

## **The Human Factor in Turnaround**

Riad Tayeh – May 2004

### **Location, Location, Location**

That is the catch cry of real estate agents when discussing property.

### **People, People, People**

That should be the slogan of turnaround specialists when discussing turnaround management.

As accountants or financial / legal-based practitioners, we prefer to focus on the financial information to determine the status of a business.

We often brush aside the human factor which, does not appear in the figures, the underlying culture, politics and interaction that actually determines the make-up of a company. The financials merely reflect the endeavours of the people involved.

### **What is a Turnaround?**

There are many types of turnarounds that occur at different times in a company's cycle.

Some of the turnaround assignments include:

- Exit Strategies
- Succession Planning
- Growth Strategies
- Financial Difficulties
- Market Difficulties

Although there are different elements in all of these turnarounds, they all have one factor in common -- the human factor.

Today's turnaround manager can no longer just prepare a report to management as to the strategies to employ in a turnaround. He must assist the company with its implementation.

Implementation raises a host of other issues (mainly legal) that will not be covered here, but nonetheless are very important to bear in mind.

The issues arising out of a turnaround can be likened to the fear of death. The fear of losing your company, whether through insolvency or losing control through one of the other strategies, is a very powerful fear.

Elisabeth Kübler – Ross has addressed these fears in her very good book titled On Death and Dying.

As Kübler – Ross explains, people often have an irrational fear of dying, exacerbated by the professionals in charge of the dying patient.

The parallels with a business in need of turnaround are very apt. Imagine a host of advisers waiting for a company to take its last breath, administering some help here and there to ease the pain. Even though it happens unconsciously, it's no wonder that management is manic in such a case.

Kübler-Ross goes on: "... a society in which death is viewed as taboo, discussion of it is regarded as morbid..."

Corporate failure carries much the same taboo. Often management has kept the troubled company afloat while covering up the problems. When questioned about this, management offers the excuse: "I've been through worse than this before".

Sometimes executives refuse to admit that they are even experiencing problems. They virtually go into denial. In this way they don't have to face up to the fact that they are in trouble and need help, and their actions can prevent their management colleagues from being aware of the extent of the company's problems.

Or you can have the opposite situation, where the chief executive has such a strong and overbearing personality, enthusiasm and energy that he bulldozes his way over the rest of the management team. Under this style of leadership, major problems can be masked over until it is too late.

Whatever the style of management, the business is in trouble because it didn't realise the extent of its problems.

One of the major problems is that advice is often sought when it is too late and the human factor has suffered. If we could educate management to seek advice as early as possible, when a company needs assistance, then the likelihood of a successful turnaround would be much higher and the human factor in turnaround would not be as difficult to deal with.

Unfortunately, it is rare that the management of a company in trouble calls for help in the early stages. In practice, the business does not want to admit that there are problems.

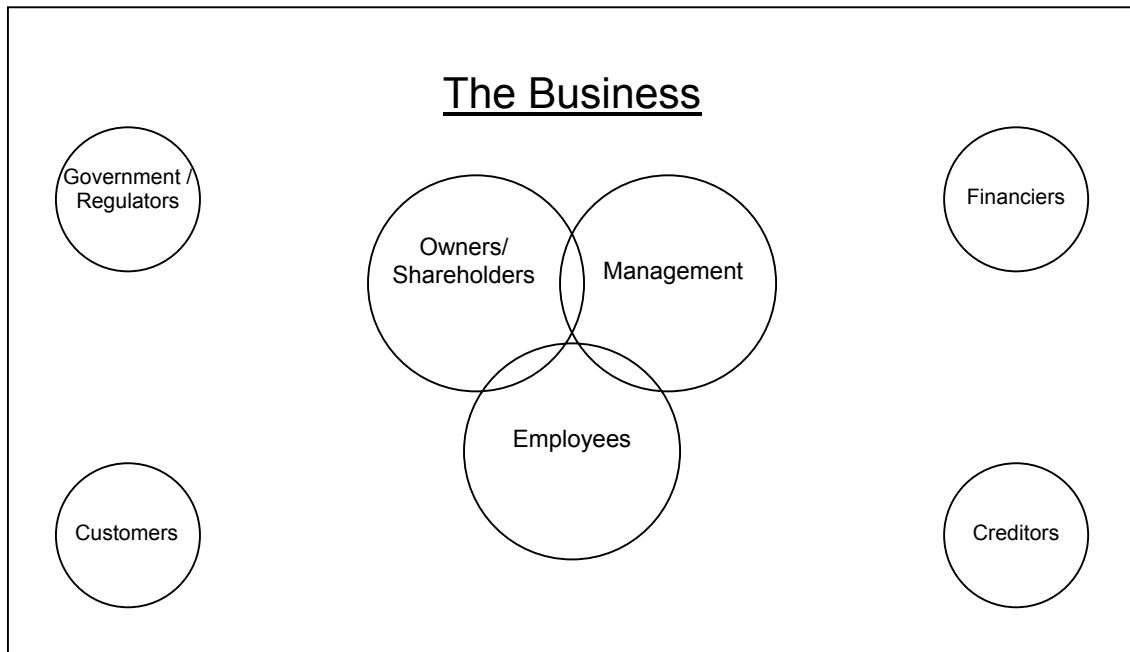
The business may feel that it is running smoothly and everything is fine when in reality it has reached a stage in its corporate life where the onset of decline is around the corner.

It is often only in the last stages that a business approaches a professional turnaround manager and then only in the faint hope of avoiding liquidation.

And by this stage the human factor of all concerned has been well and truly tested. In such an environment it is a difficult process to make changes without first gaining the confidence of the people concerned. The turnaround manager must earn the trust of the staff and show discretion if people confide in him.

We often find that people under extreme conditions can react in extreme ways.

So why is the human factor so important? We can answer that by taking into account our nature, perspective, experience, education, ego/personality and circumstance. Some of this is well illustrated by the following diagram:



Everyone has a different perspective of the same thing – the business. They see different issues and expect different outcomes. Yet they have to remember that they are part of a team and need to work together with the same purpose to gain success.

A business is really a microcosm of society, with all the same attributes and issues.

We all understand the time-critical nature of a restructuring and the need to implement proper strategic and operational plans. However, without the support of key incumbent staff members even the best plans and strategies are doomed to failure.

The task of the turnaround manager is to understand the importance of the human element and quickly build up the trust of the key executives, understand the challenges that they face and help break down any barriers that they have to outside help.

The turnaround manager must demonstrate that he can deal competently with both the business issues and the human issues. Otherwise, the delays that result can be costly for the business or detrimental to the turnaround process.

Consequently the human factor is the most important element in a successful restructuring. But how do we deal with such an important variable? There are no hard and fast rules on considering the human factor.

Ultimately the human factor has to be part of the turnaround strategy. You need to ensure that there will be little conflict and a lot of confidence in the strategy employed. The turnaround manager should be objective with no hidden political agenda, but with a singular purpose -- to rescue the company.

His task has been made even more difficult because he is dealing in an environment where there has often been a lack of information and trust. Yet despite this scenario, he must be able to gain the confidence of the staff and convince them to follow him through the ensuing difficult times.

What's more, it takes time to gain a good understanding of all these factors in an organisation. And time is a commodity that we don't have enough of in these circumstances. Therefore we need to understand these factors in an adverse environment with an often hostile audience.

Analysing the situation, developing an appropriate strategy and action plan are the most effective ways of taking control of some of the human factors. If you are seen to be in control, decisive and competent then people will take some comfort in that.

And once the people in the business can observe that progress is being made, that should result in growing support and a positive outcome.

You must always remember that people have to confront significant change in a turnaround including:

- Actual or perceived loss of control
- Change of culture
- Change in process and procedures
- Accountability
- Change and definition of roles
- Empowerment
- Transparency

You need to spend time addressing these changes with key people and providing them with the skills to bring their subordinates along with them. Initially it is best to focus on common goals and achieve some small successes before advancing to the more difficult tasks.

At the same time you need to assess the strengths and weaknesses of the business. You must assess its people and identify those that will make the psychological shift that will assist with the implementation of your restructuring plans.

There are six vital steps to determine the human factor issues:

- Identify key personnel;
- Interview key people;
- Provide information;
- Empowerment and responsibility;
- Involvement in the change process;
- Leadership and trust.

### Identify the Key Personnel

The most important people are not necessarily those in management.

If you have identified the company's core business then you will be able to identify the key people in the structure.

You need to ensure you have the key competencies to enable the business to continue to function effectively.

### Interview Key People

Talk to the key people and listen to what they have to say. Apart from the initial negativity, they will provide key input to change.

Their "buy-in" to the process is imperative to the success of the turnaround. The fact that you have afforded them time at such a critical phase will assist in getting them on side.

### Provide Information

Communication is very important, so try to provide as much information as possible. In an environment where information has been scant and management has had a siege mentality, the provision of information is seen as important by the stakeholders.

Management may resist the idea of allowing much information to be provided to anyone else. However, it is important that management is convinced of the need to provide an information flow. Start by disseminating some information and build on this base slowly.

### Empowerment and Responsibility

With information comes empowerment and with empowerment comes responsibility. It is through responsibility that you can get "buy-in".

It is important to allow the different tiers in an organisation to have some responsibility. In this way they feel part of a team and are contributing to an outcome.

This will also help overcome the siege mentality of management and allow changes to be effected quicker.

### Involvement in the Change Process

Involvement is a necessary outcome of responsibility. If people are involved in the change process they are less likely to try and undermine it. They will generally be happy that they are being allowed some involvement, something the previous management probably did not allow.

In this way the various tiers of an organisation may appreciate the perspective of one another.

Involvement is especially important when cost cutting or reallocating resources. Imagine the lowly paid production worker losing some benefits whilst the National Sales Manager takes delivery of his new company BMW. With information and involvement, potential areas of conflict can be managed.

### Leadership and Trust

These two attributes are the most important ones to have in a turnaround manager. The employees of an organisation have endured what they perceived to be lack of leadership and a resultant lack of trust. They will look to the turnaround manager to demonstrate these attributes.

Everyone at the company will look to the turnaround manager to provide the vision and the plan to lead the company out of its present problems, thereby securing its immediate future.

When it comes to turnaround, the easy part of the problem is to develop a restructuring plan. The difficulty is in implementing this plan on a timely basis. The human factor tests our patience and professionalism.

Often a simple restructuring initiative may take considerably longer than would otherwise have been considered reasonable. However unless it is absolutely critical to the rescue plan it is best to take the time and take stock of the human factor and obtain involvement and “buy-in” rather than directing change from the top down.

Sometimes some issues may be quarantined whilst progress can be made elsewhere. But no progress can be made without due regard to the human factor.

The skill of the turnaround manager is to focus on returning a troubled company to a profitable path while harnessing its human resources in support of the plan. Remember, good staff is one of the most important assets of a company.

### BIBLIOGRAPHY

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