Five Key Lessons to Reverse the Performance Slide and Turn Your Company Around

Executives at most failing companies keep trying the same old turnaround tactics—and many of their companies keep failing. One services company took a different approach to successfully reverse the slide in its performance. Here are five key lessons the company learned along the way.

1. *Fix the Root of the problem and stop the bleeding*.

It is crucial that short-term and long-term activities are run in parallel. When performance continues to decline, there is simply no time to go through the pre-study and feasibility stages typical of conventional change programs before taking the actions defined by such programs. (However, the scope of the initiative must be comprehensive enough to get the job done; this is not the time for a "quick fix" mentality.)

To ensure that the short-term "action stations" initiatives get the attention they deserve, it is best to centralize control of the turnaround program.

The recent turnaround of a services company (FIXCO) provides a good example. A major factor in the company's large losses was its limited understanding of the profitability of its big contracts. At the proposal stage, cost and price calculations were often based on a rosy picture of total overhead costs. This, combined with tough negotiations that led to further discounts, virtually guaranteed that almost all the company's big contracts would be unprofitable.

To help remedy the situation, the proposal and contractual process was centralized for all contracts over a certain price. The arrangement led to impressive results. Average margins on large projects went up by 11 percent over the first six months following implementation of the change.

2. *Manage from the top, not by committee*.

Successful turnarounds cannot be delegated. They have to be at the top of senior management's agenda, and they must stay there until the turnaround—or at least the short-term stage—is complete.

Why? Because what's ultimately at stake in any turnaround is the overall health of the bottom line, so everything under senior management's control is affected.

It is true that a "normal" project can be run successfully even if other parts of the business begin to deteriorate. But nothing is normal about a complete turnaround.

The corollary here is that turnaround activities must command the full attention of every senior manager.

At FIXCO a deadline was set for when all members of the management team were expected to give the CEO their formal commitment to the turnaround plan as well as to specific goals within their respective areas.

There was no project steering group; it was FIXCO's directors who reviewed progress and made recommendations.

3. *Know what your costs are*.

It is not uncommon during turnarounds for the cost picture to be muddied to the point that managers are unclear which expenditures relate to the turnaround activities themselves and which relate to ongoing operating costs. Effective turnaround teams make sure there is a clear distinction. For example, they account separately for salary payments for laid-off personnel.

It is common for such payments to continue for several months after the layoff dates, but if the payments are "mixed" with those of active employees, there is no way to know the actual payroll run rate.

4. *Communicate the Urgency*.

Another important turnaround discipline is to instil a consistent and very tangible sense of urgency throughout the organization.

At FIXCO, the turnaround team's big call-to-action message was,

"This is the organization's last chance."

The team used multiple communications channels: management meetings, department meetings, intranet, mail, bulletin boards, workers' unions and in-house media.

The communications were tracked, and a team member made sure that all meetings planned were actually held.

This discipline was essential when it came time for layoffs, because employees had to be informed in an order determined by national labour laws.

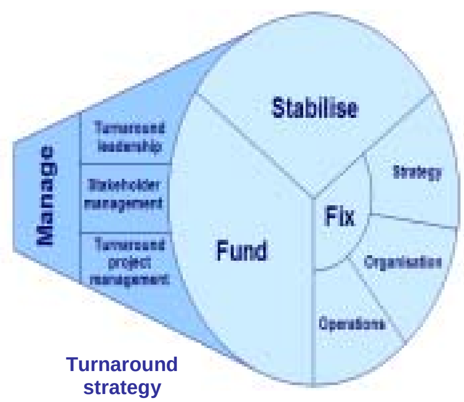
The turnaround leaders made sure that the entire management team stayed *on message*; any deviation from the gospel of turnaround would weaken the overall effort.

5. *Manage all stakeholders*.

In any turnaround, it is vital to "manage up"—to manage the expectations of the company's owners or its parent company's executives, for example' the management team consistently managed stakeholder communication throughout the course of the turnaround. Indeed, the CEO was constantly surprised by how much time he was spending on all forms of upward, inward and supply chain communication.

Because financing was a core issue for FIXCO, a lot of time had to be spent on presentations to banks and other debt holders to demonstrate progress and to ensure the availability of additional short-term funding at reasonable rates.

Toward the end of the turnaround program, potential new equity owners entered the picture, and their involvement required considerable extraordinary communication.



Turnaround strategy model

Deshel can help provide the interim support that a company requires at all stages of the Turnaround Situation.

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