



TURNAROUND MANAGEMENT CONCEPTS AND PERSPECTIVES

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Over 40 years of experience:

- *Certified Turnaround Practitioner (Certified by European Association of Certified Practitioners, EACTP)*
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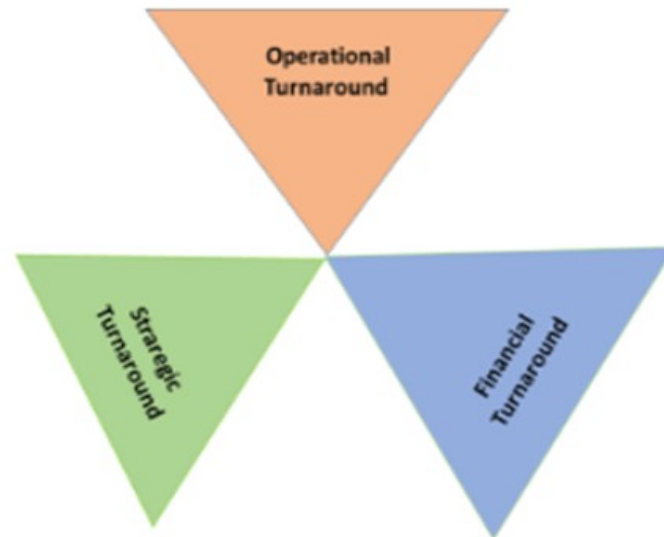
TURNAROUND MANAGEMENT CONCEPT AND PERSPECTIVES

- ▶ As a concept, practice, vision, and experience, Turnaround Management is subject to continuing debates, challenged by an ever-changing economic, and social-political environment.
- ▶ Pandit (2000) mentioned “how the insufficient scientific results coming from the business world compound this problem, noting the insufficient definitions of the terms turnaround, crisis prevention, and crisis cause; insufficiently focused research questions; as well as inadequate research designs and missing theoretical foundations”
- ▶ John O. Whitney, broadens the addressability area of turnaround.

“But turnaround lessons aren’t limited to troubled companies. Turnaround opportunities exist everywhere—in retail stores, in product lines, and incorporate divisions and subsidiaries. In today’s world, you have to earn your right to compete every day, day after day. And the basics that help you do that are the same ones that turnaround managers use to bring failing companies back to life”

TURNAROUND PARADIGMS

The whole universe of experience and practice of the turnaround process consecrates several concepts, and visions that provide a rich perspective and solutions, to address the complex challenges the companies are facing with.



TURNAROUND PARADIGMS

- STRATEGIC TURNAROUND-

- ▶ Strategic Turnaround is a long-term process, it has to be based on the leadership's vision. Even more, its fundamentals (core ideology, objectives, strategic programs) should be permanently revisited and adapted to this disruptive environment, to change the organization is confronting. Strategic Turnaround, strategic changes are an adaptive process.
- ▶ Strategic Turnaround should address the business fundamentals: products & services competitive differentiation, market position, business model, value proposition, differentiating competencies, business and investments sustainability, technological & environmental challenges etc.

TURNAROUND PARADIGMS

- OPERATIONAL TURNAROUND-

- ▶ While Strategic Turnaround there is a long-term process the Operational Turnaround is a short-term process, which envisages the operational systems, processes of the companies, functional structure, value chain, etc.
- ▶ The operational turnaround has a more acute sense of urgency. In the very first stage of the decline reversing the process, it is the most urgent to close the “bleeding holes” of the organization, those problems which generate the deep weakness.
- ▶ One of its main roles is to assure a good resilience capacity, under the actual disruptive conditions, to absorb the emerging risks and to provide the business continuity on one hand, and the development premises on the other hand.
- ▶ Therefore, a **high priority has to be provided to operational system integration**

TURNAROUND PARADIGMS - FINANCIAL TURNAROUND-

- ▶ Further on, financial turnaround should provide the needed financial resources on **two dimensions**:
 - ❑ **Operational Financing**, and Short-term Financing, should provide the resources for the operational activity, and short-term purposes
 - ❑ **Strategic Financing**, Long term financing, while the operational financing envisages short-term needs, strategic financing should answer to long term strategy needs (strategic and sustainable investments, product development, market repositioning, M&A, etc.)

OPERATIONAL FINANCING

As far as the bank debt policy is concerned, the most effective and healthiest solutions are to create a mix between:

- ▶ **Structured finance solution**, which is a business model solution (i.e., stock and commodity financing, project-based financing, production pre-financing, etc.). **Under operational turnaround this should be the prevailing one**, it is the healthiest way to inject short-term financial resources into the upturn process. Even more, it should be a “modus operandi”, giving the possibilities and mechanisms to monitor continuously how the resources are used and to have an “early warning” mechanism.
- ▶ **On-balance sheet financing**, whereby, the taken bank loans do not have a specific purpose. There are provided as a general-purpose (working capital loan). Therefore, the ability to monitor and have an “early warning” mechanism is a low one. On top of that, if the quantitative and qualitative information, based on which the resources are allocated, does not have the needed accuracy, and clarity or is not controllable, then the likelihood of risk is really high. The general recommendation is to have limited use of this financing solution in the Operational Financing package.

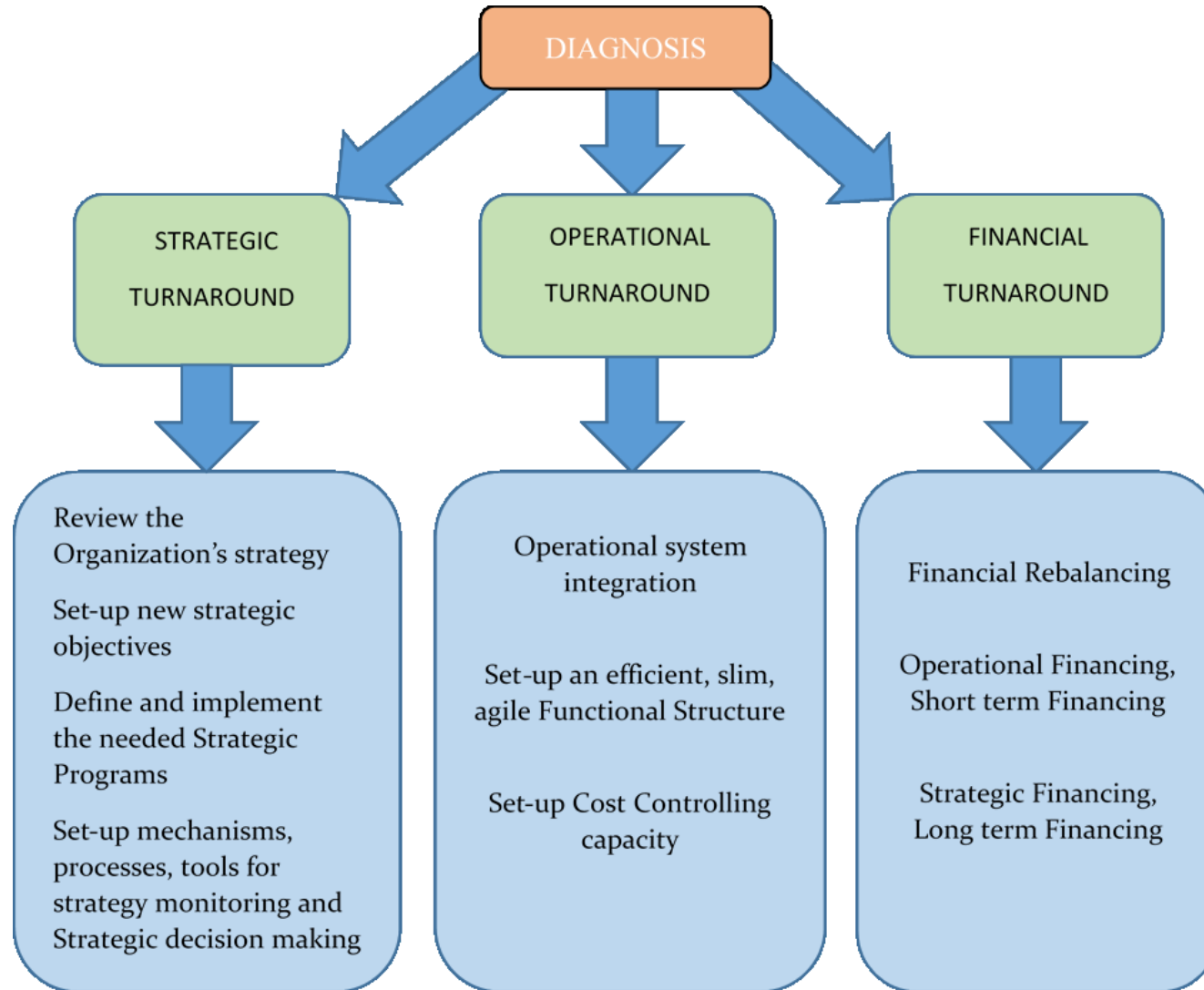
STRATEGIC FINANCING

- ▶ It should answer to long term strategy needs (strategic and sustainable investments, product development, market repositioning, M&A, etc.).
- ▶ In this financing dimension, generally, the equity component plays a much more active role, and the Capital Market may be a viable and approachable solution.

TURNAROUND AS A PROCESS

- ▶ **The cornerstone of the turnaround process is the Diagnosis**, whereby, are identified the symptoms, downturn causes, and the measures, the therapy which should be taken.
- ▶ It is fundamentally important to know that in diagnosing process:
 - ❑ The financial indicators, key performance indicators (KPIs), represent the effect, not the distress causes. They provide indications regarding Organization's symptoms;
 - ❑ Distress causes should be searched in the qualitative side of the Organization, in the “Corporate Blocks” (leadership, corporate governance, development, operational management, process management, IT Governance, etc). The turnaround solutions should be addressed there.

TURNAROUND AS A PROCESS



DIAGNOSIS's BLOCKS



CHANGE MANAGEMENT

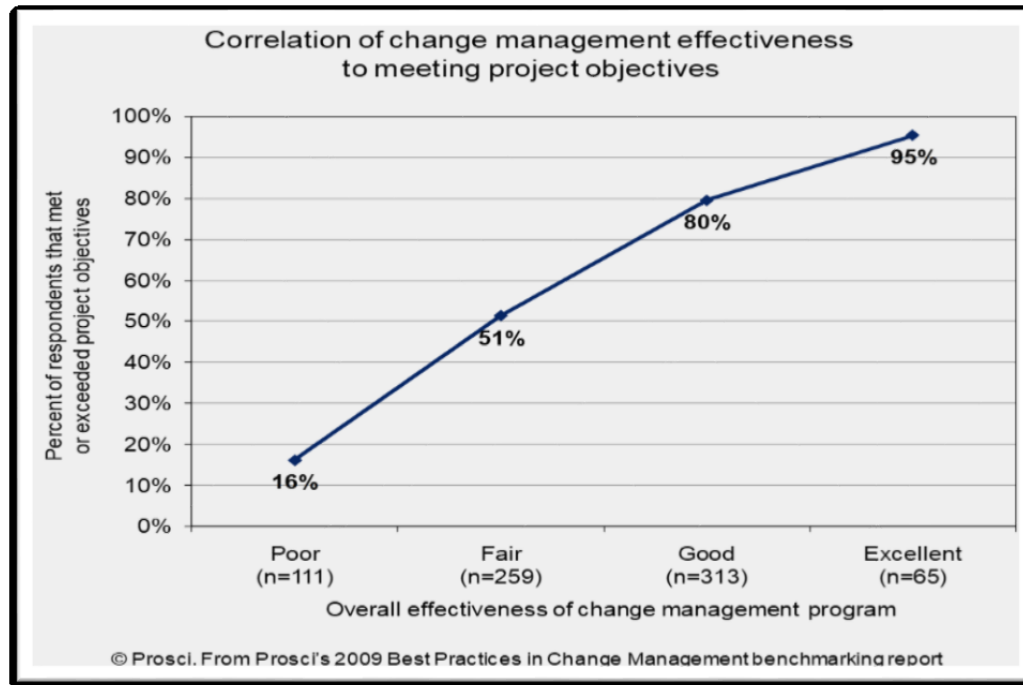
AN ESSENTIAL CONDITION OF A SUCCESSFUL TURNAROUND

- ▶ In that process, being either operational or strategic, one of the most critical elements is the people, which should be involved in the process. Change Management is defined as the “people side of change”. It is essential that the Organization and its people embrace the change. The technical side of the project management, whereby the turnaround solutions are implemented, should go hand in hand with the people side (change management)

CHANGE MANAGEMENT

AN ESSENTIAL CONDITION OF A SUCCESSFUL TURNAROUND

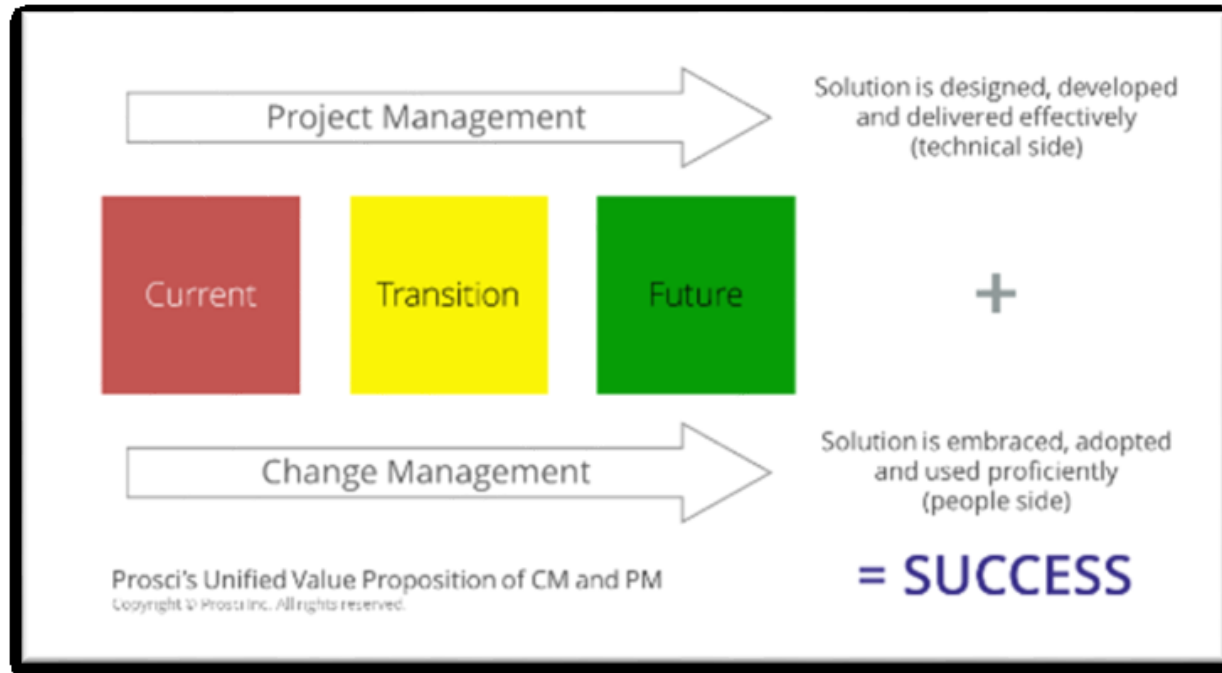
- ▶ Statistically, it is known that without Change Management the probability of failing is high. Statistical research performed by Prosci reveals the vast majority of respondents underlined the role of change management in the project's success



CHANGE MANAGEMENT

AN ESSENTIAL CONDITION OF A SUCCESSFUL TURNAROUND

- ▶ In practice, this correlation, this synergy is called “**Unified Value Proposition**”. Therefore, Project Management and Change Management in a tight synergy could assure the Organization’s turnaround process.



CHANGE MANAGEMENT EVALUATION

A PREREQUISITE OF THE TURNAROUND PROCESS

- ▶ In the Change Management evaluation, it is highly important to assess the organizational change magnitude, and if the undergoing process should be an incremental one or a transformational one. “Incremental changes” are relatively limited, they are soft changes, while, the “transformational changes” are much more profound, and entail that the Organization as a whole, changes.

THE ROLE OF LEADERSHIP IN TURNAROUND CHANGES

- ▶ It is unanimously accepted, that the most critical role played in the change management side of turnaround is that of the leaders, and executive managers, which have the primary responsibility for successful change.
- ▶ The leaders should be the “Change Sponsors”, and the “Change Agents”, their willingness, and determination is the first prerequisite of success. Many experiences have shown that their lack of awareness and desire gives little chance to the turnaround process.
- ▶ The key leadership condition for success (along with their desire to change) is to have a turnaround vision, a shared vision, whereby to propel the Organization to a new condition.

THE ROLE OF LEADERSHIP IN TURNAROUND CHANGES

- ▶ The “Level 5 Leadership” principles, and values (see here bellow pyramid) represent the needed leadership conditions for successful turnaround management:



THE 4 As

Under this new disruptive age, where the Organization confronts exponential changes (technological, economic, political, and environmental), the mandatory traits which leaders should develop, let's call them "the 4A-s", are:

- ❑ **Alert** "be alert" - scrutinize the environment, be time ready for new changes, new challenges coming from outside, from the market;
- ❑ **Agile** - build up a functional structure that can absorb easily shocks and have quick responsiveness to the exogenous adverse factors;
- ❑ **Anticipate** - try to foresee the future developments of the market, of the environment. Be prepared for "the next five moves";
- ❑ **Adaptive** - be ready to adapt all the time to the new conditions, and "be a champion".

ALERT

AGILE

ANTICIPATIVE

ADAPTIVE

CONCLUSION

The actual circumstances, defined as being disruptive, when the mankind experiences an exponential way of changes, force us to step into a new paradigm, whereby, the turnaround is no longer a solution addressed to the organizations in a precarious situation, but a continuous adaptation to the more complex challenges. Turnaround should become a “modus vivendi”. The most relevant example should be of the most traditional and conservative, the Church, where the most actual phrase is: “Ecclesia Semper reformanda”.