

PROCESSES

5 Steps to Turning Around a Business in Crisis

Pulling a business out of a nosedive

At some point in your business consulting career, you will encounter a business that is in serious trouble.

Business operators who are enjoying strong growth and realizing healthy profits rarely seek advice on how to do it better, so it's safe to assume you're more likely to be approached by business owners who are in real need of your help than those who aren't.

The five key strategies in this article are relevant to all businesses, whether in crisis or not.

Your first contact with them probably won't happen until they're spiraling to the ground, have lost contact with the control tower and are no longer in a state of denial about the health of their business.

So what do you do when this assignment presents itself to you? How do you, as their primary lifeline, help pull them out of the nosedive they find themselves in? How do you determine the most critical priorities? How do you implement the turnaround in a short enough time frame to actually prevent the crash and burn?

This article will go a long way towards helping you answer those questions, and the accompanying Business Workouts will equip you with your own turnaround toolbox of ideas and strategies.

Throughout this article, we will refer to the action taken by Continental Airlines in the incredible turnaround they staged in 1994/1995. In twelve short months, following a five-point turnaround plan, Continental went from net losses of \$613 million to a net profit of \$224 million. Not a bad effort for a year's work.

Importantly, you don't need a pilot's license (pardon the pun) to apply these simple and proven strategies to any of the businesses you're working with (or to your own business for that matter). The five strategies we will explore in this article are:

1. Develop a recovery plan and monitor your progress
2. Charge the right team with the job
3. Think "money-in" not "money-out"
4. Ask the right customers the right questions
5. Listen to those who know best how to do what you do better

The Continental Story:

In 1993 Continental Airlines were considered the worst commercial airline in the United States of America. They had just been rescued from their second bankruptcy in nine years, they had a nation-wide reputation for terrible service, they ranked tenth out of the ten largest US airlines in all key customer-service areas as measured by the Department of Transportation and the company hadn't posted a profit outside of bankruptcy since 1978.

In short, new CEO Gordon Bethune and Greg Brenneman (then a consultant for Bain & Company, now Continental's COO and President) had their work cut out for them in turning the company around and

saving it from a third (and almost certainly final) bankruptcy. In the year they began working together, the company posted its largest loss to date ... \$613 million.

So how did they approach the monumental task?

One word. Fast.

In Greg Brenneman's words "There's not much time to think when your company's failing, and that's a very good thing."

When time is tight and money is tighter, business owners don't have the luxury of sitting around in long-winded strategy and planning exercises. They must think and act fast, and not look back.

There are no rear-view mirrors on airplanes because the runway behind is irrelevant. Likewise, Brenneman and Bethune saw no value in looking back and dwelling on what had caused the company to fail several times over. They focused instead on what they could do to make the business a success going forward. In keeping with this mindset, the business turnaround plan they introduced was called the "Go Forward" plan.

Culture's role in turning around a business

Before we get into the 5 Key Strategies – it's important to note that both Brenneman and Bethune are quick to acknowledge they could not have achieved their semi-miraculous feat without the buy-in and enthusiastic support of their team. And by team, they refer to some 40,000 Continental employees at the time.

This in itself was incredible. The corporate culture at Continental at the time was so poor, employees routinely tore the company logos off their uniforms so they would not be recognized outside of the workplace as an employee of Continental Airlines.

Corporate culture and a trusting environment are areas of critical importance to any business success and one that is too often overlooked in favor of cost cutting and pure revenue focus. Getting the people factor right is a principle that we subscribe to passionately. We'll focus on how best to do that in Strategy #5 – Listen To Those Who Know Best How To Do What You Do Best.

Strategy 1 – Develop a Recovery Plan and Monitor Your Progress:

Strategic direction is always important, and never more so than during a crisis or in a turnaround situation.

In times of crisis, you need to be prepared for a short supply of both time and resources and an abundance of stress and fear. These factors combined can result in managers making poor decisions. Leaders must:

1. Find the most leveraged plan of action
2. Communicate it to everybody who will be involved in the turnaround
3. Stick with it

4. Monitor the company's performance against it *continually*, using a few key business metrics

Too often, team members and managers are powerless to help implement a business strategy because they are clueless as to what that strategy is, or the strategy changes so frequently it's impossible for team members and managers to follow a clear action plan.

Keep this in mind when dealing with crisis. Fast action is better than slow. Slow action is better than wrong action. Proactive is better than reactive.

When Brenneman and Bethune took over at Continental Airlines, they were hard pressed to find a single employee who could articulate the company's strategy. There had been so many over the past ten years, they'd stopped keeping track.

Key points:

1. Ensure that the strategy developed can be implemented in the time frame available, and that it is clearly communicated and understood by all involved.
2. Do not veer from the strategy unless it becomes apparent (through measurement) that it is not working.
3. Discover the key business metrics and measure them with monotonous regularity.

Strategy # 2 – Charge The Right Team With The Job:

People need leaders, not managers, in times of crisis.

The same managers that lead a company into a nosedive are rarely able to get it back into the black. These people are usually incapable of seeing any way out. Emotional involvement in the ways of the past can be a barrier to making the radical changes needed to survive into the future. You have the added challenge of ego, which can prevent normally rational people from acknowledging or accepting responsibility for the poor decisions they made in the past.

Combine that with the likelihood that these people have lost both the trust and respect of the people reporting to them (the collective thinking being that these fools got them all into this mess in the first place, how could they get them out?), and in most cases you'll find that 'cleaning house' is what is called for in a dramatic turnaround situation.

This is often not possible when the people managing the business own the business, so a fresh approach to change is what is needed in this instance.

Communicate the outcomes of that measurement to the entire team on a regular basis.

Continental replaced 50 of their 61 top officers with just 20 individuals. They cut bureaucracy and costs, but they replaced these with the important qualities of culture and strong leadership in a very short period of time by calling on prior business colleagues whom they knew and trusted, and by approaching the people who held the number 2 positions in critical divisions of their competitors and offering them the number 1 position in Continental.

Three qualities to insist on in all new hires

1. They must pass the “raw IQ” test – you will need smarts in their organization, and you’ll need it fast
2. They must be driven to get things done
3. They must be team players, willing to treat everyone with respect and dignity in what will rapidly become a very collaborative environment

Key Points:

1. Cleaning house does not need to be and should not be a brutal or humiliating experience.
2. Every turnaround involves creating a new culture. Therefore, if you fire people inhumanely, you will create an environment of mistrust amongst the employees and their co-workers, and of the company in general.
3. Honor contracts, allow those to be let go to resign with dignity, communicate honestly and ensure that an environment of fear does not manifest itself within your existing team.
4. Find a solid team to lead the business’s people and profits back into the black.
5. And do it quickly.

Strategy # 3 – Think “Money In” not “Money Out.”:

It’s a rare business that shrinks itself to greatness.

While every turnaround will involve cost reduction, the dangerous trap to avoid is developing a single-minded focus on cost cutting. Such a focus can negatively impact the quality of the product and service on offer, which then lowers revenues even further, creating a negative spiral that is difficult to recover from.

Continental Airlines had been introducing cost cutting measures for over a decade that had a negative impact on the service their customers received. One such example was the incentives they paid pilots to reduce their fuel burn rate – resulting in pilots refusing to turn on cabin air-conditioning units and flying slower. In the result: hot, late and very unhappy customers who were unlikely to choose Continental next time around. Another was their unilateral decision to reduce employees’ wages, resulting in very ticked off people on the front lines and a further reduction in service levels.

Brenneman eloquently refers to this single minded cost cutting phenomenon as “The Doom Loop” and it’s one we witness all too often in the work we do with accountants and their business clients all over the world.

If you’re faced with a turnaround situation where this doom loop or negative spiral is already in full swing, don’t despair. You can break the doom loop by apologizing for your mistakes and focus on delivering a better product.

It really is that simple.

The executive team at Continental determined *seeking forgiveness* to be their first priority – more important to get this step completed *first* and then focus on improving the quality of the product they were delivering. You will probably know from personal experience that when an organization goes out of its way to correct a situation when it's wronged you, the good will it generates is tremendous.

There is a saying that goes something like “*confession is good for the soul, and often for the pocketbook as well.*” In many cases, an appeased but once dissatisfied customer will become a loyal advocate for that business.

The Continental management team was well aware of this and officers of the company set about making personal telephone calls to every customer who had filed a complaint, to every disenfranchised travel agent, and every corporate customer to do two things. Firstly to apologize for the shoddy service they'd received (and to make no excuses, just listen to the customer's tirade), and secondly, to tell them what they were planning to do to fix the problem in the future.

Both Brenneman and Bethune took their share of these letters and made their share of the telephone calls, and described the experience as humbling, to say the least. It also left them with a group of clients who were very impressed that a senior officer of the company had taken the time to respond personally to their complaint, and to apologize for their less than satisfactory experience.

In addition to begging for forgiveness, the next step in breaking the Doom Loop was to cut their advertising budget in half. Customers found it insulting that Continental was promoting a product that could not deliver on the promise – so until they were in a position to offer a truly great product – advertising less (or lying less, in Brenneman's words) was another way of saying they were sorry.

Key Points:

1. Apologize for past mistakes and then focus on providing and delivering a consistently better product.
2. Don't be cost-cutting myopic. Focus on increasing the top line rather than cutting the bottom one.
3. Remember to ask simple questions like “Do we have a product people want to buy?” “Will our distributors sell our product?” and, “Are we taking care of our best customers?”
4. In short, don't forget to think about money in, or good old-fashioned revenues.

Strategy # 4 – Ask the *Right* Customer The *Right* Questions:

Feedback is the breakfast of champions – provided you're asking the right customers the right questions.

Often it's far easier to focus on customers' desires than on cutting costs. Marketing 101 teaches you that in order to make more money, you need to listen to your best, most lucrative customers. The real talent however, is in being able to meet (the right) customers' desires in such a way that you will receive an increase in revenue at a greater rate than the increase in costs incurred.

In the case of Continental, this was the business traveler who took the aisle seat near the front of the plane, the same one who paid full fare, and who traveled a lot.

Brenneman has a tidy way of summing up how to ensure you're asking the right questions. He says that if you ask a customer what they want, they will write you an epistle a foot thick. On the other

hand, if you ask them what they want and will pay extra for, you'll get a single sheet with serious requests.

So focus on providing the things that are most important to your most important customers, that they are willing and prepared to pay extra for. That's where Continental's focus was, and it's a good rule for any turnaround.

Continental focused on a few key things: airplanes and terminals that were safe, comfortable and attractive; on-time flights and reliable baggage handling; and good (and appropriate) food at mealtimes. By improving process flow and increasing communication systems between key departments, it was able to achieve dramatic productivity improvements that were passed onto customers in the form of on-time arrivals and greatly improved baggage dependability.

They also introduced an employee incentive scheme whereby every month that they finished in the top five out of ten airlines in on-time performance as measured by the Department of Transport (you'll recall that previously they were consistently rated at number 10), every employee would receive a \$65 bonus check. The initiative was bold for a company nearing bankruptcy but the on-time incentive was actually self-funding when you consider the following:

1. At the time of the offer they were paying out \$6 million per month to re-accommodate their passengers on competitors' flights owing to missed connections from late arrivals.
2. Their incoming revenue from other airlines using them to re-accommodate passengers at the time was only around \$750,000.
3. Now, as an on-time airline, these figures have virtually flipped around for Continental.
4. At the time of writing this article, Brenneman states that Continental was paying out just \$750,000 per month to competitors to re-accommodate passengers, and taking in around \$4 million from its competitors to accommodate their inconvenienced passengers.
5. And on top of those savings, the on-time bonus scheme costs the company only \$3 million per month, and the employees were happy campers who were incented to ensure that the customers won, because that would mean so too, would they.

Key Points:

1. There is a huge difference between asking what customers want and what they are willing to pay for. Make sure you know the difference.
2. Consider the positive impact improved service delivery will have on the team members responsible for the front line contact with customers.
3. Look for innovative ways to get 'more bang for your buck'.

Lesson Number 5 – Listen To Those Who Know Best How To Do What You Do Better:

Strong leadership, firm parameters and clear direction are necessary in a turnaround situation, but that doesn't have to equal an oppressive workplace. If employees aren't having fun at work – that is, if they

aren't engaged in the process and treated with respect – your turnaround will not be successful. In fact, turnaround situation or not, without these things – your business won't be successful. Period.

While Continental couldn't allow every employee the freedom of being 'empowered' (they do fly airplanes after all), Brenneman and Bethune decided that at the new Continental, employees would be liberated – be able to do the right thing by customers and have fun at work.

We know the mere mention of 'fun' at work sends some executives' heart rates up while they envision productivity and profits plummeting. But there is such a strong argument to be made for the reality that people have fun at work when they are engaged, when they are doing interesting work, when their opinions are respected, and when their contribution is acknowledged. In short, people are happy when they feel they are making a difference.

Under the old regime, communication within Continental was virtually non-existent. Employees learned about the company's activities, plans and financial performance through the press, they had no place to go with new ideas or suggestions for improvement, and corporate headquarters was very unapproachable.

Brenneman and Bethune chose to address the lousy culture at Continental (remember the story about employees tearing the logos off their shirts so nobody would know who they worked for) by tackling it head on. They both agreed that a healthy corporate culture is simply a function of a few guiding principles: honesty, trust, dignity and respect.

These four principles go together. They reinforce one another. And when they are constants in a business, people become engaged in their work. They will care, they'll talk, they'll laugh, and fun will happen quite naturally.

As an added bonus, significantly reduced employee turnover, increased productivity, decreased sick days and workers compensation claims will fall out of an improved culture.

The biggest challenge you might face as a business advisor or business consultant, is how to regain the trust of employees who have every reason to be mistrusting, tense and suspicious, as is commonplace in a turnaround situation. In many cases, these people have been lied to, they've seen their friends get fired, and they fear they will be next.

As is such a common mantra in the issue of leadership these days, cultivating honesty, trust, dignity and respect becomes quite possibly the most important job of the leaders.

Continental considered it the top priority and immediately began talking to employees at every opportunity. Brenneman and Bethune got out and mixed it up in the airports, observing their agents ticketing passengers, helping load baggage and talking to their employees at every chance about the future of the business, about what they were doing to fix it, and listening to their suggestions on how best to do that quickly.

They told their employees straight up that they believed in them and that the employees knew best how to treat their customers right. The message to their employees was: "Continental is your company to make great – now go and do it!"

In order to learn from your employees, beef up internal communication. Continental did this in a number of ways:

- By installing bulletin boards around the country that were updated daily with news of the turnaround and details of Continentals operating performance over the past 24 hours.
- Publishing a newspaper with details of the company's performance.
- Gordon Bethune records a voice mail message every Friday that summarizes the activities of the week.
- Every month, both Bethune and Brenneman hold an open meeting so employees can ask questions.
- Every quarter, a Continental Quarterly magazine is sent to the home of every employee.
- Twice a year a similar publication is sent containing a state-of-the-company video and press clippings.
- Each corporate office is allocated a city to visit once per quarter to update employees, get their feedback and fix their problems.

Which of these ideas could you implement in your own or your clients' business?

It's important not to just send information out to employees, but to listen too. One way you can do this is to take a page from Contintal's book:

Set up a toll-free hotline, e-mail address or suggestion box to receive employees' suggestions. Research each suggestion and get back to the contributor within 48 hours with one of three responses: 1) we fixed it 2) we're not going to fix it, and this is why 3) we need to look into it more and will get back to you by a certain date.

Since introducing a hotline like this Continental Airlines routinely receive more than 200 calls per week.

Clearly not all of the suggestions received can be implemented, but each one must be taken seriously. That is what is so important when trying to cultivate a culture in which people feel motivated and secure enough to make suggestions for ongoing improvement.

As a note of interest, the same employees who once tore the logos from their shirts have since increased their purchases of Continental logo bearing hats, caps, t-shirts etc for themselves and their friends by more than 400%.

Key Points:

1. Enlist the support of the employees of the business in order to realize dramatic and lasting results in a short timeframe.
2. Involve the team, listen to the team, learn from the team and share with the team.
3. Communicate, communicate, communicate and work hard to build trust and mutual respect.

The Power of Momentum

When people ask Greg Brenneman or Gordon Bethune "Did anything about the turnaround surprise you?" – they often respond with "just the fact that it didn't fail!"

While this is said with a slight tongue in cheek, because they both had enormous faith in the ability of their people to make it work, they still acknowledge that there was so much wrong with the company when they started that it could have come crashing down like a house of cards so easily and so many times with just one wrong move.

In summary, Brenneman says the biggest factor in their favor was momentum. The rallying cry of the turnaround was "Do it fast, do it right away, do it all at once. Do it now!"

Bethune and Brenneman lit a fire of urgency under Continental, rotated quickly, and picked up speed as they climbed to altitude. Brenneman concedes that while the ride has been an incredible one, it's not over yet, and the most important task now is to maintain that momentum.

In Brenneman's words "Even though the turnaround is over, we won't forget the lessons we learned from it. In fact, we're putting them to practice every day."

Support Resources:

Harvard Business Review article this summary was adapted from: "Right Away and All at Once – How We Saved Continental" by Greg Brenneman, President and COO of Continental Airlines HBR October 1998, Reprint #98503

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