

Chapter 2

Turning Around a Distressed Business

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Scope

Some distressed companies should be saved; others should go out of business. Professionals working with these companies need to be prepared to make the right call quickly, as starting down the wrong path can be harmful to both the organization and its various stakeholders. This chapter begins with a brief overview of the turnaround consulting industry. Next, it addresses the keys to determining the likelihood that a business can be saved. Then, for those situations where success appears possible, it addresses how to go about the actual turnaround.

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§ 2:1 Turnaround consulting profession: Overview

Business turnarounds have been occurring for as long as

there have been businesses. Firms specializing in this particular aspect of management consulting first began appearing in meaningful numbers during the 1960s. The turnaround process gained considerable exposure among the general business world in the early 1980s when Donald Bibeault's book, *Corporate Turnaround: How Managers Turn Losers into Winners*, sold over 40,000 copies. This was followed by the founding of the Turnaround Management Association (TMA) in 1988 "to cultivate and promote the corporate renewal and change management profession."¹ At the end of 2009, TMA had over 9,000 members, including turnaround practitioners, attorneys, accountants, investors, lenders, venture capitalists, appraisers, liquidators, and executive recruiters.

The other preeminent organization for turnaround professions is the American Bankruptcy Institute. The ABI founded in 1982 and is somewhat larger than the TMA with its membership having a larger percentage of attorneys than does the TMA.²

In a typical publicly traded company turnaround, an experienced practitioner is installed by the board of directors as the Chief Executive Officer, Chief Operating Officer, or, increasingly, Chief Restructuring Officer. Regardless of title, he or she will be given considerable authority to make changes throughout the entire organization. When working with a closely held business, the turnaround specialist often functions in an outside advisory role rather than as a formal member of the management team. In either situation, the practitioner generally has the strong support and backing of the company's lenders.

Like most professions, turnaround consulting requires a combination of art and science. Successful practitioners are generally well-served to be management generalists who possess a broad range of strategic, tactical, and leadership skills. They also need to be comfortable making decisions based upon less than complete information and taking quick, decisive action.

[Section 2:1]

¹Taken from Article 1 of the Bylaws of the Turnaround Management Association. For more on TMA, see www.turnaround.org.

²For more on the ABI, see www.abiworld.org.