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Business Turnaround Management

A PRACTICAL GUIDE TO THE PROCESS OF BUSINESS CRISIS RECOVERY

WWW.BUSINESSTURNAROUND.EU

Contents

INTRODUCTION

In presenting this guide to the reader, my aim is to strengthen the role of Turnaround Management in the market by creating new perspectives for managers and facilitating the process of leading a company out of a crisis. By adding my own experiences and perspective on crises, I hope to support the management team in this challenging battle. I consciously use the word "battle" because this mission requires immense perseverance and strength from managers. I will not shy away from terminology that reflects reality, even if the concept of a crisis may seem uncomfortable.

Crises are a natural part of a company's life, and there is no shame in that, unlike pretending that as an organization we are indestructible and immune to problems. Self-awareness and acceptance of the current state of affairs are essential factors in both the Turnaround management process and the company's recovery. Denying reality prevents effective repair. By not addressing the root causes, we only treat the symptoms, which does not translate into the company's recovery and further development.

The attached exercises and tools are designed to help in constructing a Turnaround plan and confronting one's own beliefs with the reality of the company. I want the management team to find both the courage to overcome difficulties, restoring the company's former strength, and an understanding of the obstacles on the path to effective transformation.

This guide is aimed at entrepreneurs, management teams, and practitioners in corporate recovery. It contains several sections: the first helps to better understand the nature of a crisis and the Turnaround process, chapters II-IV focus on restructuring finances, functions, processes, and strategic transformation, and the final section describes building resilience to future crises.

CHAPTER I

UNDERSTANDING A CRISIS.
WHY DO I NEED TURNAROUND MANAGEMENT?

Turnaround Management is a structured and comprehensive system aimed at restoring stability and profitability to a company facing a crisis. Within Turnaround Management, actions such as restructuring, process optimization, cost management, and strategy revision are undertaken to ensure the company's long-term profitability and sustainability. Thus, the Turnaround Management process has a broader and distinct meaning compared to the concepts of restructuring, transformation, or reorganization.

Much has been written about crises — there are 21,955 books* on management and marketing — and yet, crises in companies continue to occur and will keep happening. There are no absolute truths or solutions that will be a 100% guarantee for saving a company in crisis. Therefore, this book does not offer a ready-made recipe for success but rather describes certain patterns, issues, and the logic of the company's healing process to encourage managers to reflect, change their beliefs about saving a company, and support them in developing a specific transformation plan. Through the attached Turnaround plan tool and exercises, this book aims to be primarily useful, avoiding excessive theoretical considerations and focusing more on the practical aspects of a crisis.

A company and its structure resemble a network of interconnected vessels. Each part of the enterprise is interrelated: strategy, employees, technology, finance, and customers form an inseparable whole. Therefore, the same perspective should be applied in the process of repairing any enterprise. The Turnaround repair process is holistic and consists of various elements and groups of actions, not just the financial aspect but primarily strategic and operational elements. The whole consists of actions within financial, strategic, and operational Turnaround management.

* P. Antonowicz, Bankruptcies and Corporate Insolvencies (Gdańsk: University of Gdańsk Publishing, 2015), 21, cited in: M. Romanowska, Strategic Planning in Enterprises (Warsaw: PWE, 2009), 14.

CHAPTER I

In the domestic restructuring market, we are accustomed to financial restructuring actions, which are essential for the short-term stability of a company. However, strategic and operational measures are necessary to achieve long-term effects. B**y using only financial restructuring measures, we often save the company, but this is not equivalent to a full recovery process. Lowering the temperature does not mean the organism is healthy and the situation will not recur in the future. Treating parts and symptomatic treatment do not bring success in the long term. When starting the recovery process, one must always adopt a holistic perspective, treating the company as an organism.**

Turnaround requires deeper actions that encompass all areas of the company's operations, focusing primarily on identifying the true causes of problems, distinguishing between symptoms and root causes. **A decline in sales or liquidity issues are merely symptoms of a crisis, not its main causes. To find the true underlying causes, one often has to dig very deep.**

CHAPTER I

The transformation process is not homogeneous either. Let's divide the Turnaround into the following phases:

a) **The phase of immediate and necessary actions, called the emergency phase**. This includes essential and urgent actions, focusing mainly on financial activities and the first necessary cost cuts to ensure the means for further operation.

b) **The stabilization phase. This involves maintaining a state where the company can continue to function**. Besides cost-saving measures, it also includes business development and optimization to maintain a healthy state for the company.

c) **The resilience phase.** This ensures that the company will be protected from similar situations in the future. We often focus on firefighting but do not build a proactive, intelligent company capable of safeguarding itself against such issues. It is not just about activity but a proactive stance—not merely efficient firefighting but the ability to prevent fires in the first place

CHAPTER I

The main criterion differentiating each phase is the urgency and necessity criterion. **The first phase is essential for survival; it is necessary and serves as the starting point for moving on to subsequent stages. In the stabilization phase, we balance the initial actions to ensure they are not fleeting, but that the company survives in the market for many years, enabling its further development. In the resilience phase, we build resilience to crises to reduce the risk of a similar situation in the future.** Actions characteristic of each phase are included in the graphic below; however, it should be noted that in practice, the mentioned actions often overlap between phases. Cost optimization can also occur in the resilience phase, and root cause identification can be an ongoing process even in the stabilization phase. However, they have different intensity and scope.

	EMERGENCY PHASE	STABILIZATION PHASE	RESILIENCE PHASE
Analysis of current situation.	x		
Identification of root causes.	x		
Financial liquidity stabilization.	x		
Cost optimization.	x	x	
Restructuring of structures, functions, and processes.	x	x	x

CHAPTER I

Let's imagine a printer manufacturer that released equipment to the market without proper prior testing. Deficiencies in quality resulted in complaints, returns, and payment delays, leading the manufacturer into a crisis.

The first phase, the emergency phase of the turnaround, focused primarily on identifying the causes of the situation by analyzing the current state. Issues like quality problems and lack of demand are too general to solve quality issues in the long term, but certainly, **the value destroyers were identified**. **Stabilizing liquidity, selling off unnecessary assets to gain funds for the transformation, and avoiding insolvency were prioritized. Gaining time and acquiring resources for further corrective actions were essential to allow for modifications to the manufacturer's offerings and to implement changes in quality and product strategy.** This phase lasted about a year.

In the stabilization phase, **the risk of insolvency significantly decreased, but there was still enormous potential for changes and maintaining stability**. This phase is akin to a recovery period. Restructuring work continued on structures, processes, and functions, including workforce restructuring and hiring.

In the resilience phase, it was necessary to undertake developmental actions, introducing process management and change management programs, which are synonymous with developmental restructuring processes (developmental restructuring pertains to healthy companies, not in crisis). Drawing conclusions and lessons for the future, early warning systems (EWS) and risk management policies were established.

CHAPTER I

TURNAROUND PLAN

You can use defense mechanisms, you can believe that the crisis will pass and the irregularities will disappear without you taking any action, but fundamentally, it will be essential to construct a Turnaround plan.
The Turnaround plan should address the following issues:

1. *What strategic approach, products, and markets will the company operate with?*
2. *What changes in operations and organizational structures are necessary to implement the Turnaround concept?*
3. *How will the company's cost structure change by leveraging cost reduction opportunities?*
4. *What results will the company achieve in the coming years?*
5. *What changes in management are needed to implement the concept, and who will carry out the change concept?*
6. *What resources are needed to finance the Turnaround concept?*

However, the issues outlined in the above points are very general. They do not provide clearly defined actions or guidelines, which can lead to various interpretations, and everyone may understand the transformation differently. **The concepts of stability, flexibility, and even profit are very broad. The Turnaround plan, along with the attached template, aims to break these issues down into primary elements that are crucial for the future success of the transformation.**

CHAPTER I

Develop a comprehensive transformation plan using the Turnaround Plan template attached to this guide.

Sheet 1 is the diagnosis. Turnaround addresses the needs of diagnosing the company's current state. It examines the areas of finance, strategy, personnel, development, and quality. The answers you provide there will translate into Turnaround goals.

Sheet 2 is the Turnaround goals. You will develop them based on your own answers given in the exercises included in this book. The goals are divided into the emergency, stabilization, and resilience phases. In each of these phases, you can set goals related to the strategic area (Strategic Turnaround), financial area (Financial Turnaround), and operational area (Operational Turnaround).

Sheet 3 is the priority actions. Setting correct goals and implementing them is a true art. The priority actions sheet cascades the Turnaround plan to the staff, breaking down the Turnaround goals into specific tasks with assigned responsibility and the time frame for their implementation.

Sheet 4 is the indicators for Turnaround goals. In achieving Turnaround goals, there is no room for interpretation of whether the assumptions have been achieved or not. In achieving the desired clarity of the goal and outcome, measures we aimed for will be helpful. Establishing expected values, for example, in the form of indicators, is part of the plan.

You can download the Turnaround plan template from the website: www.businessturnaround.eu, under the Crisis Guide tab.

CHAPTER I

TURNAROUND TEAM

Who will implement the transformation, who will be responsible for developing the plan and its implementation? Will it be external specialists, or will you create a team responsible for it from among the current managers? Perhaps you will opt for a mixed system (external specialists and the existing team)?

Turnaround managers often exhibit an authoritarian management style, acting with determination and belief in what they do. They challenge the status quo, review the existing order, and cope well in stressful environments and situations, which are typically associated with Turnaround. They change their leadership style to a more democratic one after emerging from the crisis.

The involvement and determination of the managerial staff in the company are crucial. If you do not see the necessary commitment and belief in transformation from the staff, do not risk it—construct a team to serve the goals of the Turnaround. You do not need lukewarm individuals. The Turnaround process requires deep commitment and determination. There is already enough resistance and uncertainty associated with the crisis phenomenon to additionally struggle with similar attitudes among strategic managers.

CHAPTER I

Failures don't interest anyone unless they result in success in the end. If I were to characterize a standard entrepreneur/manager who has been or is my client, their most frequently mentioned characteristic would be relentlessness and seeing the life of the company through the lens of "victories and defeats." It's either success or perish; no one cares about second place as long as it's not the highest. **This perfectionistic attitude in pursuit of victory also translates into the way all irregularities in the company are perceived. Any irregularities are treated as failures, including crises, which we do not want to identify with.**

My projects with companies in crisis end with references titled "improving organizational efficiency." It's a rather general formulation, but no entrepreneur has agreed to specify and name the project "crisis resolution" or even "crisis prevention" because, after all, we are not in crisis and never will be.

A crisis is not a reason for shame, but hiding difficulties can often lead to painful consequences in the long run. Instead of avoiding this term, it's important to have an open and constructive approach to problems. **A negative attitude and avoidance of this word lead to covering up tracks, preventing reflection on problems, and holding us back from taking corrective actions as soon as we notice a problem.**

We can perceive a crisis from different perspectives. One of them is that every company goes through different stages of development, and as managers, we are required to understand these stages and manage transitions from one to another. Here arises the common factor associated with managers' lack of acceptance of change and the use of the same methods, regardless of the phase, consistently for many years. It worked once, so it will work every time

CHAPTER I

The graphic below illustrates the development of a crisis, its typological division, but above all, its insidious and concealed nature. T**he first crisis is the strategic crisis, which hides within the dimension of the company's strategy and market position. The strategic crisis translates into a crisis of results, and then liquidity. The final link becomes insolvency.**

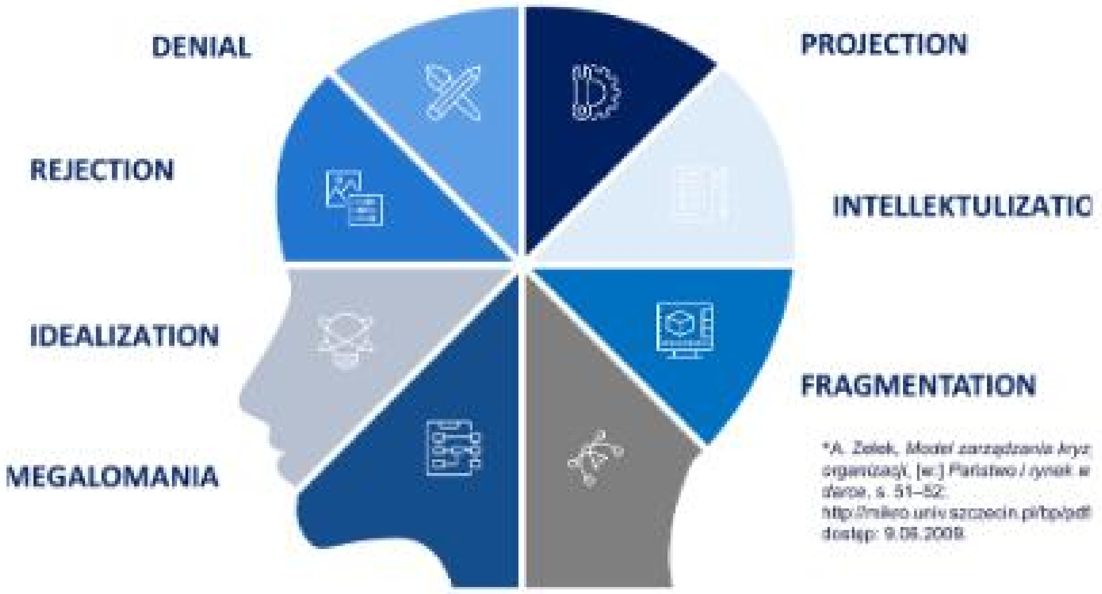
We could write an extensive book about the crisis, but in this case, **it is most important to remember that crises rarely appear suddenly and unexpectedly. More often than not, they result from a lack of reaction to certain symptoms or a failure to implement appropriate measures to prevent the escalation of the crisis situation. It is worth being aware of certain mechanisms that we can influence and that can effectively prevent us from taking corrective actions.**

I don't expect this guide to completely change the deeply rooted attitude toward failure of entrepreneurs/managerial staff, but perhaps it will be a starting point for reflection and quicker implementation of corrective actions. Maybe losing battles on certain fronts results in winning wars? The human factor in the form of our decisions to take corrective actions seems to be a crucial factor.

ESCALATION OF CRISIS

CHAPTER I

THE MECHANISMS THAT PREVENT US FROM CHANGE.



Exercise: Do you recognize the above mechanisms? Respond to each of them by indicating whether you agree with the statements provided and whether you apply them in management:

Denial. *Crises happen to other companies; our company is unbeatable. We've always been the best.*

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Rejection. *These are just temporary irregularities; their impact on the company is minimal. The problem will resolve itself soon — it's temporary.*

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CHAPTER I

THE MECHANISMS THAT PREVENT US FROM CHANGE.

Idealization. *We've already been through a lot, and crises don't happen to good companies. Hope for a better future.*

Megalomania. *We're a strong, stable company with traditions and trusted clients. The crisis doesn't affect us.*

Projection. *We have no control over crisis factors, as they are beyond our control and responsibility.*

Intellectualization. *We need to accurately assess the existing irregularities. It's a lengthy process; we don't take any action until we have sufficient data.*

Fragmentation. *These are just minor irregularities in one area of the company, having no impact on the overall functioning of the company.*

CHAPTER I

IN SEEKING ROOT CAUSES, WHAT IS THE REASON FOR THE SITUATION?

You can cut costs, seek external funding, explore other financial restructuring solutions, but if you keep making the same mistakes, and the root cause lies elsewhere (in the operational or strategic areas), these actions will only be temporary solutions, and the situation may repeat itself in the future.

The goal is not just to rescue the company but to heal it. The key becomes finding the true causes that led to the current situation. **The causes of the crisis can be both internal and external. Often, they occur in pairs, forming a group and acting in various ways. In the process of searching for causes, one must act with full awareness. I often observe a tendency to shift responsibility solely onto external factors, as if the staff were helpless puppets in the ocean of external influences.**

It is a fact that external factors have a significant impact, and phenomena such as pandemics can catch us off guard. **However, let's try to focus primarily on internal factors, over which we have influence and control, to consciously work on improving the functioning of our own business. Let's nurture a strong sense of agency.**

CHAPTER I

Exercise: *Below you will find a list of the most common internal crisis factors*, serving as a starting point for the process of identifying root causes and then initiating corrective actions. These are very general statements, but try to find points that align with the activities of your company. Consider whether you identify similar factors in your company's areas and to what extent (1 - not present at all, 5 - definitely present):*

STRATEGY

Internal crisis factors:					
Unclear company policy, misguided/vague company goals.					
Rigid, uncompromising adherence to the same methods, solutions.					
Failure to adjust strategy to internal, external factors.					
Lack of vision, mission, and strategy.					
Inability to innovate and adapt.					

* Zakrzewska-Bielawska, A. "Managing in Crisis." In Operational Risk Management, edited by I. Staniec and J. Zawiła-Niedźwiecki, 70. Warsaw: C.H. Beck, 2008.

CHAPTER I

PEOPLE

Internal crisis factors	1	2	3	4	5
High turnover of management staff.					
Poor management style.					
Misjudgment of employees' capabilities					
Indecisiveness in management, decision-making.					
Lack of employee identification with the company - limiting activity, entrepreneurship, motivation.					

FINANCE

Internal crisis factors:	1	2	3	4	5
Budgeting errors.					
High costs.					
Misguided investments (investments, mergers, acquisitions). Scale of operations exceeding financial capabilities.					
Poor working capital management.					
Inadequate controlling.					

ORGANIZATIONAL STRUCTURE

Internal crisis factors:	1	2	3	4	5
Lack of management organization.					
Misguided organizational solutions, not aligned with strategy.					
Conservative organizational methods.					
Lack of, or inconsistent cross-functional actions.					
Poor flow of information.					

TECHNOLOGY

Internal crisis factors:	1	2	3	4	5
Low quality of material-production base.					
Outdated technology/lack of automation.					
Technical product errors.					
Underutilized production capacity.					
Production line breakdowns.					

CHAPTER I

Remember that the internal factors mentioned above often combine to form groups. For instance, poor management style affects high turnover rates among senior management, leading to inconsistent cross-functional actions and a lack of employee identification with the company. Unclear company goals also significantly impact the employee dimension. A lack of direction (incorrect and unclear goals) in which the company is heading can indicate a failure to achieve objectives, which in turn affects the financial areas. **It is not so much about identifying a single cause as it is about recognizing groups of issues, areas for improvement, or often a chain of cause and effect.**
However, in the initial phase of a Turnaround, it is often necessary to find a specific root cause, take immediate and swift action to stop the bleeding (emergency phase). For example, releasing low-quality goods or a defective batch of products impacts our finances and customer relations (returns and complaints). In such a case, it is essential to identify the root cause in low quality and implement changes as quickly as possible. Often, however, the causes will be less apparent, associated with various symptoms in different configurations. The work of identifying causes and applying corrective measures is conducted in every phase of the Turnaround, with an emphasis on phase 1.
A tremendous value also lies in the management team's reflection on what they can do better, as this is always a starting point for further corrective actions.
Good tools to enhance insight and an orderly process for finding root causes are:

The 5 WHYs Method *(by repeatedly asking "why" to understand deeper causes).*
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CHAPTER I

Ishikawa Diagram (The Ishikawa Diagram, also known as the cause-and-effect diagram or fishbone diagram, is a tool used to identify potential causes of problems or situations. It consists of a central line representing the problem and lines branching off from it, symbolizing various potential sources of the problem. Each branch can be further broken down into more detailed causes, helping to understand the complexity of the problem and its origins.)

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Process Mapping (Process mapping allows for a detailed understanding of how a given process unfolds. By precisely mapping each step of the process, areas where problems or shortcomings may occur can be identified. Analyzing the process map can help in identifying irregularities by locating points where the process may be disrupted, delayed, or improperly executed.)

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CHAPTER II

FINANCIAL TURNAROUND

The audience of this guide is diverse: some are more or less connected to finances. **Despite this diversity, whether you are a manager, owner, or a business turnaround practitioner, financial aspect and understanding financial statements are necessary.** I am not suggesting self-managing the finances of the company or giving up on an accountant, but rather having a basic understanding of financial concepts and one's own finances. To effectively conduct a turnaround, proper understanding and management of finances are mandatory.

Distinguish financial symptoms from root causes. The current situation is not caused by a problem with financial liquidity or a decrease in sales. These are symptoms, crisis indicators. Strong competition is also not a root cause because the root cause is a weak company that is not resilient to external factors, including strong competition.

Below you will find a list of financial symptoms and formulations that may be helpful in the process of distinguishing causes from symptoms:

- Poor strategic position of the company or weakening of this position leads to a decrease in sales or insufficient sales compared to the level of costs.
- Lack or decrease in the profitability of the company and its competitiveness. This is observed through weak or declining profitability ratios and declining market share.
- Insufficient or decreasing profitability of the company leads to deterioration of cash flows (lack of cash). Current lack of funds is mainly manifested by arrears in failure to pay taxes to the tax office, delays in repayment of bank loans, or suspension of salary payments to employees. This is a very clear signal of an upcoming crisis.
- Poor cash flows, possibly associated with excessive investments, lead to loss of liquidity and deterioration of the company's assets (e.g., technical resources are not renewed).
- Need to raise capital from external sources. The level of debt increases, and the solvency of the company decreases.

* Ropęga, J. "The Process of Small Business Failure: Causes and Symptoms." In B. Piasecki, ed., The Collapse of Small Businesses: Symptoms and Early Warning Strategies, Łódź: University of Łódź Publishing, 2012, 41.

CHAPTER II

Understanding the financial statement is crucial. Financial analysis becomes, therefore, a kind of snapshot of your company's situation, but it also becomes information about potential causes. A thorough analysis of your own finances provides essential knowledge for building a Turnaround plan.
The areas in which you should examine finances are:

Profitability assessment, which allows conclusions to be drawn about the feasibility of our remedial actions (low margins, high operating costs, etc.).
Liquidity assessment, which allows conclusions to be drawn about whether the funds generated by the company are sufficient to support current operations, future development, and whether there are no interruptions caused by a lack of funds.

Value destroyers vs. value creators - what are we losing, what are we earning?
A characteristic feature of a high-level team is looking at their business in terms of overall profitability. An essential step in financial Turnaround will be a thorough analysis of this: what are we losing and what are we earning. **The starting point will be to divide the business into units/segments/parts. It's not about differentiating your offering in terms of colors or more detailed features, but try to divide the business into parts that constitute the core of your operations.** For example, a machinery manufacturer may divide its offering into machines produced as standard or as custom orders. It can differentiate markets - the Polish market/French market - and the general properties of the product: automatic/manual. These will be its business units, the profitability of which will be examined.

CHAPTER II

Exercises: Identify the value destroyer. What are you earning and what are you losing? What is the profitability of each business unit (revenue-costs=profit) of the various parts in your offering:

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Distinguish between symptoms and root causes. Which of the previously mentioned financial symptoms from the list do you identify in your company:

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Take a Quick Test of your company's condition. Despite the existence of very extensive forms of financial analysis, there is a package of 4 indicators that are likely to diagnose your company's condition with a high probability:

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Conduct an asset analysis. Your conclusions after analyzing the assets (relationship between fixed assets and current assets, dynamics of intangible assets, analysis of current assets, etc.):

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Your conclusions after analyzing sources of financing (e.g., the ratio of equity to debt):

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CHAPTER II

Your conclusions after analyzing profitability and return on investment indicators (ROS, EBIT, ROA, ROE, financial leverage):

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Your conclusions after conducting cash flow analysis. Where do cash inflows come from and what are the main sources of outflows? This analysis will help identify potential problem areas, such as delayed customer payments, excessive operating expenses, or lack of access to financing sources:

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Your conclusions after evaluating the cash conversion cycle. A long cash conversion cycle may indicate issues with managing receivables or excessive inventory:

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Your conclusions after analyzing liquidity ratios. These ratios provide important information about the company's ability to meet short-term obligations and maintain financial liquidity:

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CHAPTER II

Forecasting future cash flows. This forecast will help identify potential gaps in financial liquidity and take appropriate preventive actions:

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In summary, diagnosing financial liquidity problems requires a holistic approach, which includes analyzing cash flows, evaluating liquidity ratios, and assessing the effectiveness of receivables and liabilities management policies. This is a crucial step in the company's financial management process and enables effective corrective action to ensure operational stability.

CHAPTER II

COST OPTIMIZATION

During cost optimization, it's crucial to identify value-destructive factors, meaning those that are useless, consume energy, and generate additional costs. In the process of improving the situation, it's essential to distinguish:

a) what brings value and is essential
b) what doesn't bring value but is necessary for functioning
c) what is unnecessary and doesn't bring value

It's worth considering this not only in terms of our resources but also actions. **What brings the most value, and what is just wastefulness? What do I need to do, and what can I give up in favor of what brings profits and value?** Often, we fall into the trap of trying to hold onto everything in the hope that the situation will improve. Unfortunately, such a strategy hinders the effective transformation of the company.

In terms of cost optimization, the following assumptions may be helpful. Consider whether you can find solutions for your company in the following points:
Simplify product offerings to reduce complexity and lower production costs:
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Find and implement immediate cost-saving measures in areas such as travel, IT infrastructure, leasing, and recruitment:
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CHAPTER II

Explore options to convert fixed costs into variable costs, offering greater flexibility:

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Consider outsourcing non-core functions such as HR, payroll, IT, and finance to specialized providers:

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Eliminate unnecessary costs and review policies to ensure cost alignment with your business goals:

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Suspend sales activities, such as participation in trade shows or servicing low-value customers:

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Identify and eliminate tasks that do not add value, redirecting resources to more beneficial activities:

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Standardize financial workflows to improve efficiency and expedite decision-making:

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CHAPTER II

Define roles and responsibilities clearly within finance teams to avoid duplication of tasks:

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Conduct a comprehensive assessment of organizational capabilities within finance teams to pinpoint areas requiring improvement or skill deficiencies:

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Analyze financial KPIs to ensure they reflect strategic goals and prioritize financial performance indicators:

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CHAPTER II

FINANCIAL TURNAROUND -WORIKING CAPITAL

Working capital is defined as the excess of current financial resources over liabilities (calculated based on assets held in the company for less than a year). Working capital is crucial for the financial liquidity of a business as it provides funds for current operational needs. **Proper management of working capital is key to maintaining the financial stability of the company.** Below you will find a few formulations. Consider whether you will find solutions for your company in the following points:

Adjust inventory levels to avoid excessive accumulation, thereby reducing storage costs and improving cash flow:

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Assess safety stock levels to align them with changes in demand and minimize excessinventory:

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Negotiate payment terms with customers and suppliers to increase cash flow and financial liquidity:

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Utilize financing or incentive programs to support working capital management:

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Simplify invoicing procedures to expedite cash collection and reduce payment delays:

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CHAPTER III

STRATEGIC TURNAROUND

Looking at the company holistically means losing sight of its individual parts - it's normal. In the strategic Turnaround exercise, the exercises overlap with those from the financial Turnaround, forcing the question again: **what are you earning from and what are you losing?** Questions about your current position and future development arise. The answers to these questions determine your market orientation and the offer you bring to the market:

Which of your products/services are the most profitable? What percentage of total sales do they represent?

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Which of your products/services have the lowest profitability? What percentage do they represent in total sales?

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Who is your target audience? Will it remain the same after the strategic transformation?

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CHAPTER III

What are the success factors characterizing your offer? What sets you apart: price, quality, location? What is your advantage? How do you assess the relationship between price and quality:

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You're probably familiar with the SWOT analysis. Think again about your:

Strengths (S):

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Weaknesses(W):

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Opportunities (O):

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Threats (T): .

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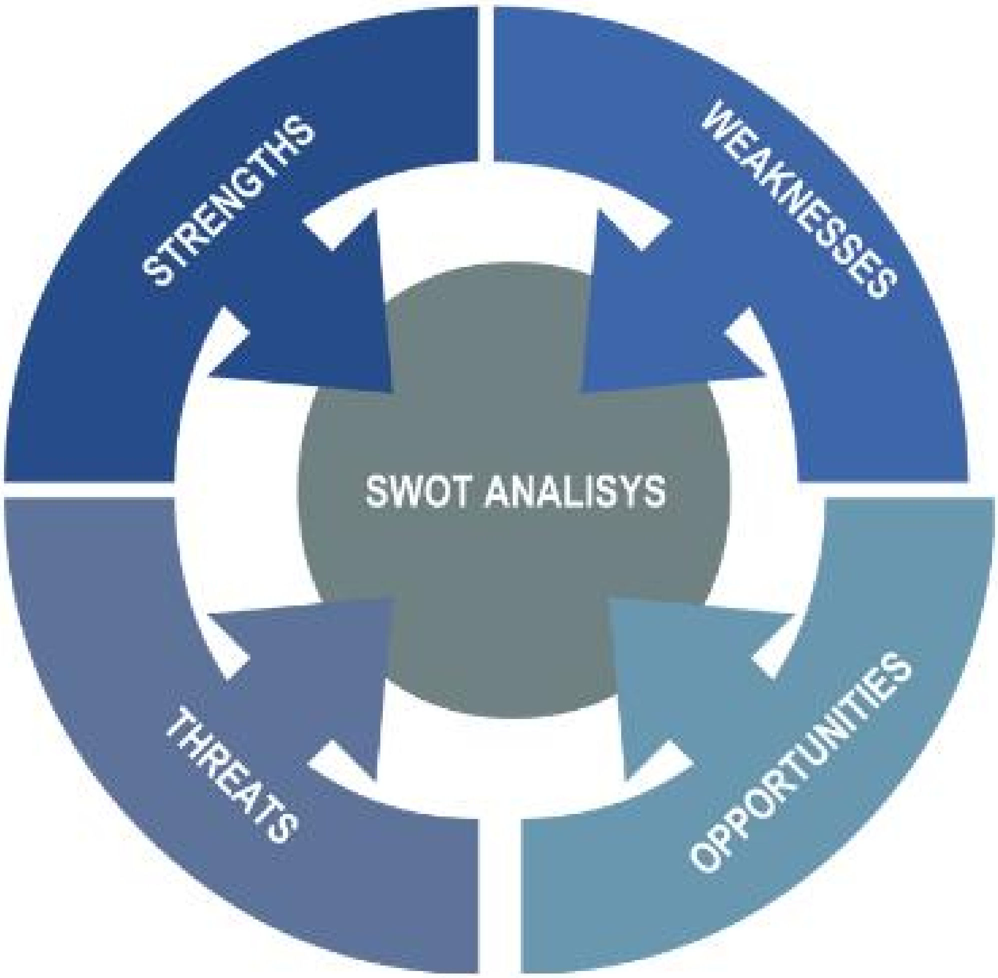
CHAPTER III



Remember that each company positions itself differently in the market. Identifying irregularities should be preceded by an analysis of where the company stands. This arises from market share and market growth rate. Based on these two factors, companies can be divided, according to the Boston Consulting Group matrix, into four categories*:

*https://www.bcg.com/about/overview/our-history/growth-share-matrix

Stars: These are companies that have a high market share and are growing faster than the overall market. They hold a strong competitive position and have significant growth potential. BCG recommends investing in these companies to maintain their dominant market position and maximize their growth potential.

Question Marks: These are companies with a low market share but are growing faster than the market. Although they have high growth potential, they are also associated with high risk. BCG recommends conducting detailed analysis of these firms and making strategic decisions regarding their further development.

Dogs: These are companies with a low market share and are growing slower than the market. They typically generate low profits or incur losses. BCG recommends making decisions about the future of these firms, either through restructuring or withdrawing from the market.

Cash Cows: These are companies with a high market share but are growing slower than the market. Although they no longer generate significant growth, they still provide stable and high profits. BCG recommends maintaining and optimizing these firms to leverage their cash-generating potential.

Who are you considering the BCG matrix? What actions should you take based on your identification? Can awareness of your company's subjectivity assist in transformation?

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Captain, where are you heading, and what's your development plan despite the crisis?

The attached Turnaround plan template will help you build not only the strategy for necessary and immediate actions (emergency phase) but also a plan for longer-term actions. Just because you're going through a crisis and your company is struggling doesn't mean you shouldn't have a development plan for the coming years. The actions taken in financial or strategic Turnaround are aimed at ensuring the company's immediate survival and then its healthy sustainability in the market in the longer term.

CHAPTER III

In the Turnaround plan, you will find sheets related to the decomposition/operationalization of goals.

Decomposition of goals is the next step towards their achievement. Having a vision of transformation, the next step should be to break it down into smaller goals spanning different phases and areas (finance, strategy, operations). The set goals themselves do not constitute specific actions to be taken; often, at the moment of their decomposition, they need to be translated into the language of specific actions, clear, understandable, and leaving no doubts for their implementers. Translation of the overall vision and definition of specific actions should be accompanied by a formal coordination process of goals through:

- **defining specific and, above all, understandable, non-exclusive activities to be carried out (what?)**
- **assigning performers - the Turnaround team, participants, successors, challengers, who will carry out and coordinate actions - often through various units in the organization (who?)**
- **what specific actions need to be taken? What specific solution tools will be used? How will we assess progress and eventual success of the action - setting up a system of metrics/goal indicators (how?)**
- **when will individual actions be carried out, including indirect ones (when?)**

In your vision, do you organize goals by establishing: what, who, when, and how? What actions will you take in constructing the Turnaround plan?

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In most cases, understanding of goals and direction ends with top management. Although some actions are cascaded downward, it does not necessarily align with understanding for all in which direction we are heading. **The mistaken belief that all employees understand the direction of change is widespread, as is the lack of conviction that everyone needs to know this direction.** Cascading goals is not only about correct understanding but also about building engagement of company members through their active involvement in achieving Turnaround goals.

CHAPTER III

Developed system for responding to deviations and lack of progress.

When we have a defined system of actions, time, responsibility, and method of implementation for the direction in which the company is heading, the next step should be to **develop a cooperation plan among implementers.**
In the scope of this point, **the key is to minimize reactive behavior in favor of proactive behavior. Monitoring progress, responding to deviations in achieving goals, as well as indicator values, should not occur sporadically.** When everything goes according to plan, we don't need to improve or report anything; we only react when there are irregularities - this is the most common attitude that fails. Such attitudes are often a crisis factor for companies.

Developing a catchball system (top-down, bottom-up), which engages all levels of the company, establishing meeting schedules for each level, so that the results reporting process occurs in a planned, cyclical, and systematic manner regardless of whether things are going well or not, is crucial. Building engagement and a catchball system in the process of achieving Turnaround goals is the starting point for creating a preventive or corrective plan for deviations and lack of progress in Turnaround transformation assumptions.

Regardless of how well we build the system, what tools we use, without consistency and systematicity, we cannot achieve great results. Tools used in implementing changes, regardless of their advancement and quality, are not the only factor of success; unconditionally, **consistency and systematicity are also crucial.**

CHAPTER IV

OPERATIONAL TURNAROUND

It is often said that a company's survival depends on its flexibility. One must be flexible to survive in a competitive, dynamic market. This is repeated like a mantra, but what does it specifically mean?

From a story shared in one of my conversations with a potential client, I learned that processes in their company are not and cannot be standardized because the CEO prioritizes the company's high flexibility. However, for most decisions within the company, the CEO takes over from the rest of the management in the interest of "decision quality," which indicates a high level of centralized power and control — something that does not align with the characteristics of flexible organizations.

We juggle various concepts: flexibility, agility, efficiency, to fit our mindset and management concept, creating numerous excuses against improvements, standardization, or any transformation of the existing situation. Everyone wants change, but only if everything happens on our terms, hoping for spectacular results without effort and uncomfortable sacrifices.

Exercise: Let's start by breaking down a frequently interpreted term — an efficient company. Below you will find the characteristics of highly efficient companies*. Compare the features of the specific areas of highly efficient companies with the state of your company. What do you need to change to achieve this state?

*P. Zbierowski, "Structure and High Efficiency Systems: Research Results," in Research Papers of the Wroclaw University of Economics, no. 144 (Wrocław: University of Economics in Wrocław, 2010), 621.

CHAPTER IV

	A model of a highly effective organization	What do I need to do to achieve this?
Strategy	A prominent (clear and challenging) vision - forward-thinking, visionary goals that present challenges.	
Culture	Relationships based on trust; social integration, improvisation (innovation, wide range of experimentation freedom), ability to change.	
People	Attracting exceptional (positively, internally motivated), highly engaged individuals, skill in empowerment, committed leadership, and organizational citizenship.	
Structure	Flexibility of structure - functional flexibility, decentralization, de-formalization, flat and simple structure.	
Activities	Sharing information and knowledge, continuous improvement of new processes and products, creating value for stakeholders.	
Systems	Fair reward and motivation systems; open communication, flexible systems across the entire organization.	

CHAPTER IV

ORGANIZATIONAL RESTRUCTURING

Organizational restructuring is a complex, rich, and necessary form of restructuring if we want to heal a company in the long term. It involves not only changing structures but, more importantly, the business model, which is a significantly broader concept. This is closely linked to the flexibility, agility, and efficiency of the company, which are qualities that everyone strives to achieve.

Secondly, this form of restructuring often involves the disintegration of overly built-up companies through methods such as spin-offs. However, organizational restructuring primarily relies on the application of solutions and methodologies well-known in practice, such as the Balanced Scorecard (BSC), Total Quality Management (TQM), Reengineering, and Lean Management.

CHAPTER IV

Exercise:

Spin-off. Do you identify multiple areas in your company that are different from the main activity? Which parts of your company should undergo the spin-off process (dismantling overly complex entities by making some of its parts independent):

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Mechanistic model and the pursuit of an organic model*. What model do you operate in?

Mechanistic model characteristics:	[illegible]	[illegible]	[illegible]
Tasks stemming from the overall organizational goal are closely defined and relatively constant.			
Division of labor is precise, leading to deep specialization, with individual tasks being routine and repetitive.			
Operating procedures in all areas are formalized and described in appropriate documents.			
Action patterns are numerous and formalized in organizational regulations.			
Interpersonal contacts mainly have a hierarchical character, particularly in horizontal, official arrangements.			
Vertical flow of information predominates.			
Knowledge and control are centralized at the highest level.			
Coordination of activities is achieved through a formally established hierarchy.			

*Stabryła, A., ed. (2009). Improving Organizational Structures of Enterprises in a Knowledge-Based Economy. Warsaw: C.H. Beck.

Organic model characteristics:	What do I need to do to achieve this?
Employees participate in setting common tasks (goals).	
The organization's goals are constantly analyzed and adjusted.	
Goals are agreed upon and redefined with employee involvement.	
Individual tasks are not fixed but flexible and adapted to the organization's goals and conditions of operation.	
The authority of the organization stems more from expertise than from position in the organizational hierarchy.	
Authority is decentralized and dispersed throughout the structure, forming a network of multidirectional dependencies.	
Knowledge and control are located in various parts of the organization.	
The flow of information is multidirectional - vertical both downwards and upwards, as well as horizontal.	

Flat Structures:

An organizational structure is not merely a graphical representation of the hierarchy within a company; it primarily reflects the adopted operational model. **It serves as a "road map" for the enterprise, illustrating the connections and relationships between various elements. The structure also reveals potential gaps or deficiencies in achieving business goals.**

In traditional, mechanistic models, clearly defined hierarchies predominate, featuring numerous managers at various levels and their deputies. Such a structure focuses on ensuring control and supervision, which can provide a sense of security to many employees who know what to expect and understand their tasks. However, this overly centralized form can limit innovation and flexibility in operations.

CHAPTER IV

Flexibility in organizations is closer to an organic model, where employees collectively build the company, have a real impact on setting goals, and nurture horizontal solutions such as project-based work, rather than heavy and hierarchical structures.

Research shows* that management often fails to see the potential and the connection between the structure and the relationships between positions and their impact on the company. Despite the apparent declaration that we are modern in our management practices and are implementing solutions for greater flexibility, we tend to maintain heavy mechanistic structures because we feel they are more stable in uncertain times. **We dislike relinquishing power, and like the CEO mentioned earlier, we make decisions for others under the pretext of ensuring the highest quality decisions because no one can do it better than us. Do we only superficially adhere to the principles of flexible companies because it is expected, while in reality, we nurture strong order and control, along with a management style where everyone knows their place and role?**

Exercise: *Examine the structures in your company. How hierarchical are they? What are the relationships between positions? What reflections do you have on the topic of structures, and what actions will you take in the near future?*

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* Gregorczyk, S., Mierzejewska, W., Sopińska, A., Wachowiak, P., & Tomaszewski, A. (2016). Paradoxes of Enterprise Behavior During Economic Crisis. Prace naukowe Uniwersytetu Ekonomicznego we Wrocławiu, No. 422. Wrocław.

CHAPTER IV

Ah, all these methodologies...

Nevertheless, we still hear opinions that one method is better than another, and having, for example, the Lean Management concept in a company is enough to lead us to a land of happiness. Unfortunately, there are no ready-made recipes that fit every organization, and no methodologies that guarantee success. **I advocate for creating tailored solutions that are adapted to the individual needs and characteristics of a given company, but above all, for applying common sense in determining what contributes to success and what does not.**

Proponents of specific theories are often limited by their narrow perspective and the expensive training they have undergone. They maintain that their approach is the best and protects the company from a crisis or is a remedy for it. **However, the true success factors are the comprehensiveness (connecting different areas within the company) of the tools and methods, and their effective implementation through the engagement of people and the consistency of managers. It is less important what it is called, and more important what its scope is and whether people believe in it and are willing to execute it.**

It is important to remember that a **company consists of individual elements, forming a unique system whose connections determine the overall performance, define the quality of achieving strategic goals, and define the efficiency of the entire organization**. The relationships between different areas of the organization, separate units, are the guarantee of efficiency, agility, and flexibility. The efficiency of individual areas becomes less important in the context of the flow of actions as a whole. Looking at the company in this way, we can also come to the conclusion that examples of applied comprehensive solutions in organizational restructuring are essential in the healing process, building the company's resilience to crisis.
Whatever approach or methodology you choose, it is secondary to ensuring that it is comprehensive and covers various areas of the organization. **The second crucial factor is the genuine engagement of people and the effective implementation of these tools. I have seen many cases of expensive training, top-tier specialists, or programs costing hundreds of thousands. All these solutions ended in failure. The investment seemed sensible and had many supporters at the declarative level. In practice, the results were questionable, leading to a continuation of business as usual, without bringing about real changes**

CHAPTER IV

Benefits of Implementing Selected Management Approaches.

Here are some benefits of implementing selected management approaches that might convince you to try them in your company. These approaches are closely linked to changes in strategy, employees, finance, structure, and technology, where crisis factors often arise:

In the area of strategy, restructuring tools such as the Balanced Scorecard support management based on measurable goals and indicators, eliminating ambiguities related to the company's objectives. By continuously modernizing and adapting the strategy to the environment, the company can better respond to changes, thereby reducing the risk of internal crisis factors such as unclear or erroneous company goals, rigid adherence to tried-and-tested recipes for success, wrongly assumed competencies, misalignment of strategy, or inability to modernize and adapt.

In the area of employees, restructuring tools such as TQM (Total Quality Management) or reengineering, through their focus on the customer, directly impact the building of modern goals, maintaining flat organizational structures, and decentralizing power. Employee involvement in the goal-setting process increases their identification with the company, strengthening their sense of belonging, entrepreneurship, and motivation. The Balanced Scorecard applied in the employee area uses metrics for achieving HR goals such as measuring satisfaction, turnover, and employee performance, thus affecting internal crisis factors such as incorrect assessment of employee capabilities, indecision in management and decision-making, lack of employee identification with the company, or internal organizational conflicts.
Implementing or strengthening the role of controlling can significantly improve the company's financial situation through systematic monitoring and analysis of its operations. Through effective budget management and the identification of budgeting errors, controlling allows for the reduction of inefficient expenditures or cost reduction, preventing incorrect investment decisions. The use of the Balanced Scorecard can be an important tool in complementing controlling activities. By setting transparent strategic goals and defining key indicators, the company can effectively monitor progress in the implementation of the developed strategy. This enables the management team to react quickly to undesirable phenomena such as exceeding financial capabilities or incorrect investments and to take appropriate corrective actions. As a result, the use of the Balanced Scorecard aligns with controlling activities, enabling more effective financial management and the achievement of Turnaround goals.

CHAPTER IV

In the area of structures, restructuring tools introduce changes in the organizational model, transitioning from mechanistic to organic, which improves management efficiency and reduces the likelihood of crises resulting from centralized power.

In the area of technology, restructuring tools such as TQM or reengineering focus on flexibly adapting to market requirements through continuous technological improvement and maximizing the potential of available resources. Prioritizing continuous quality reduces the likelihood of phenomena associated with low-quality material-production bases, outdated technology, technical product errors, underutilized production capacities, or lack of automation.

Exercise: If your company already has implemented solutions that integrate several areas/goals within specific domains, what advantages and disadvantages do you see?

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CHAPTER V

CRISIS RESILIENCE-EARLY WARNING SYSTEM

Early warning systems (EWS) are systems within a company designed to detect signals indicating impending difficulties. It is important to select strategic areas that will identify potential threats, as in the example areas below (areas and signals):

Strategic management area: *lack of demand for products, decrease in investment outlays. What values in the strategic management area do you recognize - establish as expected values. When is it good - when is it bad? How and when will you investigate this? Who will be responsible for monitoring these measures?*
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Operational management area: *excessive inventory, capital shortage, low labor productivity, poor people management, emergence of bottlenecks. What values in the operational management area do you recognize - establish as expected values. When is it good - when is it bad? How and when will you investigate this? Who will be responsible for monitoring these measures?*
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Technology: *unfinished product, use of faulty materials, improper machinery usage. What values in the technology area do you recognize - establish as expected values. When is it good - when is it bad? How and when will you investigate this? Who will be responsible for monitoring these measures?*
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Costs: *increase in material costs, increase in production costs, increase in fixed costs, quality. What values in the cost area do you recognize - establish as expected values. When is it good - when is it bad? How and when will you investigate this? Who will be responsible for monitoring these measures?*
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Quality: *rising percentage of complaints, increased number of returns, increase in customer complaints. What values in the quality area do you recognize - establish as expected values. When is it good - when is it bad? How and when will you investigate this? Who will be responsible for monitoring these measures?*
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CHAPTER V

CRISIS RESILIENCE-PROCESS MANAGEMENT

We've grown accustomed to viewing process management solely through the lens of improvements and mostly through specific methodologies. **However, process management is a much broader term that touches on many other organizational aspects. Let's look at the big picture of process management along with its key elements:**

Process Identification.
What the company really does, defining processes/sub-processes/tasks in a clear manner not only for top management but also for employees is a fundamental part of process identification. One might ask: why bother if the scope of activities in individual units is clear to everyone? **Transparency, clarity of activities in the organization for everyone, regardless of their role, minimizes silo orientation, instills a sense of purpose in the organization for everyone, which is far more effective than doing work without deeper understanding.** In addition to the obvious division of processes into operational, auxiliary, and managerial processes, a correctly conducted process identification involves tools, solutions defining processes managed by the organization. One of these solutions is process architecture, which also includes the aspect of process decomposition (scope of dependencies, hierarchies, subordination of individual processes). Looking from the perspective of a single process, it is reasonable to have process maps, which are their graphical interpretations. **Process awareness is not secret knowledge, available only to the process owner or participants, but to everyone - regardless. In order to effectively streamline processes, increase their efficiency, we must first know how these processes proceed, meaning, considering the formal coordination of the process, first answer the question what? to then get answers to questions how?, who?, and when?**

CHAPTER V

Process Improvement.

Even if the organization undertakes many activities in the realm of process identification and optimization, without a specific plan and linkage to strategic goals, these efforts may be considered random, despite their potential success. Developing a strategy for achieving process excellence gives the organization greater impact, aligns actions with goals, specifies tools used throughout the process, collaboration principles with members, and sets them over time. Having a plan for achieving excellence increases the chances of success significantly compared to scattered actions. This is not about perfecting a single process but creating a strategy for processes across the entire organization.

Process Formalization, Company Growth, and Development.
Process formalization is nothing but operating within the framework of procedural processes, instructions, etc. It is part of process identification as it defines its attributes in writing. Often, processes related to process flow documents are placed outside processes and their owners. There are positive aspects to this as it significantly relieves participants administratively, but detachment of the process description from its owner has negatives as it reduces flexibility, timeliness, creating administrative silos. The direction of action and change in this area should focus on simplifying and "lightening" process-related documents rather than centralizing legislative processes and disconnecting them from owners/participants of the process. **Effective process management requires a holistic view of the entire organization and linking all components into a whole.** Setting goals, which cascade down to determine the direction for processes, in terms of indicators, expected values, and process improvements. I have often encountered well-functioning units in organizations that meticulously set goals, measurement systems, and improved their processes, which brought excellent short-term results, but in the longer term, unrelated actions to the whole resulted in expansion, not organizational development.

CHAPTER V

CRISIS RESILIENCE –CHANGE MANAGEMENT

The direction of change is set by the Turnaround goals, which have been developed in the crisis exit strategy/building resilience to crises. In both cases, it is important to build a system of employee engagement in building a new reality and an organizational culture that can harness the ideas for change from its members and then effectively implement them. Members of the organization who are intimately familiar with their processes often see potential for improvements very well, it's just a matter of leveraging that effectively.

The aim of the change management process is to skillfully "extract" and further process them. This involves minimizing risk and resistance, building engagement for further changes, providing tools to facilitate change implementation, and ensuring that the change is desirable and well-received by its members. Below are some key assumptions in the change management and improvement process:

Changes that are forthcoming should be properly communicated but also transparent to the organization's members. Change is subject to formal coordination by answering questions: what is it about (what?), who is responsible for and involved in it (who?), how and when will it be implemented (how? when?). Having a clear overview of changes (regardless of form) that the organization faces is crucial for the entire change management process.

A system for generating ideas for change is crucial. It seems essential to reach out to employees to generate ideas for change. How to get employees engaged in building a change-supportive culture? There are many forms: from collaboration of a unit dealing with processes/optimization to training-workshop approaches and employee suggestion programs. The goal is to build an open culture that actively engages in tackling new challenges.

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Change can be supported in various ways. **One example of a supportive process is building a network of its supporters, who naturally resonate their attitude with other employees.** Resistance to change is often caused by a lack of basic information about what it involves and what threat it may pose to individual members of the organization. By understanding the reasons for resistance to change, often through appropriate action, we can effectively implement change in the organization.

One of the key factors in **the process of internalizing change is communication. When, how, and to whom we communicate changes** - the answer to this question is a huge factor in success, crucial in the process of achieving organizational resilience to crises.

The company must fulfill its assumptions and goals, and in the case of emerging resistance, it minimizes the chances of faster and more effective achievement of assumptions. **Thanks to the developed resistance management plan, the process of building a strong company is smoother.**