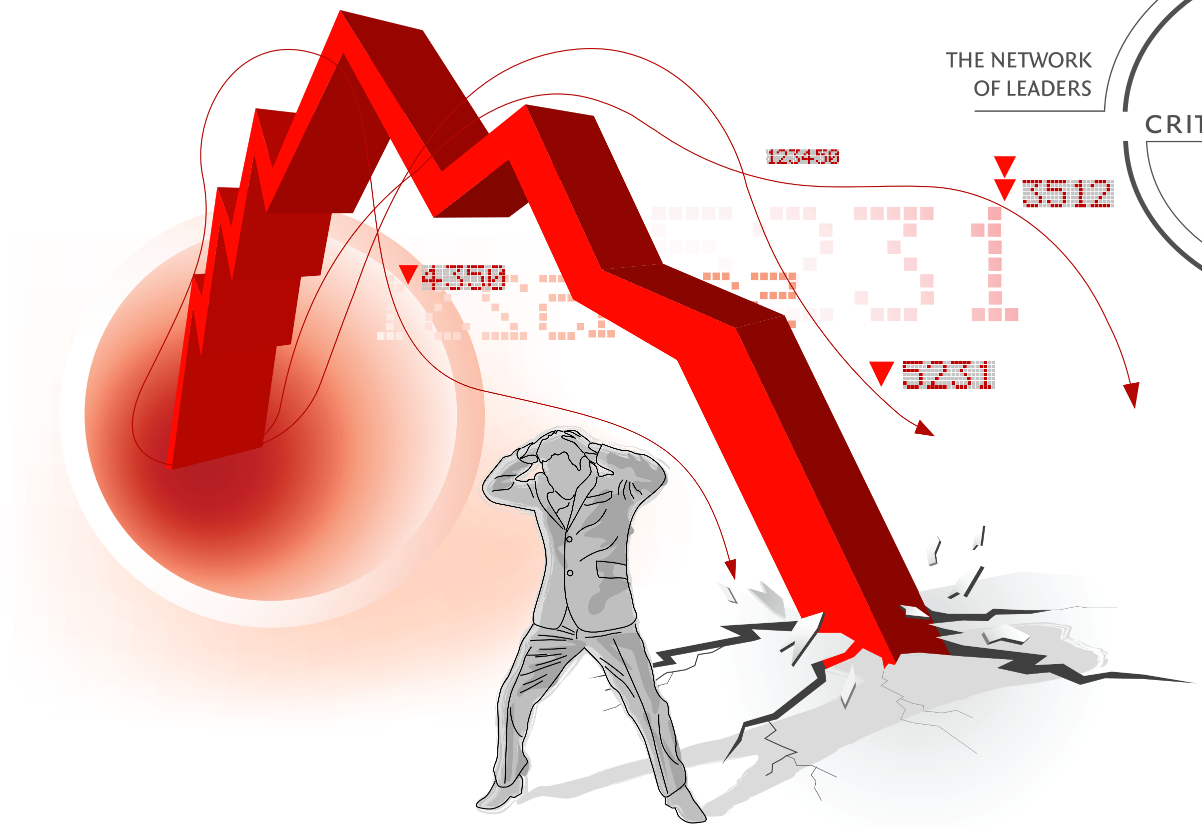

Coming Back from the Brink

Time is of the essence when it comes to rescuing a failing business. **Criticaleye** *speaks to a range of turnaround experts to find out what actions have to be taken in order to put a company back on the right track*

Most reversals of fortune in business are not the result of a magic bullet. Successful turnarounds demand hard work, compromise, a razor-sharp understanding of the financials, decisive leadership and a relentlessly communicated action plan. When the pressure is on and reputations and livelihoods are on the line, that can be a tough ask, but it's usually the difference between recovery and an accelerated decline.

Turnaround experts speaking to Criticaleye identify the following as crucial when stepping into an embattled business:

- Steady the finances
- Identify real sources of revenue and ways to release capital
- Communicate – externally and internally
- Identify the weak links in the company
- Act quickly and be decisive

Naturally, it's always easier said than done. **Claudia Zeisberger**, Criticaleye Thought Leader and Professor at Insead, says: "Even with turnaround professionals who are in that space all the time, one point is clear: however much due diligence you may be doing prior to accepting the task, it's always worse than you expect."

AN INSPECTOR CALLS

Getting the facts straight amid the chaos of a failing business is guaranteed to be a huge challenge. **Steve Brown**, Executive Chairman of bathroom fittings business Croydex, says: "Quite often in these situations, what you are told isn't quite what you discover.

"People have been under pressure and perhaps haven't got their eye fully on the ball." It's a race against time as creditors close in. **Kevin Freeguard**, who has experience of turnarounds in previous roles and is now Managing Director at banknote printer De La Rue, says: "There will always be strategy documents available, but it's important to talk to customers, key partners and industry experts. You also have to look at the sales pipeline and see where the demand is coming from. Only then can you work out reasonably quickly what is worth keeping because, in many cases, you have got to maximise what you've got in front of you."

Martyn Fisher, Executive Vice-President for Industrial Europe at the resurgent Veolia Water Solutions & Technologies, adds that identifying what is dragging performance down means more than just securing cashflow and analysing the financial metrics. "I generally start by talking to customers and suppliers about the business," he says. "There'll be plenty of information in the financials, but you need to do your own research and get soundings from people, as that tends to catch more of the emotion of the situation.

"People tend to argue away the financials by saying: 'It's the economy. It's competitors. It's not our fault, what do you expect?' That's usually an indication of the changes you'll have to make in that team, and I've found it's the managers that are generally at fault... They're either people who don't want to change, or they need help to see a new way forward."

Once the issues have been identified by the leader, that's when the real work starts. **Roger Bayly**, Turnaround Partner at professional services firm KPMG, says: "Working out what course of action to take is approximately 20 per cent of the challenge... The big deal is then working out how you get a diverse group of stakeholders, including shareholders, lenders and management, to agree to the plan and consistently support the turnaround. The stakeholder picture, plus the challenge of funding the business, often means that you don't take the most obvious path to value."

REALITY BITES

Once a way forward has been identified, there's the small matter of trying to get the business moving in that direction. This is where the CEO, chairman or executive chairman really start to earn their stripes.

Steve says: "I sit down with the team and create a rolling list of ten priority actions... and I run very detailed, weekly workshops, making sure they have allocated the appropriate actions and managed them accordingly. It's very important that they understand clearly the real situation of the business, which might be better or worse than the people who [hired you] understood at the time."

This is where you begin to see the difference between 'people power' and 'people problems'. **Jon Moulton**, Chairman of turnaround investor Better Capital, argues that "you can rarely rely on using existing management as if they were good enough why would the company be in such a mess?" He also questions putting your faith in a miraculous revival in sales as, in his view, time is of the essence and "you can't depend on sales growth, as it almost never happens quickly enough".

It's about taking emergency actions to save an organisation from going under, which is something that existing senior management can be unwilling to accept because of pride, genuine emotional attachment, plain ignorance or just denial. **Mark Cole**, Non-executive Director at fund management business Hamilton Capital Partners, finds that "cutting out unproductive costs and under-performing or change-resistant staff must be done if you are to demonstrate a serious commitment to change".

Working out what course of action to take is approximately 20 per cent of the challenge

Once the pieces are in place, it's about communicating both within the business and externally to revive confidence so that people really do believe that positive changes are underway. **Claudia** says: "Turnaround situations require crystal clear communication to both internal and external stakeholders. Senior management and the board must be aware of any actions to be taken and upcoming changes in the performance – both good and bad. Once you reach the point where a turnaround is needed it's time to be completely honest, as there can be no surprises."

Rob Woodward, who has led a successful turnaround as CEO of media concern STV Group (formerly SMG), says: "One of the best things I did was set out a very clear set of KPIs that were beyond all the financial metrics. We communicated these absolutely relentlessly to rebuild trust... A key principle I have is to ensure a relentless pace of change, and just keep the momentum so that we're constantly making progress. You need to be able to spot and celebrate winning cultures; in a business that saw itself as failing, I can't tell you how important that is."

There are businesses that have had their day and can't be saved, which is exactly how it should be. However, with the right controls, insights and leadership, there are also plenty of companies that can – and are – being nursed back to health and are set to prosper again.

Featuring Commentary From:

Roger Bayly
Turnaround Partner
KPMG

Steve Brown
Executive Chairman
Croydex

Mark Cole
NED
Hamilton Capital Partners

Martyn Fisher
EVP, Industrial Europe, Veolia Water Solutions & Technologies

Kevin Freeguard
Managing Director
De La Rue

Jon Moulton
Chairman
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Rob Woodward
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