iterate each step continuously. This straight-forward method addresses the underlying reasons of the problem: poor reporting, lack of proper analytics, unstructured execution and it makes the processes iterative. Reaching an optimal solution also requires engaging the whole organization in the problem solving. However, due to the delicate nature of the problem, this is not always possible.

The company in need for a turnaround has failed to identify the problems. A first step is to take a deep look inside the organization to find out what the real causes of the problems are. When identifying the problem, one must go beyond obvious and find out the root causes of the problem. By constantly asking the question why, the management ensures that the right issues are addressed. Root cause analysis, where one targets the real underlying reasons for the problem instead of focusing on the symptoms, is a good framework for problem identification. This should be complemented with cash flow analysis, process mapping and product/customer profitability analysis.

Step two is to prioritize the problems. By finding out what are the real reasons behind the problem, one can start addressing them in the order of importance. Prioritizing problems forces one to rethink the causal relations between the issues, which supports and facilitates systematic execution. Fundamentally, as both time and resources are tight, prioritizing problems is crucial to determining which problems need instant actions and which ones can wait. For instance, if the company is on the verge of a liquidity bankruptcy, the short-term

financing needs more rapid addressing than setting up future direction.

A step-by-step execution plan is crucial for a successful turnaround. It creates a bridge between the company's long term vision and the necessary steps to get there. Although conceptually trivial, managers tend to focus on short term execution without a clear goal for the future. Thus is necessary to devise a step-by-step plan that clearly shows what the goal is and how we are going to get there. By employing common tools across the organization, one can make sure that the plan does not overlook any key aspects of the change. Based on our experience, a framework 'three waves of execution' is an easy way to illustrate what the areas of focus are at any given time and what are the criteria for a completed task. From the perspective of change management and boosting team morale during execution, planning in some "early wins" is crucial - targeting low hanging fruits and areas of immediate impact first allow people to see that things can change.

Once the plan has been devised, execution follows requiring strong leadership on all fronts. We propose iterative approach to following the execution plan. With limited time to act the management may have had to run through the above steps to address the most burning issues and leaving some issues overlooked. The original plan may not address all key points and new ones have come up since the original plan was formed. Iteration also makes sure that direction isn't lost at any point of the execution. Plans change in the course of action and management should take time to look at how this affects the overall direction the company is heading. Documentation of the turnaround process facilitates the iterations, since one can clearly identify the areas that need iteration. Time-wise running weekly cycles of execution with formal progress reviews and action planning works typically well and helps to facilitate the overall process.

### **Increase the chances of a successful turnaround - common tools, new thinking and motivation**

Employing same tools across the organization increases the probability of the turnaround because it ensures that everyone speaks the same language. Being consistent in communication and methodology avoids extra hassle during the effort. Getting new thinking and people with different experiences also widens the horizon of possible solutions available. People with different backgrounds bring their past experiences to the table which can be used as analogies to solve the current problem. While getting new thinking in is important, one must not overlook the current employees. Motivating them and providing them with a clear path forward helps avoiding the loss of employees, which is a significant risk for a company in a turnaround situation. Celebrating successes as well as recognizing good performance at each occasion helps. Success stories as well as role models are needed to keep up the spirit.