

Turnaround Roadmap for the HR Leader

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I. Turnarounds in Today's Business Environment

Eighty percent of CFOs believe that the worst is ahead—not behind us; and, sixty percent predict recovery may not begin until late 2009 or later. Pessimism is pervasive. Despite wide ranging stimulus efforts, the reality is that global recession may just now be taking hold.

Furthermore, results from a recent survey conducted by Duke University and CFO Magazine indicate that “nearly 60 percent of companies have made layoffs in the past year, and more than 50 percent of respondents say they plan a workforce reduction in the next 12 months.” (CFO, April 2009, Business Outlook Survey)

So, here's a safe speculation: For many organizations, the turnaround agenda will play a prominent role in the quarters to come—whether as a contingency plan on the white board, or as a dogged reality.

Turnaround Competency—a Survival Skill Required for HR Leaders

...Control your destiny or someone else will.

What does this mean for human resources (HR) executives? At a minimum, the HR leader should be familiar with the turnaround process, understand the leadership team's objectives during the process, and have a grasp of the challenges the organization faces in reaching these objectives. As a slightly more ambitious goal, the HR executive should be ready to tackle some of the key items specific to the HR agenda. And, ideally, the HR leader should be prepared to step into a key leadership role in supporting and guiding the process.

Turnarounds are demanding, risky, and tricky; and, they almost always pivot on key issues in leadership, communication, and change management. These are issues that the competent HR leader will be qualified to tackle. Experienced turnaround professionals understand this and will welcome the help. Bryan Marsal, co-CEO of Alvarez & Marsal and acting CEO of Lehman Brothers, recently told a forum of CFOs to work closely with their HR executives during a crisis. “Do not minimize your HR department,” Marsal told the group. He went on to say: “How you treat people during the exit process has lifelong benefits. People can become an ambassador for your company or an enemy for the rest of their lives.” The HR executive sets the tone and leads the process for layoffs, reorganizations, and compensation changes – all critical components of an effective turnaround.

In short, the HR leader is critical to the turnaround process: turnarounds succeed or fail based on the team's ability to manage organizational change. Finding cash and restructuring the operations of the business is certainly complicated. Managing the intricacies of layoffs, reorganizations, and motivating employees to do more with less is just as complex.

HR leadership is uniquely positioned to lead the “people” side of the turnaround effort. They have a broad view of the employee base; and, ideally, HR leaders also possess the communication skills and relationships to effect change. (These skills are often a good contrast to the necessarily brusque nature of the turnaround professionals.)

And, consider that during the bustle of the initial stages of the turnaround, if the HR leader does not actively and effectively engage in the process, he or she will be pushed aside. If the

organization is under fire, the leadership team has no time to dally. The HR executive either needs to be ready to fill a leadership role or be prepared to march under someone else who can.

An understanding of the turnaround process will help the leader prepare to step up, if and when the time ever comes to tackle the a turnaround plan. In this article, we present the HR leader with a quick review of the turnaround process. We run through the phases of a successful turnaround plan and highlight key objectives and activities for the HR leader. We pay particular attention to issues in organization dynamics and change management—issues HR leaders are often prepared to address.

“The key ingredients for the HR leader are to be involved, to be objective, and to manage the people side of the crisis.”

Pat Dailey, PhD, HR Executive

II. Turnaround Process Overview

A turnaround situation typically involves an existential threat to the organization. The turnaround process refers simply to “the implementation of a set of actions required to save an organization from business failure and return it to operational normality and financial solvency. Turnaround management usually requires strong leadership, and can include corporate restructuring and redundancies, an investigation of the root causes of failure, and long-term programs to revitalize the organization.” (*Used with permission from CBS Interactive, Inc., Copyright 2009. All rights reserved.*) The process is deliberate and dramatic.

The turnaround plan presented below is the signature model of Alvarez & Marsal, a leading independent global professional services firm specializing in performance improvement, turnaround management, and business advisory services. It is a well-tested blue-print that the firm has successfully applied for a range of organizations across a range of industries over the past 25 years.

The plan begins with the identification of distinct courses of action and probabilities for the business to survive, and relies upon short-term quick hits to stabilize and buy time. It also recognizes the need for talent and collaboration, and lays out practical steps for implementation. The foundation is a fact-based and data-driven assessment followed by an honest and objective analysis of the situation. Key characteristics of the approach are a steadfast focus on questioning assumptions, uncovering landmines, and taking quick, decisive action.

The early stages of turnaround require reactive leadership instincts and skills. With a floundering organization, leaders face sub-par business performance, a dysfunctional organization, strained resources, and a short window of time to enact any change. As organizations successfully pursue the phases along the turnaround roadmap, the prominence of reactive leadership is replaced by increased predictability and proactive leadership as recovery gains traction and performance trends improve.

A Review of the Turnaround Model

The figure below illustrates the five phases in the turnaround process.

Figure #1: Turnaround Roadmap



The first and third phases are relatively brief, while the second and fourth will require more time. Of course, as with any methodology diagram, there is more concurrent activity occurring than the diagram may suggest.

In the first phase, the executive team (or company owners / lenders) has recognized the looming crisis and is marshalling the resources to address the situation. They complete a very quick review of the situation and assemble a team.

The second phase is marked by intense analysis and issue documentation. It is important in this phase to remain focused on the issues at hand and to retain the speed needed for survival (after all, cash is probably a rare commodity at this juncture). Also, for the sake of generating—or at least preserving—cash flow, the organization should begin to identify issues that can be quickly fixed with little strain on corporate resources.

In the third phase, the leadership team determines the basic plan for the future of the company. Once the team has assembled and reviewed the data, the owners, executives, and company stakeholders can make the best decision for the company. They'll decide to pursue a turnaround, sell the company, or liquidate the assets.

In the fourth and fifth phases the team deepens, refines, implements, and monitors the plan.

There are two parallel lines of activities that run through the process and sew together the effort: the execution of quick hits and the execution of communication plans. Quick hits are (relatively) easy opportunities to generate new revenue or to fix problems that will save cash. By definition, these initiatives can be implemented quickly and without an undue drain on already tight company resources. Ironically, it is often easier to execute these initiatives during a turnaround. The executives are motivated and focused, and there is a sense of urgency throughout the organization. As Dr. Johnson said...“When a man knows he is to be hanged in a fortnight, it concentrates the mind wonderfully.”

The discussion box at the end of this article further explains the need for a robust communication plan and outlines some of the key elements of such a plan. An effective turnaround will be marked by increased transparency of issues and discussions with the employee base about the situation of the company. An effective communications plan is essential to keeping employees engaged.

III. Turnaround Process – Phases One to Five

Phase One – Stabilize & Protect the Core

...Buy time to stop the bleeding & regroup

In this initial phase, the executive team is focused on buying time. Time gives the company the breathing room needed to determine the best course of action and to take the initial steps to halt or at least slow the organization's slide in performance.

Phase One typically involves intense data gathering, analysis and quick decision making; a detailed financial review; and negotiations with banks, equity holders and other key stakeholders. External advisers often engage with the company during this phase to drive, conduct and validate the analysis.

Management's primary objective at this stage is to gain a solid understanding of the cash position—the cash on hand today and a realistic forecast of cash-flow over the near term. Turnaround experts use cash position to get a quick snapshot of financial health. Of course, reviewing and managing cash is a standard and ongoing function of any organization's management team. The failing organization, however, almost always has problems with cash management. So, a key component of the turnaround is to focus heavily in this area. The turnaround team's cash review is typically more exhaustive, more conservative, ruthlessly objective, and does not allow for hidden assumptions.

Also, during this phase, executives will assemble the base team from among executive ranks, board, bank and other key stakeholders. They will lay-out initial objectives, agree on team roles and establish communication requirements.

Business Activities

The organization should be in preparatory mode during this phase. Typical business activities include:

- ◆ Complete SWOT analysis and build 30/60/90 Day Plans; identify core business assets (resources, people, business units, etc).
- ◆ Develop 13-week cash flow (Identify cash that is readily available).
- ◆ Assemble leadership and turnaround teams, leveraging both internal and external resources. Draft your best talent with an eye toward opportunity...not just those that are available.
- ◆ Set tone of trust through a transparent communications plan.
- ◆ Secure windows of time with stakeholders for brief assessments to determine the best course of action.
- ◆ Understand the core issues and triggers for crisis.

During this phase, management must quickly review the core versus non-core assets of the business and rapidly retrench around the core products, geography, process, relationships and customers. This intensified focus concentrates management attention around the company’s “crown jewels.”

The template in *Figure 2* is a guideline for differentiating core versus non-core assets:

Figure #2: Differentiating Core versus Non-Core Assets

Immediately abandon what is expendable or indefensibleand does not pay its way

Existing Capability	<i>Strong</i>	<p>Non-Core: Necessary processes that fail to add competitive advantage; readily available from vendors.</p> <p style="text-align: center;">Buy at commodity pricing</p>	<p>Core: Talent and processes that define the brand and provide competitive advantage.</p> <p style="text-align: center;">Aggressively invest, protect, defend and retain</p>
	<i>Weak</i>	<p>Unnecessary: Obsolete or marginalized infrastructure, systems and talent.</p> <p style="text-align: center;">Eliminate</p>	<p>Future Core: Processes, capability and talent predicted to be essential in the mid- and long-term; necessary to block or neutralize competitive advantage.</p> <p style="text-align: center;">Prepare to buy or build prior to recovery</p>
		<i>Low</i>	<i>High</i>
Competitive Advantage			

Organizational Dynamics: What the firm may be feeling...

...Suspicious. As the crisis becomes imminent, and the company enters a turnaround mode, the morale and mood in the employee base will be varied. Many will be suspicious of the presence of outsiders and the increased number of closed door sessions. (Absent proactive communication, employees are inclined to latch onto rumors, often predicting the worst.) Some will be unaware of the pending crisis or remain indifferent and uninvolved. And, others will be eager to contribute and may even see opportunity in the situation. It is very important to identify, retain and leverage these particular employees.

The Role of HR

This initial phase is the time for the HR leaders to take strong and active roles. The prepared HR leader will immediately gather relevant data; assemble thoughts on the key personnel issues; and begin developing a communications strategy. An HR leader can be most effective by:

- ◆ **Providing insight on assembling the turnaround team.** Design selection criteria for picking members, and set terms for performance incentive plans. Identify employees who will be most resistant to change – your blockers; and identify those who will be most supportive of the effort – your champions.
- ◆ **Gather and update information related to workforce reduction.** Compile key contracts and compensation-related items, policies, severance terms, and review approval steps with General Counsel. .

- ◆ **Keep the company's situation in mind.** Cash is tight and a workforce reduction is likely required. Develop a plan that will work to generate cash and minimize the risk to the company from a contractual and / or public relations perspective.
- ◆ **Compile end-of-cycle merit and incentive plans and benefit program payments.** These will be key inputs in the company's cash forecasts.
- ◆ **Identify and assess all meetings, programs, events, and awards as core versus non-core (see inset).** Outline recommendation to stop or adapt programs as needed. These recommendations should be brief and focused on direct costs.

Phase Two – Diagnosis Issues and Identify Quick Hits

...Accept no assumptions while leaving no stone unturned

Phase Two involves two interrelated efforts: a deeper analysis of the organization's performance issues, and an effort to identify opportunities to make fast, meaningful improvements.

Diagnosis Issues: The turnaround team – executives, key employees and external advisers – openly talk about the performance problems. They gather and document information about the company's operations through interviews, system reviews and detailed analysis of the company data. Essentially, the team looks to uncover sacred cows and incorrect historical assumptions to determine the root causes of the crisis. The documentation of the issues allows the team to broadly review and prioritize the results when determining the next steps.

Quick Hits: The decisive action taken to capture cash and fix those broken processes sends a signal that the organization is serious about change. (The action also allows for a deeper analysis of the root issues as the red herrings and other obstacles are removed.) More than any other driver, free cash is the key to business survival (“Cash is King!”). Leaders take immediate action to eliminate unnecessary assets identified in the first phase, sell physical assets, renegotiate (or end) real estate leases, and set up alternative arrangements with key suppliers.

In Phase Two, the team often looks to layoffs as a means to free up cash and to make the organization more nimble. Now is the time to encourage the management team to proffer meaningful headcount reductions in non-core areas (departments, products, or other key groups that were deemed non-core during the initial analysis). Symbolic headcount reductions that fail to generate meaningful cost reduction are counterproductive and damaging to the turnaround. As a general rule, organizational development professionals advise against “salami slicing” or across-the-board layoffs. Such an approach is often the most damaging to morale and apt to dilute the company's core strengths. Instead, the HR professional should encourage targeted cuts—those that support the firm's effort to streamline service lines and those that help weed weaker performers and retain some of the stronger performers.

This phase marks the real beginning of the change management process.

Business Activities

In this phase, the team reviews all critical operations and processes to discern the true root causes of the crisis. Typical business activities include:

- ◆ In depth analysis of true cash flow;
- ◆ Establish weekly reports and review meetings to review cash status and other matters with the organizations' key stakeholders;
- ◆ Document company assessment:
 - Understand strategic / macro / micro-economic, industry, competitive business factors, issues, challenges;
 - Evaluate management strength and readiness;
 - Complete sales effectiveness and customer service audits;
 - Benchmark operational capability and costs;
 - Review customer and vendor relationships for profitability, risk, and contract adaptation;
- ◆ Secure interim cash funding through initial headcount reduction, credit draw down and/or sale of assets;
- ◆ Implement Key Employee Retention Plan (KERP); and
- ◆ Dismantle symbolic programs and entitlements.

Organizational Dynamics: *What the firm may be feeling...*

...Invaded. The intense investigative and analytic process is physically exhausting for many associates. The certainty of retrenchment has become a reality. And, the team's initial corrective actions disrupt the business-as-usual work mentality. At the same time, some employees will be proud of their involvement in the change and excited about the prospects of getting the company on secure footing again.

The Role of HR

In this phase, an HR executive's role becomes significant. The organization is moving fast, layoffs are expected, sale of other assets affecting the organizational structure is likely, and the turnaround communications plan is still in its infancy. Additionally, the HR function itself is not immune to the analysis and review the rest of the organization is undergoing.

Focusing on four main activities will help position the HR executive as a leader in the turnaround process:

- ◆ **Generate Cash** – Lead the elimination of personnel costs, documenting projected versus actual savings realized. Establish guidelines and talking points around severance, transition times and job search support.

- ◆ **Manage Talent** - Develop a plan to identify and retain high-performing and critical talent and to manage or restrain problematic personnel situations.
- ◆ **Conduct a Quick and Honest Assessment of the HR Function** – Find and address the legacy policies and processes that slow the organizations’ ability to hire, fire or manage employees; ensure the HR team is well-versed in the talking points of the turnaround; eliminate waste and unnecessary positions in the department.
- ◆ **Coach the Organizational Leaders on Tactics for Effective Turnaround Leadership** – Develop scripts and talking points for middle and senior level management to use in the turnaround effort. The leadership skills required for the effort are different than those of business as usual; take the time to teach those new skills to selected leaders in the organization. (See Sidebar for more on leading a turnaround).

Two of the areas HR executives should focus on warrant more discussion: Generating Cash and Managing Talent.

Generating Cash: Find Personnel Cost Savings beyond Headcount Reductions.

Typically, personnel costs are a large line item on the balance sheet, and thus an easy target for gaining immediate cash. There are many creative ways the HR executive can work with the CFO to find savings beyond the expected headcount reductions. The table below presents a long menu of significant opportunity for short-term and permanent reductions in the cost of personnel and personnel programs.

LEADERSHIP SKILLS FOR TURNAROUNDS

The skills that got you here are not the skills that get you there.

Turnaround management puts different demands on the leadership skills throughout your organization. Those once-highly appropriate leadership skills learned during growth and acquisition phases of the business cycle all too often decompensate into dysfunctional strategic misses and tactical blunders during stabilization, turnaround. Leadership and management skills most in need during turnaround include:

- Asking for help
- Constructive distrust of assumptions and facts
- Quick and decisive judgments often without full consensus
- Management selection and accelerated team formation
- Dealing stridently with negativity and resistance to change
- Making time to teach the new lessons of experience
- Adopting “get it perfect enough and move on” performance standards
- Empathetic listening, and related credibility and authenticity

Take the precautionary step of aligning turnaround leadership skills with your core values to equip leaders with the know-how to explain the behavioral changes the workforce may experience.

Table #1: Potential Personnel Cost Savings

IMPACT AREA	POTENTIAL TARGETS FOR COST SAVINGS
Corporate Services	Rationalize internal service offerings
Organizational Design	Execute reduction in force in non-core areas
Severance Payment	Use VEBA to fund severance benefits Terminate severance benefits to former employees upon their re-employment Use defined benefit plan to fund supplemental unemployment benefits
Policy Change	Freeze wages, defer bonus payments, extend program cycle time Mandate overtime pre-approvals Install forced distribution of performance ratings Shift cash rewards to equity awards Re-price jobs to recalibrate midpoints and merit targets Protect the compensation of “rain makers” within sales force Shorten time between incentive planning and payout determination
Corporate Income Tax	Ensure deductibility of ESOP dividends Rebalance Plan Assets Take advantage of stimulus legislation—non-qualified liabilities, deferred compensation, income recognition, executive compensation, 409(a) Cancel or set up exchange program for underwater options / SARS
Equity Plan Design	Set-up equity chargeback agreements with foreign subsidiaries Shift from time-based to performance-based vesting terms
Asset Monetization	Monetize Pension Plan assets—Pension, 401(k) match; ESOP Annuitize or cash out pension liabilities Liquidate deferred compensation COLI policies
Employee Benefit Programs	Freeze pension plans Re-classify corporate-paid core benefits to employee-paid elective benefits Eliminate company contributions to 401(K) program; Shift to performance based matches and triggered payouts for 401(K) Implement HSA and/or HRA medical plans ESOP dividends Promote or restrict employees toward Generic drug use Join with other companies in a prescription buying coalition Challenge employee benefit eligibility—audit Health Plan and Group Life
Retiree Programs	Lead Retirees to enroll in Medicare Advantage Program
Vendor Management	Contract concessions and renegotiation Vendor consolidation Buying consortiums Service Level Agreement penalties and non performance payments

During the reductions, preserve workforce capability. The resulting organizational structure and headcount levels remaining after these cuts will not result in the creation of the final organization—i.e., the organization of the future. The balance of generating cash and focusing the organization on the core assets against how deep to cut is tenuous. The effective HR leader understands the balance and guides the management structure through the decision-making process.

Managing Talent – Move forward faster with those that “can” and “will.”

High on executives’ list of risk during turnarounds is human capital – too often the wrong people are lost, or leave. What is worse, those conditions often lead your best talent to be

overworked, unappreciated, underutilized and disillusioned with the company's future; the performance culture is significantly disabled, and erosion of brand and market place confidence limits or stalls recovery.

- ◆ **Lock in critical talent with Key Employee Retention Plan Incentives.** Consider that typical annual performance incentives do not pay out during these times—they have no steering impact or retentive value. In contrast, performance-based incentives directly tied to turnaround implementation sends valuable signals to high-performing and high-potential talent, who are essential during turnaround and recovery. These incentives provide some protection against poaching, as sector survivors reach recovery phase. A significant element in the design of KERP for senior leadership is retention targets for talent within organizations with the performance period extended well into recovery and re-stabilization.
- ◆ **Involve high performing talent in turnaround.** High potential talent seems never to be overlooked. However, turnarounds require utilization of often long-tenured, high-performing professionals. These load bearing walls are often skilled in problem analysis, problem solving, and have well-grooved cross functional networks.
- ◆ **Deal decisively with show-stoppers.** During turnaround, organizations look for lift from its workforce—energy, team work, adherence to core values and adaptability. There is a subset of visible and often vocal individuals that cause drag to the organization. Show-stoppers over consume management time, recruit others to their point of view and undermine the change process. Show stoppers should be coached, quarantined and if necessary, removed.
- ◆ **Update and communicate your talent philosophy and strategy to the full organization.** Your organization wants to hear about what is enduring or changing with your organization's talent philosophy and plans during tough times. Address:
 - Accelerated Management succession plans and timetables;
 - Deployment of high-performing talent into growth markets and segments;
 - Protecting customer facing personnel and programs;
 - Aggressive updating of individual development plans to capture the lessons of experience;
 - Upgrading talent with external recruitment into critical and new core competency areas; and
 - Connecting high potential talent with skip level mentors.

Phase Three—Make Strategic Decisions

...With the easy stuff now behind you, it's time you must place all your chips on the table.

In Phase Three the team uses information gathered in Phases One and Two as the basis for answering the tough question: Can the company be turned around or should it be sold or liquidated? The turnaround team should choose the best path based on the expected probability

of success and the expected financial return. Typically, the team presents the go-forward recommendation and plan during in-person meetings with the board of directors, key lenders and other key stakeholders.

In this phase, executives often attribute an overly-optimistic probability of success to the turnaround option. This may be done as a means to avoid conflict, or to reward the data gathering and quick hit successes of Phase One and Two, or simply because it is hard to admit defeat. Maintaining an objective and analytical approach is paramount. Assumptions and forecasts must be conservative and realistic. HR leaders should expect conflict during this phase: it is an inevitable—in a sense, almost healthy—part of the process.

Business Activities

The activities in this phase are seen in the reviews of the financial forecast, meetings with key stakeholders, and ongoing focus on finding and executing quick hits. Topics to consider during this phase include:

- ◆ Is the company worth more as a single entity or in pieces?
 - Financial valuation of the whole and the various parts of the enterprise answers this pivotal question
- ◆ How much time (cash) is there to fix the business?
 - CFO tracks current cash position and estimates the burn rate
 - CFO uncovers fixed and variable cost issues that emerge as the business deteriorates
 - CFO determines probabilities for gaining necessary financial resources / support/ relief
- ◆ How competitive are the products in the market?
 - Strategy group maps the current competitive position, market place dynamics and pressure
 - Operations pinpoint operational capabilities, and liabilities as production volumes deteriorate
 - HR describes work force capability, depth, labor availability / shortage and culture
- ◆ What is a realistic “deal” time line?
 - It is critical to understand the playing field of buyers (strategic competitors, scale competitors, new players, financial buyers) and sellers (number of assets might be in play and their level of distress)

Organizational Dynamics: What the firm may be feeling...

...Nervous. At this point, the employees fully grasp the severity of the problems and the dramatic changes they are about to face. Negativity and nervousness abound. Line staff and mid-level managers are inwardly focused and protective, and as a result, sales and service suffer and productivity lags.

With the loss of employees, the survivors are struggling to maintain the workload. At the same time they grapple with organizational changes—new leaders, new roles and new rules. Depending on their perspective, some employees may feel alternating emotions of anxiety about their future and excitement about the potential opportunities ahead. Finding these employees and nurturing these attitudes will help the organization remain focused on the core business at hand.

The Role of HR

During this phase, HR leaders are primarily focused on continuing the work from Phase Two. Headcount reductions were taken in Phase Two and a future reduction or reorganization is on the horizon. Typical activities include:

- ◆ **Manage the Workforce Reduction Process.** Pay careful attention to myriad details and tasks in executing this process to ensure that employees released as part of a cash exercise are treated fairly and leave the company as positively as possible. (Remember, a former employee is an enemy or ambassador). Also, focus on the retention of the surviving workforce, as burnout is an imminent possibility.
- ◆ **Manage the Communications Plan.** The change management issues in this phase are significant. To the extent possible, keep constant and open communications with the employee base about important meetings, the potential results and next steps, and what the employees can do to support the change process.
- ◆ **Strengthen the Recruiting and Hiring Skills of the HR Department.** HR executives can leverage this time to continue preparing the department for the upcoming changes in the organization (new hiring, position changes, new compensation planning, etc).

Phase Four - Develop and Implement a Long-Term Plan

...Prepare for continued ambiguity and resistance to change along the way

In Phase Four the team begins detailing and implementing the business plan. This phase is characterized by a renewed energy – planning for survival is more enticing than planning for liquidation. But, managers will disagree on the tactical plans; may be daunted by the litany of issues left to be resolved; and could tire from the continued review of their plan proposals. Employees may form cliques and initiate lobbying efforts to sway opinion and build coalitions of advocacy and mutual support.

The team developing and implementing the long-term plan must balance the need for speed in execution against the need to monitor and validate the plan assumptions.

Business Activities

The critical activities of the organization during this phase include:

- ◆ Weekly review of cash situation continues – and steps should be taken to rectify issues as they arise;

- ◆ Document a detailed, multi-year turnaround plan that includes:
 - Stress testing of strategic, tactical and people plans to ensure they are realistic, achievable and measurable;
 - Quantify cash and financial risks – What cash is required and available? What is the cash accessibility and cost of capital if conditions deteriorate? Ensure all covenants have been fully reviewed for triggers and implications, organizational readiness/hardiness, etc.;
 - Predict competitive response and risk mitigation plans for key customers, secure, and strategic markets;
 - Understand organizational capability, readiness and hardiness for change and plans for addressing any gaps;
 - Understand stakeholder impacts and entitlements; and
 - Factor involvement, intervention and/or take over by governmental entities.
- ◆ Initiation of implementation plans
 - Authorize reorganizations and staffing of needed resources;
 - Institute renewed spending (where cash is available) on marketing and sales activities; and
 - Increase expectation of monitoring and financial status reviews (continued weekly review of cash).
- ◆ Implement monitoring and issue management activities

Organizational Dynamics: *What the firm may be feeling...*

...Tired! For months, the team has been juggling diagnosis efforts, new quick hit initiatives, intense change management issues, and business planning—all in addition to on-going job responsibilities. This intense multi-tasking will take a toll on any team.

There will also be some resistance to the change. Confirmation that “the old way is gone” may just be setting in for some people. Elements of anxiety and political maneuvering will surface as employees wonder if they will be part of the new organization.

The legacy organization often pushes back or re-asserts itself during this phase. To combat revisionist actions, the turnaround team remains in place and devotes time to spotting and neutralizing threats to the plan. This is the turnaround team’s most challenging phase. Some in the organization read the new sense of optimism as sign that the crisis is over. As a result, they are eager to push aside the turnaround efforts and return to “normalcy.” In some cases, this is an innocent mistake and an understandable urge. In other cases, it is a deliberate power play on the part of legacy leaders seeking to regain footholds in the organization structure. Without vigilance from the executive and turnaround team, the change process can be hijacked just as it is gaining momentum.

Workforce dynamics remain fragile—with job cuts and significant wage and benefit reductions already extracted and undefined actions on the way. Senior management must lead with future

plan messages. Equipping mid-management with communication responsibilities and coordinated materials is essential at this phase. Constant communication is important, as the workforce may be reluctant to commit to a plan for action that is not fully formulated. (This is an especially difficult straddle when organized labor is involved. Union leaders may view the situation as an opportunity to open or bolster bargaining or organizing attempts.)

The Role of HR

During this phase, further workforce reductions are likely, and most certainly the organizational structure will change. HR leaders should focus on three key activities:

- ◆ **Manage the “People” Side of the Organization’s Implementation Plan.** The organizational structure of business units and / or departments will change, new reporting lines will be generated, and positions will shift. A prepared HR department will be ready to help implement these changes. Outputs may include: job descriptions, hiring plans, new organizational charts and performance review training.
- ◆ **Ongoing: Manage the Turnaround Communications Plan to Support the New Long-term Goals of the Company.** HR leaders should work with the turnaround team to develop a communications plan that outlines the new direction and plans for success. It is important to proactively broadcast a “future plan” orientation.
- ◆ **Implement the Redesign of the HR Department to Meet the Needs of the Future Organization.** With changing business priorities, the human resources service model, talent and resource deployment, as well as competencies require thoughtful alignment to the new business realities and cost targets. Creating an affordable human resources organization that works for employees, supervisory and senior management constituencies comes about after appropriate design considerations are contemplated and resolved. This is a time for re-creation and re-direction, not simply cutbacks and elimination. (See table below for details).

Table #2: Functional Design Options for Human Resources Function

Design Features	Design Options
Staffing Ratio Guidelines	Traditional Standard: - 100 employees: 1 Human Resource employee - 1.5% to 0.8% of unit revenue
Service Offerings	Recruitment, Organizational Development, Training, Benefits, Records Administration, Performance Management, Compensation, Labor and Employee Relations, Payroll and Transactions, Retiree
Personnel Deployment	Organize around customers, geography, or services
Service Delivery	Transactional Service Centers—Shared Services Professional Expert Resources—Centers of Excellence Internal Customer Support-----Designated Business Partners Internal Customer Self Service
Technology Deployment	Integrated Main Frame Modules Bolt-on Modules Application Service Provider Hook Up Free-standing technology systems
Outsourcing /In sourcing	Cost, Competency, Customer Satisfaction, Confidentiality

Phase Five - Ensure Viability and Recovery

...Don't expect a big bang moment —recovery arrives incrementally and without fanfare

In the fifth phase of the turnaround process, there is finally a return to normalcy and routine. The informal channels of communication carry less noise about the viability of the business and future speculation. Nervousness and negativity have subsided.

Some new challenges surface, however. KERPs are paid, and now the organization may not be able to accommodate all of the surviving employees' expectations for high perches in the new organization. As a result, there is a risk of depleted morale and some risk of turnover. In particular, the organization may lose some ambitious managers and technical professionals who persevered through the turnaround with the expectation of moving on and up.

Business Activities

This phase marks the beginning of the transition to a new organization. There are several close out items of significant importance the team must tackle:

- ◆ Define and implement a revised governance model and delegation of authority policy.
 - Set in place routine organizational and financial reviews.
 - Finalize organizational structure, roles and responsibilities, compensation structure and performance goals.
 - Communicate new terms and conditions of employment.
- ◆ Integrate the dual organization structures—existing and turnaround— into a single organization.
 - Ensure turnaround team members are perceived as “winners” to the broad organization. Transition turnaround team members to secure, long-term operating and leadership roles.
 - Avoid derailment of these turnaround team members. It is prudent to coach these change agents, who often are not necessarily those equipped to run stable programs in on how to re-enter and resume normal relationships, approval processes and the delegation of authority schedule.
 - Redistribute the workload among broader team to achieve equity and to operationalize the new organization.
- ◆ Thank the workforce.
 - Celebrate successes and invent symbols to represent the challenges the organization has overcome.
- ◆ Explain the organization's new DNA.
 - Use this to close out the special communication campaign.
 - Review the “denial points” and triggers that led to initial crisis.

- Preview features of the new DNA now in place to prevent a relapse.
- Alert the workforce to anticipate ongoing, routine course correction. Guard against these being perceived as an indicator of a failed turnaround strategy or implementation.
- Continue to promote transparency and accountability, and intolerance of toxic issues.

Organizational Dynamics: What the firm may be feeling...

...Renewed. The organization's new DNA has been inserted and is finding its way into the values, norms, policies, and processes. The new way of doing things is becoming simply the way of doing things.

The Organization on the Couch—Stress!

Two general sources of stress characterize the turnaround process: stress due to uncertainty and stress due to significant increases in workloads.

Fear of the unknown, rumors and general anxiety do more to sink turnaround efforts than anything else. This uncertainty drives the need for strong and proactive communication. HR leaders should be – must be – skilled in developing and leading communication plans.

Turnarounds are labor intensive and the sheer increase in work creates a strain on the workforce. It can be particularly difficult on the departmental and mid-level line management team. In addition to everyday burdens, the management team has the burden of participating in the turnaround process. Even those not appointed to a designated team still have to help provide information, communicate the progress to their employees, and otherwise coordinate with the turnaround team. This can be pressure-filled, tedious work. At the same time, life goes on in the organization. Now, more than ever, managers are under pressure to keep their employees engaged and productive.

The Role of HR

As the company settles into a new routine, HR leaders will help facilitate the shift from the turnaround organization to the renewed organization. Key activities may include:

- ◆ Orchestrating the close down of the turnaround team and install operating management into pivotal roles;
- ◆ Paying the final KERP payments;
- ◆ Commissioning search and recruitment to align with growth and re-positioning needs of the business;
- ◆ Installing amended compensation and benefit programs;
- ◆ Revitalizing goal and performance planning programs, and sales incentive programs;
- ◆ Resetting manpower planning and succession processes against new competencies;

- ◆ Monitoring vendors for compliance with Service Level Agreement and customer service policies; and
- ◆ Rolling out the new HR structure and metrics approach.

A warning note in navigating this last phase: The rehabilitation work is far from wrapped up. In fact from a change management perspective, this can be a sensitive period in the change process. After staring down tough times and logging more and more accomplishments, the team may be tempted to declare victory and move along.

Do not underestimate the organization's resistance to change. In fact, overestimate it and then double or triple that estimate. Take time to honor the past, but to let that chapter close. Repeatedly reinforce the new foundation and direction of the transformed company. Explain the ways of the new organization to all stakeholders. Help them grasp and re-articulate the core values critical to success. Above all, keep the messages simple. Change is tough—there is no need to exacerbate it with complicated and convoluted missions and goals that are apt to get lost in translation. More importantly, celebrate successes large and small at all levels of the organization. The harsh reality is that, more often than not, turnarounds culminate in a buyout...or fail. If the workforce has successfully navigated a true turnaround, they deserve a celebration.

IV. Conclusion

A general understanding of the turnaround process will help HR executives prepare for the leadership and tactical tasks ahead. If the organization is working with experienced turnaround experts, those experts will provide checklists, templates, and general guidance. However, do not count on receiving step-by-step instructions. Turnarounds are always turbulent and often messy. Expect to field ambiguous requests. Expect to field seemingly contradictory requests from different stakeholders. Expect last minute demands for volumes of work, and then last second demands to redo the work as the team adapts to changes in the process.

In any case, to the extent possible, it behooves an HR leader to get in front of the effort. A fundamental grasp of what the organization will experience, and what the turnaround experts will try to accomplish, will prepare the HR executive for the work ahead.

At the center of the turnaround effort are issues in leadership, culture, morale and change management—issues that HR professionals can help to address. There are also some key tactical roles for HR leaders in the turnaround process. Layoffs need to be managed, communications plans need to be developed and executed, and the organization requires expertise to complete its shift to a viable and competitive entity. Turnaround experts are eager for someone to step up, and a prepared HR leader will be uniquely positioned to do so.

TEACHING THE NEW LESSONS OF EXPERIENCE

First, know thyself and then let others see the authentic you

Importantly, organization learning occurs as a result of navigating the turnaround process. In some cases core values and long standing lessons of experience are re-confirmed. In other cases, there are new revelations and new lessons of experience that lead the organization to survival and sustained recovery. In both cases, it is immensely valuable –operationally and emotionally—for organizational members to hear from senior management and turnaround team members about those purely personal as well as organizational experiences that have enlightened and enabled the turnaround to be successful.

Human Resources leaders should take a lead role in chronicling the lessons of experience. These lessons become organizational history, are used in leadership development sessions and broad based employee communications. These lessons must reconcile with your core values.

Senior leaders should feel that well articulated lessons of experiences provide another tool for uplifting and steering the performance culture of the organization.

Below are guidelines for chronicling these lessons.

Lessons in survival.

- What models or predictors of business/ market conditions did not work? Why did it take so long to figure out this out? What future model will be relied upon?
- What were the tough decisions in determining what was core? What does it really mean to protect the core? What had to be quickly unlearned?
- Where investments were necessary in order to pull off the turnaround?
- What are investors and banking looking for in order to get on board?

Leadership Skills

- What skills did I rely upon the most? What leadership skills that we have invested time and money made little or no difference?
- How does one say “no”? How does one quickly unlearn?
- How does one ask the organization for help?...and get it? When did I ask for too much? Too soon?
- Which investment decisions were the most difficult?
- What subjective decisions had the most important long term implications?
- How do I build trust and a coalition when the business is rapidly deteriorating? What values and instincts that served me well during turnaround do I want to hold on to?

Building Organizations That Work.

- What were the signals the organization was ready to mount its recovery? What elements of the performance culture are most powerful and fragile?
- Why do talented leaders not make it through turnaround?
- What are signs of an effective organization that is turning the corner? What makes a high performance team really work?
- What intangibles did we draw upon to make our turnaround work?

How to change the rules of the game?

- In the marketplace? Inside the company? Within the leadership team?
- How did we continuously gauge if the competition is ahead of or behind or gaining on us?

Personal Change

- How do I know myself better today than I did before the turnaround?
- What values have I most relied upon then and now? What baggage was left behind?

CRANK UP EMPLOYEE COMMUNICATIONS

Leaders' genuine behavior trumps vacuous slogans, banners and buttons...every time

Leaders retreat to their personal strengths during crisis. The skills that got them to the “C-suite” tend to concentrate around strategic planning and analytic competencies. Most likely the Chief Executive, the strategy team and CFO will retreat to the war room.

Retreat isolates “C-suite” executives from the performance culture and high potential talent when this neglect is most damaging. This is a time for “high touch,” two way communications that connect, empathetically listen, candidly attempt to explain and perhaps, inspire. Even the most hardy high performance cultures can come unraveled without clear and convincing personal communication—avoid reliance upon one-way newsletters, video messages and press releases

HR leaders can offer pivotal coaching to the “C-suite” about the threat of fear, uncertainty and negativity building in the work force as the business crisis increases or as key decision times approach. What’s next? What’s happening to me? How safe is my job? And my 401(K)? The company’s performance culture is at stake. Guidelines are:

Have a communications plan that connects with all employees. For each phase of the turnaround, there are messages that the senior team needs to collectively craft, and repeatedly deliver—with intense interest from the workforce the message and its consistency are elements of management credibility. Be straight, be clear, be consistent and ask for help. While it is straightforward to leverage existing corporate communications channels, open up the flow of conversation to other channels as well to reinforce the dedication and focus of the leadership team. Explain the special role of the turnaround team and what is expected from this group—acknowledge that two organizations may be operating for a while—the existing organization and the turnaround organization. Fully disclose the role of outside resources and how these groups add value—during a time when employees may be losing their jobs. If targeted hiring continues, anticipate the concern and address the matter. Work through how you will use contingent and contract employees during turnaround. Be prepared tell your organization the decisions that have not been made during each phase of the turnaround.

Take the pulse of the organization. Listening sessions conducted within the workforce are visible signs of outreach. They enable an early warning system alerting management to matters potentially critical to the turnaround before these matters become over blown or out of control Listening sessions generate questions and issues that senior management should have a visible and personal role in answering and explanation.

Do not even think about conducting attitude surveys. Management can readily predict the outcomes and the cycle time for survey feedback is lengthier than most turnaround timetables

Make senior management visible to the full workforce. Used correctly, executive communication is a powerful catalyst for building support and accelerating organizational change. Mishandled, it fuels discontent and workforce resignation. So when the “C-suite” takes its message to the workforce—like a politician takes a message to the people, much is to be gained and much is at stake.

Overall the intent is to present the “C-suite” as personally authentic, clear in direction, consistent with facts, and transparent about the current situation. Initiatives include

- More frequent town hall meetings.
- “C-suite” walks the halls every day.
- Twenty minutes of personal telephone calls allocated each day to opinion leaders.

Keep senior management on script. Talking points should be constructed to ensure that messaging from the “C-suite” aligns with the new mission. Senior management speaks with up and down the internal, domestic organization as well as internationally, with customers and suppliers, and other passengers. Bankers, analysts and media also listen and talk the stakeholders.

Focus on the short term mission. While discussion about core values is enduring, best to keep the workforce single-mindedly focused on achieving the 30-60-90 roadmap—nothing much more is important

Reach out to key contributors and opinion Leaders. Informal organizational communications typically flow in a “hub and spoke” configuration. “Hubs” are most often key contributors and opinion leaders. High touch communications targeting the hubs is an efficient tactic to make wide ranging organizational communications work effectively and rapidly.

Equip front line management to represent the company to employees. Front line management must speak often and convincingly—to leave them out or on the side of crisis communication is a strategic blunder. But, skeptical listeners will tune in to uncover gaps in the message, apparent contradictions between spokespersons, or pounce on speaker missteps. You need ‘em but their needs to be a plan, prepared decks, “don’t know yet” topic lists, plus presentation and Q&A training for mid and lower management.

Linkage

Linkage is a global organizational development company that specializes in leadership development. We provide clients around the globe with integrated solutions that include strategic consulting services, customized leadership development and training experiences, tailored assessment services, and benchmark research. Linkage's mission is to connect high-performing leaders and organizations to the futures they want to create.

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