Leading Corporate Turnaround

How Leaders Fix Troubled Companies

Stuart Slatter
David Lovett
Laura Barlow

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Stuart Slatter has over twenty-five years of experience in providing strategic consultancy advice and management education to senior management throughout the world. While a full time faculty member at LBS, he was Dean for Executive Education, Director of the Senior Executive Programme, and Chairman of the Strategic and International Management Department. He has been a Visiting Professor at the University of California (UCLA) and at the University of Capetown. Prior to joining LBS, he was Managing Director of a subsidiary of a UK public company, and a senior management consultant with Booz, Allen & Hamilton in New York specialising in marketing strategy.

He holds a law degree from Cambridge University, an MBA degree from Stanford Business School, and a PhD in marketing from London University. He is a qualified barrister-at-law, and is the author of a number of books and articles, including “Gambling on Growth”, Wiley (1992), and “Corporate Turnaround”, Penguin Books (1999). He was one of the founding directors of the Society of Turnaround Professionals in the UK, and can be contacted via www.slatter.co.uk.

David C. Lovett David Lovett, a Managing Director with AlixPartners and a member of the European Executive group of the firm, is a business graduate, a fellow of the Institute of Chartered Accountants of England and Wales, a fellow and a founding member of the Society of Turnaround Professionals. Before joining AlixPartners, David was with Andersen for 18 years, where he formed Andersen's London-based turnaround practice in the early 1990s and subsequently led the Global Turnaround practice. He co-authored "Corporate Turnaround" with Stuart Slatter in 1999.

During the last 30 years, David has advised all the classes of stakeholders in troubled companies. He has led many corporate restructurings and turnarounds in both an advisory and officer capacity serving as Chief Financial Officer and Chief Restructuring Officer.

David has extensive cross border restructuring experience and is familiar with the changing trends in insolvency and restructuring legislation. He is driven by a desire to minimise economic loss to stakeholders while his clients manage the turbulence of forced transformation.

AlixPartners is recognised internationally as the "industry standard" for solving complex business challenges, helping companies improve operating and financial performance, and restoring corporate value. Founded in 1981, it has been retained by hundreds of companies throughout the USA, Europe, Asia and Latin America and has worked in virtually all industries and sectors.

Laura Barlow Laura Barlow is a Director in AlixPartners' European Turnaround and Restructuring practice. Over the past 15 years she has been an adviser to both creditors and debtors in troubled situations and has worked with numerous companies to help them achieve operational turnaround and financial restructuring. She has taken interim management roles in several troubled companies, restoring stability and leading the development and implementation of turnaround plans. Her current focus is on providing restructuring advisory services to corporates, including taking Chief Restructuring Officer positions where appropriate.

Laura is a graduate of Oxford University, a Chartered Accountant and SFA Securities Representative. She is a regular speaker at European conferences on turnaround and restructuring and at the London Business School on the Managing Corporate Turnarounds course.

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Sixty members of STP and twenty other leading turnaround practitioners were interviewed by students on the MBA and Sloan programmes at London Business School (LBS) during the spring and summer of 2003. We would like to thank all those individuals for the generous amount of time they gave to talk to the LBS students. We have only named a few of those interviewed in the book although the quotes are taken from a wide cross section of those interviewed. The students who undertook the interviews did so as part of an extremely popular course on Managing Corporate Turnarounds, which is taught by Stuart Slatter at the London Business School. We are extremely grateful for their efforts and analysis.

We have also drawn heavily on the experiences of Chairmen and Chief Executives who have come as guest speakers to the Managing Corporate Turnaround course at LBS over recent years and to bankers, private equity players, AlixPartners, and other senior executives who have given generously of their time in conversation with us. Two colleagues at AlixPartners, Peter Fitzsimmons and Lisa Donahue, were particularly helpful in sharing the applicability of their transatlantic perspectives to the European markets. We should emphasize that the views and opinions expressed in this book do not necessarily state or reflect those of AlixPartners, Ltd. or its world-wide affiliates and employees.

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Introduction

THIS BOOK EXPLORES THE ROLE OF LEADERSHIP IN CORPORATE turnarounds based on interviews with over 80 turnaround practitioners (75% of whom are members of the Society of Turnaround Professionals in the UK and our collective experiences as advisers to companies in trouble. The book does not set out to develop any new theories of leadership but seeks to describe how leadership is provided by turnaround practitioners throughout the turnaround process.

In our earlier book, *Corporate Turnaround* (Penguin Books 1999)[1] we identified seven key ingredients that characterise a successful turnaround, and described *what* turnaround practitioners need to do to rescue a distressed company. We have taken this same framework – described in Chapter 2 – and looked at *how* leading turnaround practitioners provide leadership for each of these ingredients (Chapters 4 to 10). In the course of our research we discovered that good leadership is critical even before the start of the turnaround – often many months in advance – since stakeholder commitment to the turnaround process must be obtained before any turnaround can begin. Chapter 3 explores how leadership is provided at this stage of the process.

There is often a debate about where turnaround ends. Is it after stabilisation? Is it after refocusing and fixing the business? Or is it after rejuvenating the company and embedding a new organisational culture? Our definition of a turnaround stops short of the latter although, as we will see in the book, a few turnaround leaders are able to adapt their leadership style towards the needs of longer term transformation and growth. What is clear is that the leadership style necessary in the early stages of a turnaround is not appropriate for the transformation challenge of building a sustainable organisation in the longer term.

The emphasis on survival early in the turnaround process implies the need to achieve rapid performance improvement, usually within a 6 to 18 month time frame, and sometimes even sooner. The need to deliver short-term results is what turnaround practitioners focus on; leaving the longer term success of the company to a subsequent leader.

Our experience in advising companies that need to change but are not in financial distress leads us to believe that the book has wide implications for all managers whether or not their organisation is in crisis. If under-performance is the problem and rapid improvement in financial performance is required by the key stakeholder(s), then the leadership approach used by turnaround practitioners is required to achieve results. This is what happened at Gillette between 2001 and 2003 when a new chairman/CEO, Jim Kilts, was brought in to improve performance. The actions he took and the leadership styles he used were “textbook” turnaround even though Gillette was not in a financial crisis.

We would go one step further and say that in any business where there is a recognised need for transformation, because the current success formula is approaching the end of its life, the transformation process will not take root unless it is kick-started by the type of leadership approach used by turnaround leaders. Most corporate transformation efforts fail because there is no sense of urgency for immediate results, and senior management is not willing or capable of adopting a short-term, results-oriented leadership style.

Leading change, which this book is about, is an enormous topic and has been the subject of many good books. However our focus is on radical short-term change which delivers fast financial gain. We believe that the book we have produced here on leading corporate turnaround is a major contribution that is easy to read. We hope you will enjoy it.

1

The Leadership Challenge

TURNAROUND PRACTITIONERS ARE MORE OFTEN ASSOCIATED with ruthless “downsizing” rather than the more inspiring concept of leadership. Yet leadership is never more important than when survival is at stake, and corporate turnarounds are no exception. Management skills are a critical ingredient but exceptional leadership is required at nearly all stages of the turnaround process if a sustainable turnaround is to be achieved.

There are many difficult leadership challenges facing the turnaround practitioner, particularly the turnaround executive (usually a new chairman or CEO) who has the ultimate responsibility for achieving the turnaround of a distressed corporate. He or she faces all or most of the following challenges:

- Convincing the key stakeholders that turnaround is the best option for recovering value in the distressed company.
- “Grabbing hold” or taking control of the company so that all stakeholders and particularly the staff realise that new leadership is in place.
- Changing management as appropriate and building a new management team to support the turnaround.
- Instilling an immediate sense of urgency and performance orientation into the distressed company.

- Implementing tight management and financial controls.
- Developing and communicating a vision for the business and obtaining ownership and buy-in to the vision by managers and employees.
- Prioritising what needs to be done to fix the business, and ensuring that the necessary actions are implemented.
- Rebuilding the organisation's effectiveness which is likely to involve embedding a new culture into the business.
- Providing ongoing stakeholder management, including leading a financial restructuring of the corporate entity.

Turnaround Practioners

We find that leadership is provided in turnaround situations by turnaround executives, financial stakeholders (both equity owners and creditors), advisers and occasionally by interim managers. Recently a new category of turnaround leader has emerged, the Chief Restructuring Officer (CRO), who is usually an adviser but will assume line management and Board level responsibility for specific aspects of the turnaround. We will look at each briefly in turn.

Turnaround Executives

Popularly known by journalists as company doctors, these individuals take executive responsibility in the distressed company. They usually come in as chairman or chief executive officer, and have full authority to take decisions within the limits imposed or agreed by the controlling stakeholder(s), who are either the debtors (the equity owners) or the creditors (usually the bankers or increasingly specialist funds that hold debt in distressed companies). Sometimes the turnaround professional is brought in as deputy chairman or chief operating officer – as in a family-owned business for example – but if he or she is to do the job, then that individual is de facto the chief executive.

Financial Stakeholders

Although shareholders and in particular banks almost never have or want executive responsibility (except perhaps in an owner-managed business where the shareholders are also executives), they often play a key leadership role in triggering the start of a successful turnaround process. The reader will see examples of this in Chapter 3, when we talk about the decision to undertake a turnaround; and again in Chapter 10 on financial restructuring. Private equity houses, mezzanine funders, banks and specialist recovery funds play bigger leadership roles in turnarounds than many observers realise, particularly given the rapid growth in secondary debt trading and distressed asset investment in recent years.

Advisers

Until recently corporate recovery departments of accounting firms often played a leadership role in galvanising incumbent management to take action – usually when there was a leadership void and occasionally they provided leadership in a specific area such as cash management or financial restructuring where they had specialist expertise that did not exist within the incumbent management team. The increased regulation of accounting firms following the corporate governance failures predominantly in the USA has resulted in these firms reconsidering their service offering with the result that the number of specialist advisory firms who perform this work has grown considerably. Specialist teams within certain investment banks are increasingly involved with the balance sheet restructuring work that was once the preserve of the corporate recovery departments.

Chief Restructuring Officer

This is a relatively new corporate role which first emerged in the USA and is now gaining popularity in Europe. The Chief Restructuring Officer (CRO) is always an experienced recovery professional who focuses on crisis stabilisation, stakeholder management and financial restructuring.

The CRO usually acts as a special adviser to the chairman, CEO or Board with responsibility for leading whatever financial restructuring is necessary – first, to allow a turnaround to take place and, second, to ensure that there is an appropriate financial structure for the longer term. The demand for the services of a CRO reflects the increasing complexity of capital structures even in mid-sized corporates, and therefore of the financial restructuring process. It is also a recognition that many turnaround executives, while capable chairmen or CEOs, lack the expertise – and indeed the time – to lead a complex financial restructuring in parallel with an operational turnaround. The CRO is not a permanent position, but while working with the company he or she becomes central to everything that is occuring.

The appointment of a CRO is increasingly a precondition of support by financial stakeholders who need this aspect of the turnaround to be led by an experienced restructuring practitioner.

Interim Managers

Short-term management resources are sometimes introduced by the turnaround executive to deal with immediate business problems, particularly if radical changes are immediately required in the senior management layer. Sometimes these interim managers are part of a “commando” team who move around with a turnaround executive. They sometimes provide functional leadership but their role is primarily to bring experience to the management of critical tasks.

Turnaround Executives: What they Do and Who they Are

There is a wide spectrum of capabilities among turnaround executives. While we advocate that the complete turnaround leader should be able to lead and manage all the critical ingredients that make up a good turnaround, the reality is that many do not have the desire or capability (or both) to lead all aspects of the process. This is not in itself a bad thing. They are all experienced, confident individuals who know their limitations which in itself is an attribute of good leadership.

What we see in practice is a spectrum of turnaround executives ranging from those who specialise in crisis stabilisation to those who undertake the complete turnaround and are prepared to stay on after the turnaround is complete to lead future growth and organisational transformation. All turnaround professionals undertake crisis stabilisation, but relatively few have the desire or capability to continue once the company has been returned to a stable condition. The particular skills and attributes of the typical turnaround executive (as discussed in the next section) do not fit with the needs of steady-state or growing organisations.

We see a sharp distinction between the turnaround executive who only does crisis stabilisation work and is rarely in a company for more than 6 to 12 months (and many for as little as three months), and the turnaround executive who does the stabilisation and also fixes the critical underlying problems of the business. This takes longer and is likely to involve leadership over at least a 12- to 24-month period.

The crisis stabilisation specialists will take management control, implement strict cash and cost controls, negotiate with the key stakeholders and change a few key managers at the top. Their aim is to ensure not only the short-term survival of the business but also that there is a management team in place who can fix the business problems that caused the crisis in the first place. These turnaround executives often have a financial background, and many have worked in their early careers in the insolvency profession. They stick to what they are good at – managing financial crises – and believe that the business should be fixed by managers who know the industry and are going to be responsible for its future performance.

The complete turnaround executive, as we like to call that person, believes that a turnaround is not complete unless and until the underlying causes of distress have been dealt with. He or she believes – and we agree – that an effective turnaround usually requires strategic refocusing, critical process improvements and some degree of organisational change if the business is not to revert into a turnaround situation. Not surprisingly many turnaround executives fall somewhere between the two "types" we have described – they initiate and lead strategic change and critical business process improvements to rectify the business problems, but do not participate too deeply in all the detailed management activities that are necessary to effect a complete turnaround.

In a large organisation, particularly one with many diversified business units, the turnaround leader operating at the corporate level would not be expected to be involved in detailed competitive strategy analysis and process improvements (although many do in practice). However, in smaller companies, where it is more difficult to have good-quality senior managers, it is extremely risky to delegate responsibility for making decisions that are critical to the success of the turnaround. Although the senior managers may know their industry, their analytical and decision-making skills may be woefully inadequate. Furthermore, their capability to implement change throughout the organisation is still likely to be weak, unless a sufficient critical mass of new high-quality middle managers has been brought in. This is particularly the case where the previous leader or CEO was highly autocratic and senior management are not accustomed to managing change.

Who are the individuals that work as turnaround executives or company doctors? They are a relatively small group of experienced executives who at some stage in their career – out of choice or serendipity (but usually the latter) – became involved in managing a company in financial distress. Having done it once they become hooked on the buzz, the challenge and the adrenalin rush that comes from turning a company around. Anecdotal evidence suggests that many turnaround executives are unemployable in a large company environment, since they are quickly frustrated by what they see as bureaucracy and slow decision making. They are tough, competitive individuals with enormous will power, who “call a spade a spade” and “are happy to take on anybody who wants a fight”. They are also “loners” who do not need or want social relationships in the workplace. As one executive put it:

> *“I don’t need friends at work... respect will do very nicely thank you.”*

This is at the heart of leadership. Leadership is not about being loved by everyone: it is about being understood and respected by enough people to get the job done.

We have been fortunate to have had access to a piece of proprietary research carried out to look at the psychological characteristics of leading turnaround executives in the UK. It shows remarkable consistency with the anecdotal evidence in that the vast majority of turnaround executives are logical, objective decision makers, who are very task focused and want to control their external environments. Very few individuals show a tolerance for flexibility and ambiguity. Most want to exert a great deal of control over others’ actions and decisions, but do not want anyone else to have control over them! They will happily accept a lot of responsibility – perhaps even overextending themselves – and are very competitive with both themselves and others. They thrive on authority, responsibility, predictability, stability and consistency. Ambiguity and change are tolerated only to the extent that this is necessary while they return the organisation to a stable state.

Turnaround practitioners are detached and logical, and seen as tough and uncompromising. They like clear objectives, and when they are convinced of something they make it happen. They push people hard to achieve deadlines, can be extremely impatient and do not hesitate to "ruffle feathers" in the process. They do not show much empathy and have a low need to be included in social activities. They prefer not to socialise with work colleagues and are highly selective with whom they choose to interact. They are self-sufficient and exhibit healthy levels of confidence, although most are not charismatic leaders. Another characteristic of turnaround executives is their stamina. Turning a company around is a "24/7 job"; it requires long hours, the ability to work under (often quite extreme) stress and, of course, total commitment. "*I was breathing, living and dreaming about the company for months... in a quest for the best solution*," said one turnaround executive.

Box 1.1 provides a glimpse of how turnaround executives describe themselves.

Box 1.1 How Turnaround Executives Describe Themselves

- *“Tough, fair and above all decisive.”*
- *“Highly communicative, fast acting, trustworthy, inclusive, tough but fair.”*
- *“I listen quietly, I tell it straight and then I take action.”*
- *“I select a team, I call a spade a spade, I fix the issue, I keep control, I don’t expect to be liked, I’m dogged but I get out before I lose the buzz.”*
- *“I am matter of fact, straightforward. Don’t suffer fools gladly. Detail minded. Like good quality information, like numbers and business propositions. I am quite aggressive and direct.”*
- *“Decisive and persistent.”*
- *“I am highly communicative, fast acting, trustworthy, inclusive, tough but fair.”*
- *“I am quick to get to the point, quick to decide, ruthless in execution, cold and efficient, a hard worker. People who work for me feel included, are informed about what is happening and know what the milestones are.”*

What is Turnaround Leadership?

Turnaround leadership, in broad terms, is the role a person plays in trying to change an organisation for the better. A leader is someone who has the ability to convince others to follow the path he or she decides. Much has been written on the subject of leadership and there is no shortage of options when looking for a definition.

Since this book is about leadership, albeit in the specific context of corporate turnarounds, we need to be clear on how we have defined leadership for the purposes of our research. The definition we like – because it is simple and has been widely accepted – is that used by John Kotter in his seminal book, *Leading Change*, where he describes the difference between management and leadership:

> *"Management is a set of processes that can keep a complicated system of people and technology running smoothly. The most important aspect of management include planning, budgeting, organising, staffing, controlling and problem solving. Leadership is a set of processes that creates organisations in the first place or adapts them to significantly changing circumstances. Leadership defines what the future should look like, aligns people with that vision and inspires them to make it happen despite the obstacles."*

Managers and leaders have different strengths. Richard Kovacevich, chairman and CEO of Wells Fargo Bank, puts it this way:

> *"Managers rely on systems, leaders rely on people. Managers work at getting things right, leaders work on the right things. The answer to every problem, choice or opportunity in our company is known to someone or some team in the company. The leader only has to find that person, listen and help them effect the change."*

Never is this more true than in a corporate turnaround. The answers are usually there within the company but what has been missing is the leadership to deal with the problems the organisation faces. As a turnaround executive put it to us:

> *"You are destined to fail unless you can get the plans you present implemented. ... It all comes down to leadership ... it's about people."*

Yet the people you need are often in denial when a crisis hits – not just the management of the distressed firm but sometimes even the financial stakeholders. It is an emotional time: people's behaviour is not always rational. The turnaround leader is the one who has to provide the leadership necessary to bring sense and order to the situation.

Turnaround executives display many of the classic characteristics of good leaders but the big situational difference in turnarounds is that time is of the essence. A conclusion of a recent *Harvard Business Review* article was that "*the (new) CEO must learn to manage organisational context rather than focus on daily operations*". It went on to say that "*the CEO must learn to act in indirect ways ... to create the conditions that will help others to make the right choices*".[2] This is fine for a successful business, but such an approach would be completely inappropriate in a turnaround situation. The priority for turnaround executives is to save the company, which means being "very hands on" and extremely focused on three or four mission critical objectives. The need for the turnaround leader to become involved in management detail – even in large companies – is one of the defining features of turnaround leadership. The leadership skills required to achieve dramatic short-term change requires the use of several different leadership styles.

While there is a wide range of leadership styles among turnaround executives, virtually all exhibit the following leadership characteristics:

- They quickly develop clear short term priorities and goals.
- They exhibit visible authority.
- They set expectations and enforce standards.
- They are decisive and implement their decisions quickly.
- They communicate continuously with all stakeholders.
- They build confidence and trust by being transparent and honest.
- They adopt an autocratic leadership style during crisis stabilisation.

While it is generally accepted that coercive or autocratic leadership usually has a destructive impact on organisational climate and longer term results – because it restricts the development of people and ideas – the early phases of a turnaround are the exception. Decisions have to be taken very rapidly to ensure survival and there is little time to win over management and staff. Having a new leader take complete charge quickly may come as a relief to much of the workforce if previous management was seen to be weak or if high levels of anxiety exist due to the uncertainty caused by the crisis. Aligning and motivating people to achieve short-term results requires considerably more communication than is normal in a “steady-state” organisation.

While the turnaround leader must take control quickly he or she risks being too aggressive to achieve successful buy in. Success requires decisiveness, clear direction, and a high level of communication, inspiration and motivation. Achieving quick results without being too hard line is an “art”, born of considerable situational experience. The leader must achieve a fine balance between gaining co-operation and directing purposeful action to save the company.

The best turnaround leaders are able to develop and articulate a medium to long-term strategic vision for a sustainable recovery and embed a new organisational culture, which ensures that the company does not slip back into crisis. However, the objective of many turnaround situations is not long term sustainable recovery. A high proportion of turnaround situations are sold off after stabilisation or once recovery has started, so the turnaround leader does not need the leadership skills required to bring about true transformation.

Leading and Managing

In successful organisations, leaders can emerge who are not necessarily good at management but are able to choose good managers to work for them. If good leadership is missing at the top in a successful organisation, good management may be able to keep the business going successfully if major change is not required. However, this does not apply in a turnaround situation.

Turnarounds usually involve a failure of both leadership and management with the result that, at the start of a turnaround, the company lacks both direction and control. If a successful turnaround is to be achieved what is usually required is a quantum leap in performance at the same time as restoring the disciplines necessary to provide predictable results. We believe that it is primarily leadership skills that allow the quantum leap to occur, and management skills