A Short Guide to a Successful Business Turnaround Strategy

A struggling business is typically defined as one in which the sales fall below operating expenses and the business is not making a profit or a healthy profit. Under such circumstances, many other negative things happen including the following critical ones;

1. Failure to meet the salary budget
2. Failure to pay for goods and services delivered by other companies
3. Failure to meet basic operating expenses including purchasing materials for production
4. Inability of the business to supply its customers

In order to keep the doors open, companies then two either one or both of the following traditional tactics;

1. Cut down on operating expenses including reducing the salary budget by reducing head count and even cutting on packages
2. Borrowing to finance operating expenses
3. Cutting down on expenditure on areas such as training and marketing
4. Cutting down prices to push volumes and generate more cash

Some companies will do this in house and restrict themselves to what they consider the bare essentials to maintain survival, a phenomenon call the survival mode. Others will hire some kind of turnaround strategist to help them.

Some companies will manage to re bounding by simply taking the measures stated above. However, most of the companies that do so often experience a relief and some kind of bounce back, but the results do not last. The company often finds itself requiring more cuts to survive if the environment remains challenging. In fact, unless doing very strategically, cutting down on expenses including retrenching some staff members often leaves the organisation in a worse off situation that triggers a set of secondary negative effects, kind of adding high octane fuel to an already burning fire. This is not surprising because cutting down costs, also called the bottom line approach, can free some cashflow but does not improve the top line or the revenue generation. But why do companies and turn around strategists concentrate on cost cutting as their core strategy for restoring companies to profitability and growth? There may be other reasons why here are three possible reasons.

First, cutting costs really makes sense in the short term. No company can survive for long when its operating expenses exceed its sales and more importantly its profits. Cash is the life blood of every organisation. Even when other strategies are considered, reducing costs remains an important part of a turnaround. However, it is the approach to cost cutting that can be disastrous or, at the least, unhelpful.

Second, when there is pressure on CEOs and their teams to perform and most importantly to declare profits. In a tough environment where there seems to be no options and possibilities to shift the top line, the fastest and easiest method for declaring profit is by cutting the costs.

Third, many business leaders attribute a fall in revenue and performance exclusively to the “environment”. The same executives would also attribute all success exclusively to their own performance and the performance of their teams and organisations. This is a typical fundamental attribution error. By externalizing poor performance, business leaders escape the blame of being incompetent. However the same process also implies that the same leaders has lost control of the organisation’s performance. When leaders and their teams externalize responsibility, they imply nothing can be done to swing back the results upwards. This can lead to hopelessness, apathy and lack of the enthusiasm and zeal to explore possibilities for breakthrough solutions. But what other options do business leaders have when faced with a struggling company?

The first suggestion is that mindset is the biggest hindrance to the successful, top line driven recovery and turnaround of any organisation. When we are leading a struggling organisation, it is tempting to think only in terms of the environment being responsible for the poor results. With this mindset, a leader will not open her mind to different perspectives and the existing opportunities for a top line driven return to profitability and growth. Changing mindset and opening up to possibilities is the first key.

Second, leaders must realize that there is a lot of lack of clarity in defining the environment. Unless the organisation invests enough time to explore the real situation, the organisation never arrive at the facts of the situation and will continue basing decisions based on vague concepts, mistaken assumptions, newspaper talk and hearsay. The basic principle is, "Don't believe everything that you think, especially if it is too negative or too positive"

Although the environment may have a negative impact on performance and results, the organisation itself also contributes to all the results the organisation produces. Many organisations struggle for results when they have a lot of untapped potential and opportunities existing untapped within the organisation itself. This means that many organisations can turn around and return to profitability simple by making international changes in how it is operating, a process often called internal strategic shifts. Preoccupied with the environment, few business leaders ever think about the hidden potential they possess. In some cases, these internal strategic shifts are all they need to achieve a successful turnaround.

The Need to Follow a Process

Trying to turn around a business without following a process is a nightmare. A process will simply things and provide power and projection to your effort. I recommend the following three step process that starts with diagnosis, followed by prescription and then completed by treatment, measurement and evaluation.

Step One: Diagnosis

This is the most difficult but most important step in any successful business turnaround. Since there are many factors involved in producing performance and results, pin pointing the major drivers of the situation is not an easy task. Even extracting environmental factors specific to your own business or organisation is an ardous task especially in an environment saturated with a mixture of facts, opinions and assumptions. In addition, it is easy to overlook internal factors that are contributing to the specific results. While the environment may be the trigger of bad performance and poor results, the response of the organisation to the environment may actually be the direct cause of the results being produced. There may be strategic inadequacies that may have existed in the organisation even before the onset of the problem and addressing these inadequacies may be what is required to produce a shift in results and a return to profitability and growth. The possibilities are too many to address here.

Regarding the environment, there are many cases where the environment is defined and described in ways that provide no useful information to support a successful turnaround. An accurate assessment of the situation is vital because it will contribute to informed strategic decisions on what to do.

The most important objective of the diagnosis part is to assess the turnaround potential and to identify specific target points for action to provide a successful arrest of the decline of the situation, a reversal of the direction of results and the return of the organisation to profitability and hopefully to growth.

The diagnosis must also provide a sound basis for deciding to close or sell the organisation if the potential for a turnaround is too low to warrant any turnaround efforts. In that case, the diagnosis will provide basis for strategically closing down or selling the business in the most profitable way possible.

Step Two: Prescription

Prescription involves formulating a strategic response to the situation, being informed by the outputs from the diagnosis step. This is about crafting a strategy for returning the company back to profitability and growth. A turnaround strategy is not an ordinary strategy, but a special strategy with special requirements is scope, depth and detail. May turnaround strategists miss things on two points;

1. They try to mix the turnaround activities with routine, everyday activities. It does not work. A turn around is a special project that requires its own implementation and management structure including resource allocation.
2. You must develop an effective performance management plan to enable the effective execution of the turnaround strategy. This may also need a turnaround champion around which to rally the turnaround.
3. Strong leadership is required for a successful implementation.
4. Special skills and capabilities required for the turnaround must be mapped out and acquired or developed.

The prescription and strategy must pass the four tests of a good strategy otherwise the turnaround strategy will fail.

Step Three: Treatment

The next stage is the execution of the turnaround strategy. It is very common for companies to develop turnaround strategy and then either not implement it all or to implement it in disjointed bits and pieces, rendering the whole turnaround objective useless. This is very understandable given that it is known that a very small number of chief executive officers great at both strategy formulation and strategy execution.

The most important ingredient for effective strategy implementation is performance.

Real performance is not an output but a property inherent in the performer.

Many leaders involved in turnarounds make two serious mistakes;

1. Trying to come up with a turnaround strategy by themselves, without outside help
2. If they get outside support in crafting the turnaround strategy they think since the strategy is no there, the can implement it without support.

These two a serious traps that often end in pain, agony and failure. It is very rare for any team to craft a successful strategy for coming out of the woods they found themselves in. Businesses get into trouble under our leadership because of gaps in our strategic management and those gaps often make it impossible for use to see our way out the situation. Second, acclimatization with the situation makes us fail to see certain things that an outsider can easily pick. This is explained by the concept of managerial frames.

The Key Ingredients for a Successful Turnaround

The following are the key ingredients for a successful turnaround.

1. Decisiveness-Many leaders cannot decide, they vacillate between points.
2. Intuition-You have to make intuitive decisions to succeed
3. Humility to accept help, advice and guidance
4. Ability to stick to the vision, outcomes, goals and objectives
5. Understanding and sticking to the numbers required for a successful turnaround
6. Effective leadership
7. Adequate resourcefulness
8. Committed and disciplined execution

Conclusion

There is no turnaround strategy that can guarantee success, but a good approach dramatically increases the odds of success. The key success factors revolve around the CEO and how he makes decisions as well as the leadership in execution. Even in the toughest of environmental conditions, turnarounds are possible.

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