Advice for Turnaround Professionals

Walking into a company facing a ‘turnaround’ is at its best exciting and at worst harrowing. It takes strength of character because, whilst thriving companies exude confidence, in declining / distress situations you'll encounter a host of negative emotions. Fear of failure, of loss of incomes, of loss of reputation, denial, anger, hostility, suspicion and blame.

How we plan for this is crucial to success. Negative emotions are prone to producing unpredictable behaviours - and that's not just in the company. It goes for the bankers and investors as well. They backed this team and now things have changed.

External stakeholders will have these feelings too. Suppliers may well have been promised payment only to have been let down. They want their money and, whilst some will be incredibly supportive some will show hostility.

In summary though, if it's not really unstable, it's probably not a turnaround defined by the various bodies such as TMAUK, on behalf of whom I write after 31 years in the profession.

The action plan, or better; the plan for action, must start before you arrive.

The Turnaround Director

It is incredibly rare to be invited in by the company itself. There is invariably an introduction, either by a shareholder facing wipe-out or a worried banker raising a provision for loss.

So, however soft the introduction was, the first meeting was laced with healthy suspicion. You will receive a welcome along the lines of: 'Who are you and what do you know about my business? Are you working for the bank or are you a liquidator?"

In 25 years I also never met a board of a company facing potential failure that didn't have a plan to succeed if given more time or money. That made my job even harder.

It's a unique experience because businesses are not designed to run on fear, anger and denial. Businesses, and people, are engineered to thrive on confidence from success.

The whole financing cycle is built this way. Without confidence there’s no financing and if there’s no financing there is no business because all businesses only go insolvent when they run out of cash. So here we have a situation that, just when we need liquidity, our stakeholders invariably don’t want to give any more to the company.

On the positive side, crisis can be a great enabler of change. It can galvanise action and empower the Turnaround leader. It provides the opportunity to make changes that would otherwise be unthinkable in a steady state business.

So, how do we plan for and what does that plan look like that will create the changes that ensure survival and turnaround?

Establishing rapport and trust

This is a fundamental place to start because, without it, how are the board going to respect your involvement?

Much depends upon who you are working for! If you are reporting to the bank, then your actions are going to be limited to reviewing and investigation. If you work for the shareholders it's quite probable that the bank will want its own adviser and these competing interests can spell disaster for small companies. Costs rise and disagreements are forged.

(Note: in larger situations it is commonplace for each stakeholder to have its own adviser. In this article I refer to the lower end of the SME sector where hands-on restructuring is common.)

The guiding principle is to work 'company side'. I mean by that work for the board, on the board or through the board for the benefit of the company. This will ultimately work for the bank and shareholders too. At times of crisis there will be a mutuality of interests. Banks do not embrace failure in these times of high visibility. They prefer to support. Shareholders almost never get anything in an insolvency and will be minded to ‘follow their money’ with fresh investment if you are working for the company, presenting credible plans to them.

So the Turnaround Director should understand that rapport needs to be established quickly because time is limited.

One way of doing this, probably the most value creating day one activity is to establish the immediate prospects for the business - how much money is needed, then bring the entire board together, present the truth, listen and share the severity of the position. Create a positioning statement. It is highly likely that no single director will have a total awareness of the complete financial position. This gives you a uniqueness. Get that first impact statement right and the barriers will fall, respect for you will rise and resistance will fall.

Resistance is a product of a lack of understanding. The lower the understanding the higher the resistance. Spend time with the Managing Director, the Finance Director and key staff in the operations. Invest quality time in communication; in explaining, in reinforcing what they may not fully understand as you the professional do. People will be anxious, scared and uncertain so, if needs be, over communicate until everyone knows and importantly believes that YOU HAVE ARRIVED AS A PART OF THE SOLUTION.

Never lock yourself away, and avoid corridor meetings. Be visible and speak with integrity and confident authority but never seek to take control from the existing board.

If necessary, personnel changes can be made later, but almost never on day one.

Without rapport you'll be wasting your time and their money. Reading this it might sound obvious, until you're sat in their car park at 7.50 am preparing for 'Day one'.

Create a (13 week) Rolling Cash Flow Forecast

Cash will drive your actions in the first stage of the turnaround. You need a guide.

The Rolling Cash Flow Forecast will be the document that facilitates communication within a tight group of key company personnel (probably no more than three or four) that you will lead. This group will be authorised by the board to prioritise outward payments, identify and chase up slow inward payers and facilitate turnaround actions based on facts not opinion. The rolling 13 week cash flow is the metaphoric turnaround bible that draws people together with a common purpose.

It will also serve as an audit trail for future enquiry if things don't go to plan and an investigation is conducted by a subsequent insolvency practitioner. As a professional working close to shadow directorship, or possibly even as a de-facto director, you will be expected to have higher standards of care than, for example, a non-executive.

At a time that a company is highly likely to be in the so-called twilight zone, (technically insolvent but rescuable) it is critical to be able to demonstrate that the actions of the board are justified for the benefit of all creditors. (This is another reason why a Turnaround Director should not be working for a secured creditor as this will create a possible conflict of interest.)

The 13 week cash flow that I used was incredibly detailed for week 1 and 2, quite detailed for weeks 3 and 4. Less detailed for months two and three. It also 'moved' (was reviewed and updated) daily and was saved daily.

In larger situations I would call a short daily meeting to involve the CEO, FD and ad hoc senior staff to update the cash forecast and guide the actions of the directors as what they could say to creditors and the bank. I would form a “Restructuring Group” or, softer, a “Board sub-group” charged with delivering the turnaround.

Building a turnaround plan

Assuming we are still "in business", let's now deal with operational changes first because a financial restructuring should always follow and reflect the changed business. Many CVAs have failed because most effort is aimed at reducing the debt burden without changing the operations. But it's the improvement in performance where the cash generation lies.

Firstly, there's an important distinction between doing things more efficiently (basically profit improvement) and eliminating value destructive activity (restructuring). A Turnaround Director will instinctively recognise this difference and focus on stopping the ‘cash burn’ (the running rate of net cash going out of the business).

In every situation that I've ever gone in to I found the company had been focusing on too many activities. If you look at everything that a company is doing some things will be cash generative, some will be in start-up phase, consuming cash and some activities will reflect mistakes of the past that have lingered on: left to leak cash with no real ownership in the business. Success has a thousand fathers while failure is a lonely orphan and failed initiatives in businesses are no different.

One super-effective way to assess a business in distress is to graph sales by activity/SKU/project (however you chose) and look at the cash contribution to overhead from each. You will quickly see where the cash is generated. More importantly it will showcase where cash is consumed and where value has been destroyed.

It is a natural human instinct to hang on to old habits and companies are no different. The consequences of 'doing too much' can be seen in areas like stock build, administrative headcount, project costs, excessive board packs and justification of activity regardless of the business case.

All businesses, good, bad and in trouble can make more money by doing less. That might shock you but it is a truism. Eliminating loss making activity generally improves cash flow. Every business on the planet can do this. In turnaround it becomes a priority. But remember, companies don't recruit people for this – they recruit people to grow so this task will fall on you.

Aiming to cut destructive activity (I call it decluttering) will focus people on value added action. The results can be spectacular. After a short while cash outflows stop and turn positive and people are heard talking about success and not their frustrations.

It also opens the debate about central overhead. The more unnecessary activity, the more people there will be managing that activity. At this point you can start to plan in overhead reductions.

Getting things done.

It's so very important to allocate responsibilities and review those responsibilities frequently. In leadership theory this is called pacesetting. Well managed companies do not need pacesetters but turnarounds do because a lot of the work is unpleasant. Dealing with unpleasantness requires a collegiate approach and it is the responsibility of the Turnaround Director, softly in the background, to constantly ensure that actions are being delivered to plan. This is so important because, otherwise, employees will 'drift' to more enjoyable work. This is the human tendency. It's part of the reason that the client is in trouble.

Outward communication

Communication is always important in a turnaround. I need to make the distinction between inward communication and outward communication. I have largely dealt with inward communication which centres around rapport building, maintaining trust and hope and recording progress.

Outward communication is difficult because stakeholders, like banks will be sceptical. The temptation is to oversell the turnaround story – once again it is it human nature to promote a bright future in business but in a restructuring it can be fatal if we promise something that we fall short of. You only get one shot.

In my experience it has therefore been prudent to 'under-promise and over-deliver'. One of the reasons that companies get into trouble with their lenders is that they over-promise and under-deliver! It works in reverse.

Never forget the last meeting you had with the bank. It could have been weeks ago. In a turnaround things can be so fast moving that a meeting with the bank in February can be entirely different in contact to a meeting with the bank in March but the bank will remember what has been said in February whilst we have moved on. It is incumbent on us to keep that in mind. Otherwise the bankers will feel distanced from the solution.

You will need to have firm control on outward communication and ensure that statements to shareholders and banks are agreed and carefully scripted first. Otherwise you will find that you are quickly into a situation of "he said that and he said this". It can be a party stopper, particularly if company personnel have different agendas

Sustainable business or not?

During the course of your work you will uncover obvious improvements. Quick wins such as soft overhead cuts, elimination of loss making activity discussed above. What you almost never have as a Turnaround Director is the money, capital and time to develop new products and initiatives that will transform this faltering business into a star of the future. That cash has already been spent.

For this reason alone own we are often at best business stabilisers. But stability presents an opportunity to an acquirer with money and time. This has its place in turnaround management and I think is an excellent strategy to aim for if it becomes obvious that, despite best efforts, you cannot take a business beyond stabilisation.

If that is the case and if that is where we end up then this information and the prospects of the company will ‘inform’ the financial restructuring.

The financial restructuring

The shape of the financial restructuring is not normally controlled by the directors. They will have their views but ultimately the shareholders and the banks will deliver on whatever is in their best interests through negotiation. The Turnaround Director needs to be cognisant of the fact that the various parties will be reviewing the plan that the he or she has developed with a view to creating something that is in their best interests. This is another reason why I think it is better to work for the company than an individual stakeholder.

This is not the place to talk about the technicalities of a financial restructuring, save to say that if there is a role for a turnaround director I think it is best positioned in getting a ‘deal’ for management. These are the people that have gone through the last 3, 6, 9 or 12 months or longer with you and are otherwise forgotten in financial restructurings. They are also likely to be most of the people taking the business forward (albeit with new personnel if change is a condition of the financial restructuring). Therefore there is an opportunity through influence to bring some value to those people that have striven so hard to get the company to where it now is.

The exit

There is a saying in the profession that Turnaround professionals will start fires if there isn't one to put out. They are, in essence, specialist project managers with firefighting skills.

Knowing when to leave is important. The board will normally show signs of frustration if you stay too long. Move on is my advice. You are rarely celebrated, sometimes thanked – after all, the directors were planning everything that you did anyway. And that says it all – the job is about delivering certainty at pace and you have no place in a turnaround once it's done. Good luck on your next assignment.

Adrian Doble is a Director of TMA UK. He entered the turnaround community in the early 1990s as a banker working on restructuring his bank's structure and overhead when it made its first loss in its 300 year history. He joined the UK's first turnaround boutique in 1997 and in 2002 he joined a consolidator firm that led to the MBO that is today FRP Advisory. Adrian was one of the founders. He has worked as a CRO for 20 years, across Europe and in particular for US private funds that were struggling with their overseas investments. He has retired from the City and is now a qualified NLP and CBT Coach and Mentor, qualifying also in hypnotherapy – a passion that he had from an early age.