Key Elements for Corporate Turnarounds

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During my several years of Corporate and then Consulting experience, I have seen companies, projects and business units decline in various forms. Some survived but many eroded shareholders value significantly. As Aswath Damodaran, the esteemed professor of Corporate Finance at NYU Stern says, "All Companies will face a decline at some point in their lifecycle". The same has been echoed by the likes of Jeff Bezos.

In the increasingly challenging, ever-changing, and uncertain landscape that businesses operate in, companies find themselves facing unforeseen threats, often leading to financial instability and decline in performance. However, with the right strategies and a focused approach, corporations can undergo a successful turnaround, reviving their operations and achieving long-term value creation.

First, let's understand what comprises a crisis. Crisis is the final stage of decline where the company's resources have dipped to a level that it is difficult to keep the company going. Ideally, a company should not be allowed to get to this stage. The Management team and the board of the company should be able to spot the symptoms, find the root cause and take necessary action when the company is at the stage of Underperformance – The stage where the company is missing some key metrics on a regular basis, which is reflected in the Key Financial and Operational metrics.

Turnaround refers to the process of revitalizing a struggling company that is experiencing financial distress, operational inefficiencies, or declining market share. It involves identifying the root causes of the company's decline, formulating a strategic plan, implementing necessary changes, and ultimately, restoring the organization to profitability and growth.

Key elements for a Turnaround

1) Blowing the war trumpet: The timing of the identification of a symptomatic problem is crucial. The sooner companies are able to pre-emptively identify the threat, the higher is the probability of turning around a company. When faced with an existential and financial crisis that would lead to a shut down, saving the company is that much harder.

2) Diagnosing the ailment: What led to the crisis in the first place? Rarely does the decline happen overnight (leave aside the pandemics, wars and factors that may impact an industry or country at large). The threat is usually visible in the form of declining metrics – Financial and Operational, over a period of time, that are either ignored or underestimated by the management team. Treating symptoms without identify the root cause is a risk that can have a compounding and domino effect, for example, if there is a consistent decline in cash flows, borrowing money or infusing capital may provide immediate resources but will not fix the problem. The business must identify what led to the cash flow problem in the first place – was it increase in operating costs, poor product sales, declining revenue, losing customers, cash conversion ratios, higher customer acquisition costs or some other factors?

3) The Captain and the crew: If the water has been calm during troubled times, be rest assured that there is an underlying current that will create a vortex. Is the entire management team viewing the crisis from the same lens? What role did they play while the crisis precipitated? The importance of having the right leader for the turnaround cannot be over emphasized. The leader has to articulate a clear strategy and ensure that his team is fully aligned and understands the task at hand. The leader must be bold, have tenacity to cut through the problems, and work with resolve to challenge the status quo to create

a better tomorrow for the company. A change catalyst with the ability to mobilize the forces would provide a strong foundation for the change.

4) Financial Restructuring: A sound financial structure is essential for supporting the turnaround efforts. If the company's financial situation is dire, a restructuring plan may be necessary. This may involve renegotiating debt terms, raising capital through equity infusion, or divesting non-core assets. The company should also assess its payment terms with its customers to reduce the Account Receivables Turnover ratio, and increase, where possible, Accounts Payable Turnover Ratio by negotiating favourable terms with its suppliers.

5) Assess Strategic Positioning: The competitive strength of the company and its positioning should be re-assessed with respect to the market landscape, and its core leadership should engage with the customers to fully appreciate if there is a gap in its offering. The company should relook at its portfolio of products, the markets in which it operates, and realign the resources towards the company’s strategic direction, focusing on core strengths. Adapting to the needs of the market will further strengthen its position.

6) Keep customers in sight: Revenue is the company’s bloodline. If the revenue dries up due to lack of focus on providing value to customers, most other efforts will be in vain. Support from investors, financial institutions and other avenues will be hard to get should the revenues stall. Rebuilding customer trust and loyalty is crucial for a successful turnaround. Focus on improving the customer experience, addressing complaints, and delivering high-quality products or services to regain market share.

7) Governance: Once a Turnaround plan has been put in place, and the key deliverables are known to everyone, it is imperative to monitor the progress of the turnaround plan and make adjustments as needed. The CEO and his executives must be held accountable for driving the turnaround in accordance with the plan rather than operating in siloes. They must agree and implement key performance indicators (KPIs) to track the company's performance and ensure that the turnaround strategy is on track. While the KPIs are being tracked and reported, the team must rely on factual data, and analysis to arrive at decisions. If the plan is failing, corrective actions must be taken immediately.

8) Employee Engagement and Change Management: Employees must be kept engaged in the turnaround process by fostering a culture of open communication, transparency, and collaboration. Motivated and empowered employees can contribute significantly to the success of the revitalization efforts.

Corporate turnaround is a challenging yet necessary process for companies facing financial distress or operational decline. By adopting a strategic and agile approach, businesses can successfully navigate through turbulent times and restore their financial health and market position. Effective leadership, robust financial management, operational efficiency, and a customer-centric mindset are crucial elements in the journey towards corporate revitalization. By embracing change, making tough decisions, and implementing the right strategies, companies can emerge stronger and more resilient, positioning themselves for long-term success in a competitive business environment.