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MANAGEMENT CONSULTING FOR CORPORATE RENEWAL

After The Crisis

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Stemming the financial hemorrhage does not guarantee future success of a company

A successful turnaround requires a comprehensive approach to address the source of the crisis.

Performance Management provides the roadmap to success and long-term value recovery.

The circumstances that precipitate a financial crisis vary amongst companies. Despite this fact, the singular cause of business failure is management's lack of focus on performance management. Symptoms relating to the lack of a performance management culture usually include one or more of the following:

- Lack of rigor surrounding the cash management process
- Poor to non-existent controls in the areas of manufacturing, planning and procurement
- No linkage between financial measurements and key performance drivers
- Lack of accountability within the ranks of management
- General lack of focus and ownership of results

Debtors, creditors, shareholders and management have a vested interest in the long-term viability of the company once the financial hemorrhage has been stemmed. For the turnaround manager, once financial stability is restored, the development of a performance management culture becomes critical to setting the organization on a sustainable path to recovery.

PERFORMANCE MANAGEMENT

An effective performance management culture exists when employees use practical management tools to set targets, measure performance and implement concrete action plans to meet objectives. All organizations to some extent set targets and monitor results. However in most distressed companies, strategy and initiatives are not linked, and even if they are, rarely are they aligned to the right targets that drive the core engines of the business. Action planning is likely non-existent, making implementation of a performance management culture impossible.

For the turnaround consultant, this very often requires significant, hands-on involvement with management to align and implement systems, and sharpen the skills and practices of the organization. This results in the development of a disciplined approach to management, which becomes the organizational norm for employees to deliver measurable results.

THE CORE ELEMENTS

Companies that have implemented and sustained a performance management culture, exhibit three core elements:

1. LEADERSHIP.

Of all of the core elements, leadership is paramount. The role of leadership within a company is to generate clarity around strategy and to provide focus on the critical priorities and activities that management needs to execute on in order to be successful. Sound leadership also ensures the alignment of the executive group, along with systems and processes that translate actions into metrics and results. Without solid leadership, it is unlikely that a performance management culture can succeed, let alone a turnaround.

Telltale signs of ineffective leadership are usually evident in the range of conflicting objectives and priorities predominantly between sales, manufacturing and marketing. Lack of executive alignment in these areas becomes very pronounced when a significant shift occurs in the external environment, prior to a crisis. Effective leadership however, manages expectations, supports employees to achieve targets and deals with performance issues.

2. ACCOUNTABILITY.

In a successful performance management culture, all employees are accountable for results. Ownership of results is everyone's responsibility –from front-line workers to the CEO. This is distinctly different from the approach taken by most organizations, where targets are meaningless to most employees. Expecting a front-line worker to influence "profit" is at best, a nebulous request. Employees cannot be held accountable for results that they can't influence.

In a performance management culture, employee accountability becomes the norm through two main activities. First, individuals set specific objectives and targets for their functional areas. With the support and involvement of management, employees focus on key measurables that drive strategic goals. Second, employees are empowered to take meaningful action to directly influence the targets they have set. The combination of target setting and empowerment engages employees to be accountable for results.

3. CAPABILITY.

Most workforces possess a high degree of tacit knowledge –salespeople know their customers, press operators understand their equipment and its limitations. Capability however refers to the ability of a workforce to apply functional knowledge to solve issues that emerge on a daily basis.

Without an adequate baseline of skills, employees don't have sufficient knowledge or perspective to resolve business issues as they emerge in a performance management culture. Common examples include Sales not understanding contribution margin, Marketing not understanding value proposition or market segmentation, and Manufacturing not understanding the inventory implications of a production bottleneck.

Workforce capability along with developing organizational competency requires a clear understanding of what must be executed on in order to meet performance expectations. Capability by itself however is not enough. Management must be committed and show leadership, by removing barriers that inhibit employees from dealing with problems and issues that they encounter. A management team that understands how to do this, creates a culture of accountability which leads to successful performance management.

IMPLEMENTING EFFECTIVE PERFORMANCE MANAGEMENT

Successful organizations that utilize performance management have a clearly articulated strategy. This serves to provide an overall vision of what the company is, and is not going to focus on. A well thought out strategy needs to include a thorough consideration of markets, competitive factors and internal capabilities. Thus a tightly knit strategy needs to be developed and in place prior to any work on performance management.

With a clearly articulated strategy in place, the turnaround manager begins by assessing with absolute clarity, the business issues that led up to the financial crisis. This involves understanding the specific activities and events that transpired, and determining where and how an effective performance management system is to address the problems.

For instance, management of the company may express that a loss in market share led to the crisis. This reasoning however may mask serious quality or cost issues that the organization has not dealt with prior to the crisis. Another reason very often attributed to the demise is a decline in sales. This over-simplification however may be rooted in the mismanagement of production, or the lack of focus on core marketing activities such as pricing or distribution.

The next step involves aggressively engaging the executive group in the development and implementation of the initiative. Despite the direct power that the turnaround manager has in the organization and his/her ability to simply direct others, their ability to engage the management of the company ensures that ownership of the initiative remains once they have departed. This degree of involvement also allows the turnaround specialist to objectively evaluate leadership, capability and propensity for accountability of the executive team, and sets the stage should it be necessary to make changes the in management team. Once core target areas of the business have been identified, a series of four activities become the focus for designing and implementing performance management.

1. Identify Core Drivers

With a firm understanding of the required areas of focus, the first step involves identifying the current performance drivers and indicators that are used by the management of the company. Typical examples could include production output (units, cases, sq-ft), sales (revenue) and quality (count, length). This activity will most often expose a lack of agreement in the ranks of management on issues such as a common measure of profitability. It should also become readily apparent if management in different functional areas is working at cross-purposes.

Following this, an assessment of the current drivers and indicators is made to identify their degree of effectiveness. This requires a hands-on approach, delving into what the target departments and areas of operations perform daily. Activities could include external and competitive benchmarking and time-based studies in production. A cardinal question that provides maximum clarity, and which should be asked of each person in these discussions is "how do you know if you have done a good job/had a good day?" Anything short of a clear answer points to a lack of accountability.

In almost all cases, huge disconnects should become readily apparent between what the company needs to execute on, and what it is actually focused on. Typical examples include:

- No measurement of contribution margin, resulting in both profitable and non-profitable products being produced and sold
- Ineffective production measurements, which can be easily manipulated to meet targets
- Lack of, or ineffective tracking of market shares of major products, creating the false impression of the company's position in the market place.

The next step involves developing an understanding around what the core drivers should be. Several groups or teams of individuals from management and appropriate line functions are formed, and a series of discussions occur to flesh out what the appropriate performance drivers and indicators should be. The turnaround consultant will already have a good idea of what these should be, however he/she should work with the groups to form their own conclusions.

Effective performance drivers and indicators need to meet the following criteria:

- Measurable: Quantifiable data is the focus, not targets such as "happy customers"
- Controllable: A person or group of persons within the company needs to be able to

affect the outcome

- Relevant: Directly linked to key business objectives that are identified in the strategy

From this, a clear understanding of how specific parts of the business need to be managed emerges. Also, lack of alignment between executives and management gaps are likely to surface as clarity is brought around what different parts of the business need to focus on.

2. Set Targets

With the core drivers established, the next step is to set specific targets. In many companies, targets are set based on historical data, devoid of any meaningful analytics. Targets tend to be also set by management, with limited front-line ownership beyond the "it is your job" approach. They also tend to be developed from budgets which may not hold any view of reality.

Target setting in a performance management culture has three characteristics.

- Targets need to be attainable. Internal studies, benchmarking, time studies along with in depth discussions define what is achievable and attainable.
- Targets are driven from the bottom-up. The individuals and groups that were assembled to conduct internal studies and benchmarking are in a position to set effective targets, based on knowledge they have acquired.
- Targets require ownership. Since targets are set by both line and management, they are effectively owned by the right individuals who can affect their outcome. This engenders accountability and is crucial to the effective management of the business areas.

3. Implement

A performance management culture succeeds when the right information is in the right hands of the right people. Implementing this system requires that the relevant information is highly visible in a timely fashion for all to see. Thus an effective reporting system needs to be established. With the advent of commercial spreadsheets and database products, this is a relatively easy task to achieve. A typical report would include the drivers and indicators, along with the targets that have been set. Results are then compiled into the report, in order to track performance.

Implementation requires the training of individuals within each area. Thus adequate time needs to be devoted to train employees on the principals of performance management along with an explanation of how their responsibilities and company expectations have changed. Active engagement of the groups and teams that have assisted since the beginning of the initiative play a critical role developing competency and supporting employees in the new environment. Thus market share and sales reports move from the hands of senior executives, into the hands of managers and front-line staff who are responsible for meeting targets; production workers track their own outputs to targets and log their results at the end of a shift.

As employees and managers work through the areas of new reporting tools, skill deficiency and competency, areas of resistance can be identified. The role of the turnaround manager at this juncture is to work with the management group to ensure that resistance and obstacles are dealt with and overcome.

4. Review

This last step provides the formal mechanism which ties the whole performance management system together. Without regular and timely reviews, an effective performance management culture is unattainable.

The goal of reviewing results with the appropriate individuals in a timely manner is to generate specific and actionable activities, with a sense of urgency, by individuals who are accountable for the results. Employees move from a passive role, to one where they identify and capture opportunities and issues, and develop specific action plans to implement a solution. An elementary, but key activity must include logging in writing: Who, will do What, by When. With this approach, employees and management develop a bias for not only thinking through activities that will help them meet targets, but also for action.

Pulling a distressed company out of a financial crisis is only the beginning. After this is accomplished, focusing on implementing a performance management system ensures a sustainable path to recovery.

In the short-term, the role of the turnaround professional is to guide the process along and force necessary personnel and organizational changes where and when necessary. Over time, this results in the development of a management team and organization that is focused on results and long-term value recovery. Indeed, the mark of a truly successful performance management culture rests with the commitment and capability of management to succeed.

After The Crisis is one of a series of articles that discuss issues within the turnaround profession.

For further information on this and other articles in this series, go to: http://www.turnaroundinternational.com