



■ *In a constantly changing world, companies—even successful ones—should always have a turnaround strategy in play.*

■ *Five rules of engagement must be followed to keep a turnaround going.*

■ *Companies that honor these five rules capture the kind of success that has staying power.*

The Turnaround Man's Last Speech

Thank you for coming to my retirement party. I really enjoyed some of your cards and e-mails. A couple of them were even funny. Here's one: "You did a great job, you heartless creep." This one is good, too: "I never liked you, but I'm going to miss you." That was from my secretary. My mother wrote: "Just don't visit more often. I don't want my house reorganized again."

OK, I'll admit it. I'm a pretty single-minded guy. But when I arrived here three years ago, things were not good. You thought they were good, but they weren't. This company looked like it was profitable and growing. What I saw was complacency. And next to losing money, complacency worries me most.

In particular, the people sitting in this room, the top team, were not worrying about heart-of-the-matter issues—those few issues that will make or break the future of a company. Instead of focusing on what really mattered, many of our meetings—and there were *lots* of meetings—were dominated by minutiae, especially about good-hygiene accounting and corporate governance. Many of your subordinates were off attending seminars on empowerment and "managing your career like it was a business." Some of you even found time to get to New York to hear Jack Welch talk management to 600 of his closest friends.

To get your attention, I declared that the company needed to be turned around—despite its success. If we didn't do this on our own, sooner or later someone would force us to—by finding a better way to compete with us. Or another company would buy us and unlock the value we either didn't see or were sitting on.

Turning around a sick company is hard enough. Turning around a successful one is much harder. At a successful company, leadership doesn't have the luxury of losing money, which takes care of a lot of excuses for not changing. At an unsuccessful company, the first order of business is to stop supporting the things that lose money: unprofitable products and struggling stores. Boom! Profits go up, and you're a hero.

At a successful company, things aren't as straightforward. The key to turning around a successful company is finding the areas of competitive advantage and driving trains, planes, and automobiles through them. You must push that advantage to ever-greater heights, even to the point at which other companies may complain.

What's more, at a successful company, it's harder to keep a turnaround going than to start one. At least five rules are required. If you, my friends, were not focused on these five rules, you were not on my management team. You were not, as far as I was concerned, earning your paycheck. So let's start at the beginning with the first rule.

All Investments Must Be Fast, Focused, and Fundamental

If you recall, we had some rules for the investments we decided were key to turning us around. Every project we undertook had a market-demonstrated payback of 12 to 18 months. If it didn't, we broke it up until its pieces did. No multiyear investments in things like customer relationship management before payback. This is *fast*.

The trouble is that every on-target performance-improvement project attracts "neighbors" that really aren't fast or that slow down what needs to be fast. These must be rejected ruthlessly. This is *focus*.

And focus is needed because managers who are in turnaround mode can afford to spend time only on those efforts that strike at the heart of the matter. This is *fundamental*.

I know some of you thought my "3F" sweatshirts were hokey. So be it. I liked them, and I didn't mind the jokes. Keep 'em: you'll need them for when you're leading a turnaround.

Don't Let People Raise Obstacles to Change Unless They Also Propose Solutions

What I did mind were the people who did not get onboard. It was not a time for nuance. That's why I insisted on rule number two. Nobody, as far as I am

concerned, should be allowed to bring up a problem facing a turnaround without also offering options for bypassing the problem. Naysayers are a drag on and sometimes the death of successful turnarounds. That's why some people who started out with us are not at this dinner party.

Many companies concentrate on finding the right people. It is just as important, sometimes more so, to get rid of the wrong ones.

Most of you should remember my third rule.

Say Yes or No, but Never Say Maybe

I believe that the greatest stress on any organization is unclear direction. It's very easy for well-intentioned leadership to let questionable initiatives continue in the hope that they will generate something positive.

It is also easy to avoid conflict by letting people do things they shouldn't. Not good. The "three-legged horses" have to be shot. I said yes, or I said no. I never said maybe.

But give me a break. I didn't rule out changing my mind if new or better information legitimately allowed me to revisit an issue.

Most important, I didn't permit scarce corporate resources to be tied up on efforts that were not part of the agenda.

The fourth rule is the one I believe in the most, even though I wish it weren't necessary.

Keep Your People—Employees, Customers, Suppliers, and Financiers—Informed

You guys know how sick and tired I got talking to "key stakeholders" about what the turnaround meant. But when I was most weary of talking, I knew we were only halfway there. People need to hear the logic for what is happening several times more often than may seem reasonable. When one of you gets my job, I invite you to ask some third- or fourth-level employees what they think the company's strategy is.

And then there's the last rule.

Leaders Do Not Get More Than One Chance

We have turned ourselves around. But not all of us have survived the journey. I know that some of you differ with me, but I believe that one of the greatest threats to a successful turnaround is keeping the people who do not deliver anything except excuses. I have been around management for a long time. I've seen many turnarounds fail because a key player was unable to deliver once, twice, or even three times.

Leaders—and that's all of you—cannot allow this kind of slack. Time is too precious to tolerate even one failure to perform. This tightened tolerance needs to be made clear from the outset, and there must be “casualties.” Colonel John R. Boyd, who headed the U.S. Air Force's Fighter Weapons School for many years, was famous for criticizing a top Air Force officer in Europe

for having a low training-casualty rate. It was an indication, Boyd said, that the pilots were not being pushed hard enough. Not a nice message, but one that certainly makes you stop and think.

We were in a turnaround. We “survived” and prospered. Our competitors moved out of our way. You will be in a turnaround again. Sooner, I suspect, than you think. Let's remember what we learned.

Now let the champagne flow!

George Stalk Jr.

George Stalk Jr. is a senior vice president and director in the Toronto office of The Boston Consulting Group.

You may contact the author by e-mail at:
stalk.george@bcg.com

© The Boston Consulting Group, Inc. 2007.
All rights reserved. 4/07 #434