UNIT 188 – UPSC - Turnaround Management

Turnaround management gained prominence when there were incidences of corporate decline at global scale that caused organizational failure. Turnaround can be explained as business firm that faces financial disaster or action taken to prevent the occurrence of that financial disaster. The true nature of turnaround is a firm whose recent past or projected future financial performance undesirable to the owners / creditors. Turnaround management is the procedure of evaluating an underperforming business to determine the cause of its problems. Management theorists stated that Turnaround management occurs when a company with one or more problems has sufficient time and resources to find solution. Turnaround management rehabilitates the troubled company and sets the stage for future achievement (Harlan D. Platt, 2004). Additionally, developing potential solutions to address the problems, selecting and implementing the suitable strategies and course of action, and making corrections to the plan as circumstances warrant.

Szuki, however, defined the corporate turnaround as a series of rescue efforts aimed at arresting the declining trend of business activities of a firm. Nugent meant turnaround management as the operational development measured in terms of financial results over a sustained period (1989). The improvement may range from turning a losing enterprise into a profitable one, or making marginally profitable one more profitable. Another theorist, Nugent supported that every turnaround situation is different and unique. The players are different, the businesses are different, and causes, levels, and cures of underperformance are different.

Turnaround management is a central element of corporate renewal. As part of the turnaround management process, the new management team must recognize the root cause of the crisis. Generally, most crises are caused by falling revenues due to a shrinking market or weak economy or excessive costs caused by over optimistic sales projections or the incorrect strategic choices. However, firms are also in trouble if they lose control of major resources; suffer significant research and development failures; their market is grabbed by a successful rivals or they have insufficient financial and governance controls.

Charles Hofer is academic originator of turnaround management. He considered that nature of turnaround management as being strategic or operative. Strategic turnaround attempts either to change the strategy for competing in same business or to define how to enter a new business. Most strategic turnaround focus on marketing, production or engineering functions. An

operating turnaround is concerned with increasing revenues, decreasing cost or decreasing assets. Final form of turnaround is financial restructuring in which a firm with excess debt exchanges new shares of its equity for a portion of its outstanding debt or arranges for creditors to modify the terms of debt by lengthening its maturity date or lowering its interest rate (Harlan D. Platt, 2004).
Bibeault also studied turnaround management in details and set new stages of generic strategies.

There are several distinct stages of turnaround management: Bibeault described stages of turnaround management in details (Harlan D. Platt, 2004):

Stage	Description	Action
1.	Management change stage	1. The board of directors or senior management decides transition is necessary. 2. The turnaround agent either internal or external is selected or given some degree of authority.
2.	Evaluation Stage	1. The nature or extent of problems are diagnosed. 2. The type of turnaround, strategic or operation is chosen. 3. An action is prepared.
3.	Emergency stage	Companies on the brink of failing must do whatever is necessary to survive.
4.	Stabilizing stage	1. Immediate problems are resolved. 2. Plans are put in place to improve operating and strategic performance. 3. Results are evaluated for acceptability. 4. When results are insufficient, the liquidation, Sale, or merger options are explored.

5.	Return to normal growth stage	Normal corporate operations

Phases in turnaround management: Turnaround is considered to be an engineering event of relatively short duration but it is only one segment of cynical process with four phases that include invitation, preparation, execution and termination.

Critical issues	**Turnaround Phases**	**Critical activities**
○ Reviewing past events ○ Setting objectives ○ Formulating objectives ○ Minimizing costs ○ Balancing constraints ○ Delegating authorities ○ Monitoring performance ○ Flexibility of approach	**Phase: 1 Initiation:** Period during which turnaround parameters are defined, core personnel appointed and basic data organized. Can be spread over a period of months.	-Senior managers form a steering group. -Team supports a turnaround manager as its agent. -Manger mobilizes and leads preparation teams. -Preparation team collects and collate basic data. -Plant team issues work request form and provide technical data, plant history, and local knowledge. -Plant team issues the initial work list.
○ Leading a small team ○ Translating policy into defined project. ○ Defining contingencies. ○ Creating plans. ○ Reviewing contracts. ○ Forecasting costs ○ Setting targets. ○ Selecting people ○ Formulating rules ○ Delegating authorities ○ Monitoring performance. ○ Resolving issues	**Phase: 2 Preparation:** 3-8 months period (depends upon the size of events) during which a large quantity of data technical or non-technical is validated and transformed into set of plans that will be used to execute the turnaround. The vital element in this phase is work list because it forms the foundation upon which all other elements are built such as safety, quality, costs, materials, equipment, resources, logistics and duration. Preparation is characterized by close attention to details and accurate information.	-Preparation team and plant team challenge and validate the work list. -Turnaround manager freezes the work list. -Planning officers and preparation team: Prepare job specification packages. Identify and plan preshutdown work. Identify and procure long delivery items then procure all other items and materials. Define contractor work and place contracts. Organize site logistics and create plot plan. -Preparation engineer

		works up major task. - Turnaround manager optimizes the following: Work schedule and resource profile. Organization chart. Cost estimate and expenditure control system. Contractor list and project list. Sale system of work and quality plan. Briefing document and site rules. - Turnaround manager submits plans to steering group for discussion, decision and approval. -Preparation and plan team brief all personnel.
○ Coordinating activities ○ Controlling planned work ○ Controlling emergent work ○ Achieving duration ○ Minimizing expenditure ○ Monitoring safety ○ Monitoring quality ○ Resolving issues	**Phase: 3** Execution: Normally 2-8n week period when planned work is carried out and monitored against the event schedule, duration, cost quality and safety requirement. The emphasis during the time is on effective control of work.	-Plant team shut plant down to prearrange plan with support of execution team. -Execution team perform work to turnaround plan. -Control team define and cost emergent work. -Execution team complete all work. -Turnaround manager demobilizes execution team and mobilizes star up team. -Plant team start up to prearrange a plan supported by start-up team.
○ Analysing performance. ○ Reviewing work done.	**Phase: 4** **Termination:** Normally 1-2 weeks period when the work is closed out and performance is reviewed.	-Start-up team clean the site and remove the equipment. -Plant manager inspects plant and accepts

○ Extracting learning. ○ Recommending changes. ○ Closing out report.		handovers. --Turnaround manager demobilizes start-up team. -Plant and turnaround manager organize debriefs. - Turnaround manager produces final report.

Significance of Turnaround Management

Turnaround management is the organised and rapid implementation of a range of measures to correct a seriously unsuccessful situation. Turnaround managers deal with a financial ruin or measures to avoid the highly likely occurrence of such a disaster (Bo Arpi, 1999).When firms are poorly performing that failure seems imminent then turnaround management can reinstate performance and profitability. In fierce competition, rapid progresses in technology and rising complexity of the business conditions accompanied by diversity of customers and employees, the challenges for any company have been rising. Only a timely response to this situation can enable organisations to survive in competitive environment. But, due to management inadequacy, most of the corporate fail to recognise the problems and therefore delay in taking precautionary measures affecting the owners, employees, customers, suppliers and the economy. To re-establish the organisation on its normal course, a corporate turnaround is indispensable (Stuart, 1999). Organizational turnaround is not only impacted by good management practices but also by shifts in organization. The impact of such shifts on organizational performance especially in public sector organizations has neutral or negative effects on performance but the extent of organizational strategy as well as environment influence turnaround success. A positive turnaround depends on developing suitable turnaround prescription and implementation of effective turnaround plan. The appropriate rescue plan or turnaround prescription must addresses the vital problems, tackle the underlying causes and be broad and deep enough in scope to resolve all the key issues.

Advantages of a turnaround specialists:

The turnaround specialist works in a firm with immense knowledge and skills and enjoys complete objectivity. These professionals involve resolving problems and create new solutions that may not be noticeable to company insiders simply because the latter are too close to the subject.
The turnaround manager has no political programme or other obligations to effect the decision-making process, allowing him or her to take the unpopular yet necessary steps for existence from corporate insolvency, liquidation, company administration or bankruptcy.
A turnaround specialist brings experience in crisis situations.
The turnaround professional must deal justifiably with annoyed creditors, scared employees, wary customers and a nervous board of directors.

Signs of a Troubled Business

A company needs turnaround specialist in several conditions. There are common signs of trouble.

Market lag: Fluctuations in the marketplace have evaded a company, leaving it with drooping sales and lost market share. For some firms, there is lack of technology and their equipment may become outdated. In other companies, the problem lies in sales and marketing; their products or services slide into outmodedness because the company has not kept pace with the needs of the marketplace.
Lack of operating controls: Managing a company without adequate reporting mechanisms is problematic. If management is making decisions on old or incorrect information, the company can easily go in wrong direction.
Over diversification: In contemporary situation, many businesses feel the pressure to diversify in order to lessen risk. However, too much diversification may cause them to spread themselves too thin. Consequently, they become even more susceptible to the competition.
Explosive growth: Companies are sometimes desirous to add value by engineering a growth spurt. However, a company cannot expand its way out of trouble. Growth often carries a very high price tag and leveraging a company to such a degree means that management must operate with little or no margin for error.
Family vs. business matters: It has been observed that there is rivalry among many privately held companies. Deciding which relative or which of their offspring should run the business after retirement or death can be one
of the most difficult challenges a privately held business owner can face. If the decision is based on emotion instead of good business judgment, trouble can soon follow. Operating without a business plan: Remarkably, numerous progressive companies operate without a business plan. Their plan may change overnight because it is based on their own "feel" for the market. The result is that plans are executed according to individual analysis.
Ineffective management style: The president and founder of a company may be unable to give authority. Consequently, the rest of the management staff is without solid experience or any feeling of ownership. If the president suddenly dies or becomes incapacitated, the whole company may face financial crisis.
Poor lender relationships: Some companies develop an adversary relationship with their financial lending institution leading to financial and cash flow problems.

Reasons for Failure and Decline

Major causes of organizational failure have two dimensions viz., factors external to the organization i.e., exogenous endogenous to the organization. Schendel et. al., initially proposed this contradiction, arguing that a firm needs to understand the root causes of its deterioration and respond to its needs, thereafter, to be geared to the nature of the problem that created that decline initially (1976). Nevertheless, the decline mainly comes from factors external to the firm. Thus, there may be a changes in the environment that promote new organizational forms, new dominant technologies or new business models leading to decline in firms that are unable to adjust to the changes. This view is extensively acknowledged although from different perspectives by population ecology research and worked in industrial economics (Porter, 1980). To summarize, turnaround Management is dominant procedure to prevent bankruptcy and for those who find the strength to identify the need for change, the rewards can be enduring and lifelong success. Turnaround management is a group of management practices used by organizations in financial decline. Specialists in the management area are highly trained and have expertise in corporate organization and evaluation. Major goal in most turnaround initiatives is to evaluate and stabilize the business in problematic period. Other objectives include realistic operational guidelines and eventual profit progress.