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Setting the stage for success

A number of factors are needed to guide the turnaround process in a company

Vincent Marino

"There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things."— Niccolo Machiavelli, The Prince.

There are certain positive key success factors that guide a business to achieve turnaround success and in their absence, a turnaround attempt is greatly reduced.

Companies that are in need of change cannot rely only on across-the-board staff retrenchments or seek additional funding to fill the hole in their bank balance. This type of knee-jerk reaction is not likely to set the stage to achieve sustainable turnaround for the long term.

One of the key success factors in a turnaround is the desire for change. Business owners of small and medium-sized enterprises have got to have the willingness and desire for change. Management must be motivated, skilled and lead from the front to achieve a successful turnaround. In areas of uncertainty management must source from outside help to attain and accomplish their goals. The business owner must look at his business as an outsider would, and ask himself:

- What faults would a turnaround manager find;
- What would the turnaround manager do in the first week/ second week, etc; and
- Would she or he work in this business — if no, why?

In a recovery situation the owner may need to revert to the qualities that initially helped the business to grow. The management style would involve a hands-on approach and taking control of the business. It would also involve introduction of tight controls and being a good communicator, not to mention a good people motivator.

You will need to demand high performance from employees. They may need to work longer hours and staff may need to multitask. An essential element of a successful turnaround is the owner must not try and do every function or task him/herself; they must work at their business not in their business.

They must stop doing all the things that could have been done if they had been employed. The owner's time must be spent doing the work that will lead the business forward, to achieving its goal of sustainable recovery. The owner must concentrate on doing the right things — the things that are important to the business's survival.

Good management of the business will not suffice if the business does not

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The Business

have a viable core product or service, because the competitive position of the business is essential in deciding whether a business could be turned around or not.

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Without a viable core product or service a turnaround in most cases is highly unlikely. Is the product or service near the end of its life cycle? For example, is the business still in the typewriter market, or is the business still pressing out seven singles? How viable or competitive is your product in the market.

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In a turnaround situation the owner needs to determine which of the products/services are generating the most amount of positive cash flow (not profit — after costs and before depreciation) and use the 80/20 rule; that is 20% of your product/service will generate 80% of the cash flow.

First look to those product/services and look after them and then decide what to do with the products/services that are generating inadequate cash flows.

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A well-formulated strategic turnaround plan helps to organise and allocate the business's resources into a viable competitive position. The proposed strategy should address any shortcomings or weaknesses of the business.

A simple test can be used. You would need to ask: Does the strategy overcome any weakness or threats? Does the strategy fit the business's objectives? How best can the business's resources and capabilities be utilised? Can the strategy be resourced (financed)? And is the strategy feasible and acceptable by all stakeholders?

A sound strategy also means staying close to the business's market niches, not expanding too quickly and building onto the core products/services, and keeping away from undue diversification.

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In a turnaround situation there is often a continuous problem of liquidity, and for most business owners resulting in a substantial overdraft, with high interest rates and other bank related charges.

Critical to a turnaround is the business owner finding adequate "bridging finance", be it external (for example, increasing overdraft facilities) or internal (identifying and selling dead stock and unneeded equipment).

A key factor in a turnaround is creditor and lender support for the financing while the business is in a turnaround state. Money in this case is similar to a blood transfusion; it is the lifeblood of the business and without an adequate inflow the business will slowly die.

In a turnaround situation being undertaken in a small business, it is important that employees know the extent of the crisis and if they are prepared to take part in the transformation process.

Motivating people to remain within a small working environment will be an uphill battle for the owner. There are volumes of books available on how to treat and take care of your employees.

Below is a list of what most employees are looking for in their work environment:

- A fair wage — employees want a fair market wage for the work performed;
- Continuous employment — they want to know that their employment is assured;

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- A good working environment — good working conditions with the right equipment to do the job, clean toilets, lunch breaks, organised workshop and office, good ventilation and safe working conditions;
- Reasonable working hours;
- A forum to discuss grievances and problems — employees need to air their grievances and problems with the owner, without feeling threatened or fear of victimisation;
- Looking to a competent leader — employees are looking for an owner who will lead from the front who can plan, organise and co-ordinate;
- Performance bonuses — staff are rewarded for exceeding performances and standards;
- Information sharing — in crisis situations share information about what is going on, people want to feel part of the business;
- Contributors — employees want to feel that they are contributing to the turnaround of the business; and
- Respect and recognition — employees want to be respected and acknowledged for work well done.

Low staff productivity and low morale can cripple any business, so it is imperative that the people who stay behind to help rebuild the business are treated well. Motivating staff is key.

- Marino is director of Business Renewal & Survival Strategies.

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