TURNAROUND MANAGEMENT

A GUIDE FOR CLIENTS

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What is Turnaround Management?

"Turnaround management is the implementation of a set of actions required to save an organisation from business failure and return it to operational normality and financial solvency"

Why do companies fail?

" ….. each unhappy family is unhappy in it's own way" – Tolstoy, Anna Karenina

Much like Tolstoy's unhappy families, each business that fails, fails in its own way – but there are some common reasons:

- failure to control costs
- failure to build & maintain a management team with the necessary skills
- deterioration in market conditions
- failure to adapt and continue to meet customer needs
- over-trading

Why do companies fail?

According to a survey by the American Association of Insolvency & Restructuring Advisers only 9% of failures were due to factors totally beyond management control. Most related to factors that management could influence and 52% were related to internally generated problems! These included:

- Lack of timely & accurate financial information
- Autocratic management
- High staff turnover
- Inadequate analysis of markets & strategies
- uncontrolled growth

Signs of Distress

The decline of a business' performance can take place over a number of years – although there are situations where an extraordinary internal or external event may suddenly endanger a business.

Where a decline in operational and financial performance has been gradual, management may not realise the extent of the problems until it is too late.

Signs of Distress

Typically a company in the early stages of failure will display the following signs:

- monthly accounts showing consistent losses
- shortage of cash and borrowing close to limits
- management hiding information and denying responsibility
- resignations of key staff and high employee turnover
- lack of joint problem solving and a silo mentality between departments

The Process of Turnaround

The process of a turnaround can typically be broken down into three phases:

1. Assessment & Triage
2. Stabilise & Development Strategy
3. Implementation & Management

Each of these stages will be considered in more detail

The Process of Turnaround

1. Assessment & Triage

This consists of a detailed investigation of the business and its market position. It may take 2-6 weeks, The purpose is to establish a clear picture of the business' financial position and identify immediate priorities. If cash availability is a problem then management must take immediate steps to stop the bleeding through improving working capital, cutting expenditures, and where possible seeking support form equity and debt holders.

It is critical in this process to generate a detailed and transparent view of cash and profit at the individual business unit/product level so that an assessment and forecast can be made for those activities crucial to the business' longer term survival

The Process of Turnaround

1. Assessment & Triage (cont.)

Key data required at this stage includes:

- current and historical financial results
- details of the costing systems/processes in arriving at profitability
- details of legal/financial arrangements with stakeholders and lenders
- assessment of management and their capabilities
- review of the business' markets and competitors

This information is used to:

- develop a SWOT analysis to suggest options and assess if the business is viable
- Support a summary to decision-makers setting out options, risks and priorities

The Process of Turnaround

2. Stabilise and Develop Strategy

Once the immediate issues and priorities have been identified, the next phase is focussed on stabilising the business and planning the longer term recovery and development plan . Developing a detailed plan may take 4-12 weeks.
This plan will set out detailed functional actions to improve business performance and will need to be communicated to all key stakeholders including the main board of directors, the management team and employees, shareholders and key lending institutions.

The Process of Turnaround

2. Stabilise and develop strategy (cont.)

This strategy and restructuring plan will set out action to:

- implement identified “quick wins”
- control cash management and restructure debt obligations
- reduce operating costs
- enhance customer mix and product pricing
- grow high potential product offerings
- improve management and leadership
- where necessary indicate relevant asset or business disposals

The Process of Turnaround

3. Implementation and Management

Once the business has controlled any cash outflow, through any necessary overhead reduction, margin improvement and asset disposals, the main focus will be on improving the efficiency of ongoing operations. The business must concentrate on improving profitability, secure management cultural changes, rebuild morale and secure long-term financing.

This phase may overlap with the previous stage and may last for 4-12 months +

The Process of Turnaround

3. Implementation and Management (cont.)

Options for securing the necessary changes include:

- creating an open and transparent management culture that shares responsibility
- simplify business processes and flatten management structure
- develop internal management talent
- build organisational support for ongoing change
- establish a programme management team to cut across departmental boundaries and facilitate restructuring actions

Leadership & Management

It can take considerable management effort to stabilise and turnaround a non-performing business. It is a task frequently beyond even capable management teams while also dealing with the responsibility of day-to-day management. Ideally the person responsible for developing and implementing any restructuring plan should be in a position to challenge the status quo without reputational capital tied to past failed strategies. For this reason it is usually preferable to appoint the turnaround manager from outside the existing management team either as an interim CEO or Chief Restructuring Officer.

Leadership & Management

The Turnaround leader should be able to:

- manage in a calm manner and instil confidence in shareholders & lenders
- be firm but flexible in implementing restructuring actions
- communicate and motivate staff and treat people openly and fairly
- listen to all and accept suggestions/advice from all levels of the organisation
- clearly articulate the business plan to employees and stakeholders

The Role of ACS

ACS are able to support clients throughout the restructuring process either advising management and undertaking the detailed work necessary to prepare and implement restricting plans <u>OR</u> preferably providing a full-time interim CEO or Restructuring Officer

The Role of ACS

Phase	ACS Action
Assessment & Stabilisation	• Identify cause of crisis • Immediate cash control to ensure survival
Turnaround Plan	• Determine restructuring objectives & business strategy • Prepare detailed business plan • Communicate and manage relationships with equity and debt providers
Implementation & Management	• Management of implementation of agreed action plan • Co-ordination as necessary with other advisers (accountants, lawyers etc) • Management of asset/business disposals