

FOCUS on Business Turnaround

“Strategy and operational decisions are important, but the defining bets are always made on people. If you have the right person leading the charge, good things happen.”

Harvard Business Review



Your business is failing. What do you do? This Business Focus article summarises the views of Lamberhurst consultants with many years' experience of turning businesses around.

Take the time to understand what's not working

Businesses under-perform for a wide variety of reasons. The first step in any successful turnaround will always be a diagnosis of the business and the recent history leading up to its current state. As with all diagnoses, the challenge is to distinguish perception from reality and theory from practice. This is not because we need to deal only with the “real” problems: perceived problems can be just as troublesome as real ones. The distinction is necessary because different solutions are often required.

“IBM’s executives actually saw most of their problems coming... They commissioned task forces with loads of smart people and forecasted the changes in the market that would cripple IBM, but IBMers couldn’t quite bring themselves to do anything about those cataclysmic changes... IBM was the most profitable, the most admired, the best company in the world, maybe in the history of the world. Why change?”

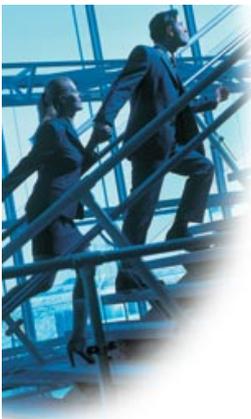
Paul Carroll, *Big Blues* (1993)

Exploring the journey that has led to the current state will reveal key assumptions regarding the “theory of the business”. This is the common comprehension of the business model – how the enterprise makes money and what is expected of the customers, suppliers, managers, workers and investors, *in theory*. The root causes of under-performance are often found in the differences between theory and practice.

Secure commitment from the organisation

Many attempted turnarounds founder because they are based on an entirely rational concept of the business. These approaches adopt a view of the business based only on its economics.

There can be little doubting that a business with a poorly adapted or broken economic structure will perform badly. However, even a well-adapted and fully functioning economic structure is no guarantee of success. A good turnaround strategy will also take account of the social dimension. A business is, after all, a social institution, with its own distinctly human values and culture, and the well being of the institution requires as much attention as the economics of the business.



It is essential to take a cultural “temperature-check” early in the process, typically through implementation of the first stages of formal change management. Interviewers should conduct initial diagnostic interviews with some training in human and organisational psychology and change management. Wherever the problems might lie, they will not be solved if managers’ minds are closed to alternatives and resistant to change.

Why do businesses fail?

Because they ignore customers’ needs. Success demands that you not only attract customers, you work hard to keep them, too.

Because they ignore the competition. Customers are loyal only to the company providing best value.

Because they lack versatility. Successful companies are good at all the things that help create customer value, and can adapt when needs and perceptions of value change.

Because their marketing is ineffective. Great products or services don’t “sell themselves”. Companies fail because their marketing is product-driven or customer-compelled.

Because they procrastinate. Failing companies often see the problems coming well in advance of their arrival, but do nothing about them.

Because of poor cash flow management. Even highly profitable businesses can fail if cash flows are not managed properly in a time of rapid growth.

Because the minds of their people are closed. A company must learn to be flexible and adaptive in an increasingly volatile business environment. If the minds of its people are closed or resistant to change, the business is more likely to fail.

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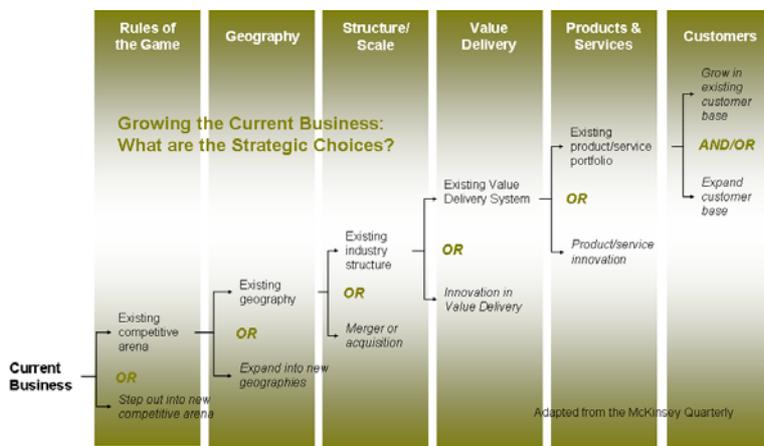
Establish an ambitious, but achievable, vision for the future

It is easy to confuse a vision for the future with simplistic business targets. The purpose of setting a vision is to create a sense of common purpose for the people who will be ultimately responsible for transforming the business. The vision must be ambitious, challenging and motivating; it must give people a reason to get out of bed in the mornings and must be believable. Setting unachievable targets will foster cynicism and create a disconnect between senior management and the “troops”. The vision must be founded on the notion of a financially successful business, but success should also be defined in terms of the kind of place where people want to work.

“Employees must understand where the enterprise is going and have some say in its destiny”

Harvard Business Review

Balance short-term cost reduction with longer-term growth strategies: earn the right to grow and chart the path



It is critically important not to lose sight of the urgent needs of the business and its investors. Cutting costs is quick; building a platform for growth takes time. The business must first earn the right to grow by identifying some “quick wins”. But these are part of a broader turnaround strategy that is much more likely to create a viable, long-term business of significantly greater value. Successful implementation of some quick wins creates confidence that the business can be turned around and generates even greater enthusiasm. Collectively identify appropriate growth strategies that will meet the needs of the vision and which play to the company’s core capabilities.

Use small, focused teams to implement the turnaround solutions

Ensure that resources are freed up to focus enough effort on the implementation. Pick the right teams – don’t try to encourage the right behaviours from the wrong people. Remember that it is almost impossible for people to change a business while they are also engaged in running it. Create teams that act as catalysts for change. Get individuals to take ownership of delivery but offer support if things don’t go quite to plan and be ready to adapt the strategy to fit the reality of implementation.

Ensure sustainability by migrating to a long-term strategy for the business; evolve from delivering the turnaround to building the future. Remember, a turnaround that seems impossible *can* be achieved through vision and commitment.

“By the end of 1998, IBM had completed 18,000 e-business consulting engagements, and about a quarter of its \$82 billion in revenues was Net related.”

Harvard Business Review

The Author

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