

1. How long, on the average, does a turnaround take (possibly broken down into decline stemming and recovery)?

That can vary a lot. At Detecon, they schedule 4 to 10 months for a restructuring project. However, careful consideration must be given to the exact situation of the specific company. It is very rarely possible for a company to master a major crisis in only 4 months. Size of the company is another factor which must be taken into account. Provided that its existence is not in acute jeopardy, a large company may work on a restructuring/turnaround for 1.5 years.

The projects we supported within the framework of the Turnaround Monitoring Program at the Turnaround Management Society lasted an average of 5 months until the turnaround began to have an impact and another 9 months until it was completed, i.e., positive results were reported over three quarters in succession.

However, the figure of 18 months which is frequently mentioned for the initiation of a turnaround is in my view much too long for a company which is in crisis. In my experience, a turnaround should have been completed within 18 months. Eighteen months for a turnaround to begin to have an impact is far too long, especially with respect to financial resources, which have often been completely consumed in crisis situations. But this is also a question of the definition of a turnaround, particularly with respect to its conclusion.

2. What characteristics or performance indicators are taken to decide that a TA has been concluded – and concluded successfully?

There are both qualitative and quantitative factors which can be used for this purpose. In my view, the lack of one of these components can possibly lead to the wrong targets being set during a turnaround or mean that the turnaround cannot be concluded holistically. At the Turnaround Management Society, we considered a turnaround to be concluded when a company realized a profit in three consecutive periods (usually quarters), the causes of the crisis had been analyzed and eliminated, and a strategy had been drawn up which adapted the company to avoid the mistakes which had been made and armed it to meet future expectations. There are different quantitative factors for the analysis of companies which are heavily dependent on seasonal business. In these cases, the time period chosen for the analysis must take the seasonal circumstances and financial fluctuations into account.

3. What costs are involved in a TA (according to expenditures or as a share of the realized turnover)?

Let me relate this question to the direct financial costs for the company concerned. The costs for society and the stakeholders are difficult to estimate if they are included in the calculations and are much higher than the direct expenses for the company.

In addition, the costs for external consultants must be added to the expenditures required to keep the company alive. These advisors can either be remunerated directly, i.e., according to daily or monthly rates, or by participation in the company. A participation results in costs to the company after the turnaround, but expenditures are lower during the phase critical for cash resources.

4. What do you judge the frequency of the appointment of interim managers to be? (Practice shows that corporate consultants – as the name says – usually act only as external consultants)

At TMS, we have many members who are interim managers and who act as CROs, but we also have corporate consultancies. It is striking that corporate consultancies work primarily for larger midsize businesses or corporate groups. So in cases where an entire team is required, the tendency is to take



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advantage of the existing structures and experience of a consultancy. Interim managers are more likely to work as CROs within their networks or to assume positions within a team. Some freelance consultants are highly experienced and specialized, making them the best solution for small companies in a crisis situation.

Answering this question exactly depends on whether a turnaround manager, by definition, is actually granted the authorizations necessary to bring about change actively and comprehensively in the specific company or whether his or her activities are restricted to the analysis of the company and the drafting of a concept. In the latter case, the person is more of a turnaround consultant who may support the implementation.

In my view, CROs with comprehensive authority in the company are utilized much too rarely in turnaround situations. Mastering a crisis situation as efficiently as possible for the shareholders also requires fast decision-making channels, centralization of the decision-making authority, and implementation rights applicable throughout the company. In Germany, the insolvency administrator is usually the only one to be given the rights needed to bring about changes as quickly as possible. Consultants can only make recommendations and are then by and large released from their responsibilities; it is difficult, if not impossible, for them to ensure the correct implementation of their proposals.

5. What are the greatest challenges during the conduct of a TA? (communication (banks/associates/suppliers), analysis of the company in crisis, etc.)

This is really dependent on the company itself. In companies which are managed by the owners, the owners themselves may become a challenge. Pride and the fear of a loss of authority and respect are often obstacles to efficient restructuring. Good turnaround managers must be able in this case to draw on an excellent understanding of human nature so that they can find a way to alleviate the owners' fears, create trust, and yet still be able to carry out their measures efficiently. The option of a shadow manager would be one possible solution here, provided that the turnaround manager is not too concerned with promoting his or her own reputation.

Generally speaking, however, I would say that the communication with stakeholders is a very important, even critical point. Regular and honest communication can strengthen trust enormously. It is not necessary for communication to contain success reports in every message. The communication of smaller setbacks can also promote trust. What is important here is to describe what will be done next and what possible solutions there are. Communication should be regular, solution-oriented, and honest. As a rule, every stakeholder has his or her own agenda. In the ideal case, every stakeholder is open about it, but in actual practice this is often not the case. The task of the turnaround management team here is to collect background information and to uncover hidden objectives or intentions. If the stakeholders dig in their heels, it is extraordinarily difficult to lead a turnaround to success. But all of the participating parties should keep in mind that the failure of a company is not good for anyone who is directly involved. We have determined in isolated cases, however, that one stakeholder actually did profit from the insolvency of a company. Under these circumstances, unity and determination of the other stakeholders must be generated as quickly as possible. Statistically speaking, shareholders benefit more from a company that survives because a part of the claims can then be settled; if it fails, the value of the company is usually inadequate to satisfy the claims of the creditors.

The comprehensive analysis of a company before the turnaround is equally important, although it is also very difficult to realize. Reliable data for the evaluation of a company's position are frequently non-existent in the company, which means it is important to have experts from the particular sector as well as due diligence experts on the team as this can simplify the assessment enormously.

6. In what phase of a crisis does a TA usually come into play? (I believe in a liquidity crisis)

Unfortunately, that is true; a liquidity crisis, even insolvency is regrettably often the starting point of a turnaround. But this is also a part of the definition of a turnaround, and therefore a statistical problem, that turnarounds occur only when the crisis situation is far advanced. I would tend to use the terms restructuring or transformation rather than turnaround during a crisis of success or strategy.

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But the point here is that many turnarounds are initiated too late, namely when the financial resources are quickly being depleted and stakeholders cannot be persuaded to provide additional funds. Owner-managed companies in particular are confronted with consultants or external managers for the first time, often after decades, and for many owners this is tantamount to admitting they have done something wrong or are failures. But this is not the case, quite the contrary, it is completely normal that a manager does not have the expertise to cope with any and every situation and so must turn to others for advice in special situations so that precisely this situation can be mastered as effectively as possible.

9. What are the major reasons for the failure of a TA? (From this basis, what conditions lead to a successful TA?)

Turnaround management is still a very young field in business administration and was largely ignored by academics for a long time. But academics often have a good overview of events that are taking place in industry and can analyze developments and aggregate information and successful strategies. The Turnaround Management Society, in cooperation with turnaround managers and academics, has developed the International Turnaround Management Standard (ITMS), based in part on the “Successful Turnaround Strategies Database” of the TMS. The information in this database reveals the following to be the most frequent causes of a crisis:

1. Lack of a structured process during the turnaround
2. Treatment of the symptoms instead of the causes of the crisis
3. The turnaround is conducted from the perspective of only one business unit (mainly that of the financial unit), which means that some units which may in fact harbor the causes of the crisis are not given consideration.

These causes can be avoided with the aid of the International Turnaround Management Standard. If this standard is used by more consultants and companies as a guiding structure, significantly fewer turnarounds will end in failure.

The Interview was done 15th, January 2012 by Said Mavaji from the FOM University in Hamburg, Germany.

To contact Dr. Lymbersky please write to: C.Lymbersky@Turnaround-Society.com

To contact the Turnaround Management Society please visit: www.Turnaround-Society.com or write to: info@Turnaround-Society.com