KEY ORGANIZATIONAL ISSUES FOR TURNAROUNDS ARE OFTEN OVERLOOKED

Reprinted October 7, 2008 ***By Gerald Sherman***

Traditionally, the turnaround industry and its professionals have focused on areas that drive industry activity. In particular, bankruptcy, financing/lender issues and legal issues are viewed as key. Many of the crucial steps that have to be taken to truly turn around a company, however, are often overlooked. Yes, it is critical to quickly get a company back to modest profits and within formula on its' line of credit. Unfortunately, these fixes alone tend to be short-term in nature unless critical organizational areas are assessed and upgraded. Taking the point of view that a true turnaround puts a company in a position to be profitable on a long-term basis, virtually every company in distress has to focus on five fundamental organizational areas which can profoundly impact long-term performance; internal communications and coordination; clarity of roles, responsibilities and authorities; accountability; and human resource management.

CEO PERFORMANCE

Generally, every CEO of a troubled company has weaknesses which significantly impact their company's performance. It may be financial management, basic supervision skills, human resource management, ineffective or non-existent management practices, etc. Regardless, these weaknesses have to be addressed with at least a modicum of success in order for the company to have a chance for stable, long-term profits. The biggest challenge with middle market and smaller companies is that often the CEO and owner are one and the same. Needless to say, virtually all CEOs in that position aren't inclined to fire themselves or even change their responsibilities. Most typically, the reasons for this can be ego, perceived financial constraints, difficulties in finding "the right person", and the challenge of finding productive, alternative responsibilities for the CEO/owner. Solving this problem takes true finesse and often simply doesn't happen, limiting the turnaround's potential. However, if the CEO is open to change, a good place to begin is a survey of employees to get a broad, relatively objective reading of how the CEO is viewed internally. Once this survey has been completed and reviewed, a plan can be developed to define the company's leadership needs, the CEO/Owner's future role and the new hires that will be needed.

INTERNAL COMMUNICATIONS AND COORDINATION

A common complaint among employees of troubled companies, both senior and junior, is that they don't know what's going on or know too late. Similarly, a common complaint is that the left hand doesn't know what the right hand is doing.

company's ability to perform at its best or even close to that level. While some CEO's limit communication purposely, others simply lack an understanding of its importance. The most effective way to address this issue is to establish a regular management meeting, usually on a weekly basis. This provides a wide range of benefits and is particularly important in a crisis situation. First, it provides a forum to identify issues and deal with them quickly. Second, these regular meetings help to ensure that key managers are informed and on the same page. This process also helps to establish accountability, an issue that is further addressed below.

CLARITY OF ROLES, RESPONSIBILITIES AND AUTHORITIES

"Gee, Bob told me to handle the Smith issue. Why is Margaret addressing it now?" This type of comment, as well as many similar ones, is common in troubled companies. Fortunately, this issue can be handled in a reasonably straightforward fashion. The first step is a solid, rationalized organizational chart. The second step is the development of detailed job descriptions which clearly delineate roles, responsibilities, authority and reporting relationships. There are often two difficult issues that have to be addressed to make these basics work. First, this type of clarity can spur turf battles and disputes over responsibilities an employee may or may not want. Secondly, enforcement is key. Weak CEO's and senior managers often don't appreciate the benefit of this approach and don't take the steps needed to assure that it's enforced.

ACCOUNTABILITY

In many troubled companies, staff members, from the CEO down, consistently fail to deliver on commitments they have made or are expected to deliver on. When the company's culture allows this to continue without consequences, company performance will invariably suffer. The simple establishment of weekly meetings, as discussed above, provides a very good forum to review delivery on individual commitments and will start the movement toward a culture of true accountability. Addressing poor performance after clear expectations have been set is described in more detail in the following section.

HUMAN RESOURCE MANAGEMENT

Most troubled companies, particularly family businesses, tend to tolerate weak performers and do little or nothing to improve the situation, find a new position for the employee or terminate them if necessary. Addressing weak performers is always painful but the consequences of not doing so are even more so. We always try to help clients recognize that weak performers are a substantial competitive disadvantage as it's quite likely that competitors don't allow similar issues to persist. To begin to address this area, there are a series of basic management practices that need to be focused on. First, the culture of accepting weak performance has to be stopped, as difficult as that may be. Second, better performers have to be brought in. To do so, the hiring process generally has to be upgraded since many troubled companies simply don't hire employees with the right capabilities. Very

NORTHSTAR
Management Partners

4 Pleasant Street South
Natick, Massachusetts 01760

☎ 508 651-0093
Fax: 508-526-8959
www.northstarmp.com

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often, it's not a matter of insufficient funds to make the right hire. Rather, it reflects a weak selection process. To help improve this area quickly, we generally recommend that multiple interviews be held with staff members at various levels of the company. Further rigorous reference checks are critical including an effort to reach out to people who know the candidate but weren't offered as references. Thirdly, we focus on upgraded training since troubled companies generally provide little or nothing in this area. Internal training provided by senior staff members can be provided on a cost efficient basis and augmented with outside training as finances allow.

With these organizational issues addressed, every company in turnaround mode will have a far better foundation upon which to build a truly strong business. In every case, however, many operational challenges will remain which are much more specific to the company and its industry. These can vary from capital issues to inventory management to a refocusing of marketing efforts, to the consolidation of facilities, etc. As consultants, our key challenge, when realistic, is to put the client in a position for stable, long-term profitability. By addressing key organizational areas, the potential for a true turnaround is greatly enhanced.