Beane Associates, Inc.

Beane Associates News November 2007

A bimonthly collection of news and advice for stakeholders of financially and operationally challenged businesses

Welcome...

This month we decided to look at one of the areas so important to the success of a turnaround — the turnaround team. Great leadership in times of crisis is a rallying point for the employees of a distressed company. The ability to gather a team of managers to lead the charge and understanding how to ensure they work together toward a common goal is crucial to the company's revitalization.

We also take a look at the current economic climate through the eyes of Vistage CEO's (www.vistage.com) and provide their expectations for the months ahead.

For additional information on us, visit
www.beaneassociates.com

On behalf of everyone at Beane Associates, Inc., I want to thank you once again for your support of our firm.

Sincerely,
Tom Beane, *President CMC CIRA*

Tip Sheet

TURNAROUND REALITIES

1. **The CEO can't do it on his own.** Restoring long-term profitability requires steady leadership. Getting pointed in the right direction is only the start. You must have the guidance and buy-in of a trusted turnaround team to implement real change.

2. **It takes time.** The company did not fail overnight and it won't turn around overnight either. It is rare that a company gets in trouble suddenly. It is a process that has been taking place for a long time — a slow and gradual deterioration — and the reversal of fortunes is likely to move at a similar pace.

3. **Get ready for some big changes.** If the team is effective, you will quickly be presented with some major initiatives. Some big changes may need to occur quickly. That's only natural as you break up the old way of doing things.

How a Turnaround Manager Rebuilds the Team By Tom Beane

There's more to turning around a troubled business than finding ways to build up the bottom line. There's plenty of emphasis on dollars and cents, to be sure, and a return to profitability is the ultimate measure of success. But an integral element in achieving a successful turnaround is establishing a team that will not only work together to revitalize the company, but one that will stay together after the immediate crisis and insist on building constructive working relationships with the company's top management — from the CEO through the vice presidents, directors and department heads. Of course, building an effective team is easier said than done. A great reference source for understanding team dynamics is "The Five Dysfunctions of a Team: A Leadership Fable" by Patrick M. Lencioni, which can be purchased on www.Amazon.com Lencioni believes that teamwork is the ultimate competitive advantage and that it is powerful but rare in today's business world. "If you could get all the people in an organization rowing in the same direction," he says, "you could dominate any industry, in any market, against any competition, at any time." **Never have words been written that so completely describe a successful turnaround.**

Lencioni's key message is that success requires overcoming five dysfunctions that are capable of tearing a team apart. These are

- Inattention to results
- Avoidance of Accountability
- Lack of Commitment
- Fear of Conflict
- Absence of Trust

When turnaround professionals arrive on the scene of an engagement we often find problems that extend well beyond the obvious financial and operational issues. For example, the CEO might be a dominant individual who appears impressive on the surface but lacks the depth to manage a complex business. Or as the company falls behind and fails to develop essential strategic plans, key shareholders become weary of supporting the company, both financially and emotionally. Family disputes and generational conflicts punctuate internal battles. Feelings of panic, depression, anger and embarrassment add to the project's complexity. Somehow, we must bring some semblance of order into the situation and it starts with the relationship we build with the CEO. It's not always possible but giving the CEO a positive stake in the outcome can enhance prospects for success. Much depends, however, on the CEO's attitude. Sometimes he (or she) is cooperative and receptive or change; sometimes the CEO is obstructive and resistant, seeing the arrival of a turnaround professional as a threat to his authority and control.

The first, and most important, step in building trust and alleviating fear is to help the CEO recognize the situation and embrace the challenge of returning the company to profitability. One way to secure this cooperation and trust is to clearly outline a path to success. A sense of being completely overwhelmed is natural; presenting a plan with clear and measurable steps helps to focus the CEO on the task at hand. When the turnaround professional and CEO work as allies, and top management supports the plan, the opportunity for long-term success is enhanced.

Creating this crucial alliance is often more difficult when dealing with a CEO who responds to crisis with emotion rather than reason, by expressing anger and disbelief and pointing the finger of blame rather than acknowledging his own responsibilities. Such resistance may occur if the CEO fears suffering embarrassment — both personal and professional — related to a perceived failure. Embarrassment might be the least of the CEO's worries — his home, the family business, his closest personal relationships might also be at stake.

As we build the turnaround team, working with top managers poses a distinct challenge. One of the main reasons companies fail to perform is because of poor management — yet the turnaround professional hired to direct a reversal of the company's fortunes all too often has to work with a management team that bears significant responsibility for the company's decline. Again the ability to build trust and alleviate fear is essential but even more important is finding out who in management is committed to the turnaround. To achieve lasting, positive change the turnaround plan has to be built on clearly defined goals, with set timeframes for completion and an environment of accountability for one's actions.

To read more, go to
http://www.beaneassociates.com/newsletters.asp

Beane Associates News November 2007

A bi-monthly collection of news and advice for stakeholders of financially and operationally challenged businesses

Turnaround Leadership: Lead Your Firm Out of the Wilderness By Rosabeth Moss Kanter

In recent years, I have been inside more than 20 corporate turnarounds, where new leaders were bringing distressed companies back from the brink of failure. In every case, the need for smart financial and strategic decision-making was clear. But along the way, I also noted another equally vital but largely unnoticed aspect of this leadership task: each of these executives restored their people's confidence in themselves and in one another.

The leaders inspired and empowered their people to take new actions that could renew profitability. In short, each had to lead a psychological turnaround.

Organizational pathologies — secrecy, blame, isolation, avoidance and feelings of helplessness — arise during a difficult time for the company and reinforce one another so that the organization enters a kind of death spiral. Reversing that downward trend requires deliberate efforts to address each of the pathologies.

Reversing the cycle

The only way to reverse a corporate decline is to change the momentum and empower people, replacing secrecy and denial with dialogue, blame and scorn with respect, avoidance and turf protection with collaboration, and passivity and helplessness with initiative. Let's look at each of these interventions in turn:

- **Promoting dialogue:** Companies compound their financial and strategic woes when they keep information secret. And problem-solving is impossible if people do not have all the facts. So the first task of turnaround leaders is to open channels of communication — starting at the top.
- **Engendering respect:** Open dialogue exposes facts and tells the truth, but a successful corporate turnaround depends on relationships as well as information. It is tempting for a new regime to exact revenge and punish those responsible for past mistakes. But that would only guarantee that the blame culture would continue. Turnaround leaders must move people towards respect; when colleagues respect one another's abilities, they are more likely to collaborate in shaping a better future. It is hard to play politics if everything is discussed openly.
- **Sparking collaboration:** Turnaround leaders know that problem-solving requires collaboration across departments — and not just because innovations often come from these joint projects. Changing the company's dynamics requires collective commitments to new courses of action lest local decisions taken in isolation undermine that change. New strategies are possible when new kinds of conversations are held about combining organizational assets in new ways.
- **Inspiring initiative:** Once turnaround managers set up the structures that allow people to collaborate, they need to empower their staff to initiate actions that will improve the company's position.

Energy for change

Despite the common psychological dynamics in all the turnaround situations I have seen, leading a corporate turnaround is not a one-size-fits-all process.

Yet despite differences in strategies and tactics, all turnaround leaders share the overarching task of restoring confidence through empowerment. Each leader must create a winner's attitude in people, even before the victories.

And that means performing a series of balancing acts. Troubled companies are generally in financial distress, and cutting expenses is a characteristic turnaround move. But how this is done has a big impact on whether the turnaround is a temporary fix or a path to sustainability. Effective turnaround leaders consider the kinds of cuts they are making as well as the number of cuts, stressing reductions in bureaucracy that kills initiative.

One conclusion is unmistakable: turnarounds are when leadership matters most. Managers can stem losses with a few bold strokes — like slashing budgets — but putting a company on the path towards success also requires that leaders energize their workforce.

The small wins that newly empowered people create are the first signs that a turnaround is on track. And this is the true test of leadership — whether those being led out of the defeatism of decline gain the confidence that produces victories.

Rosabeth Moss Kanter is the Ernest L. Arbuckle professor of business administration at the Harvard Business School. This article originally appeared Feb. 24, 2004 in the Sydney Morning Herald.

CEO Confidence Hits All-Time Low

Confidence in the U.S. economy continues to slide, according to the latest Vistage CEO Confidence Index. Chief executives of small and mid-sized businesses are becoming increasingly concerned about the turmoil in financial markets and the effects it may have on their businesses. In the third quarter of 2007, the Vistage CEO Confidence Index fell to 81.4, the lowest it has been since the survey began in 2003.

A quarterly measure of economic, market and industry trends, the Index dropped nine points, down from 90.5 in the second quarter and 89.3 a year ago. When the Index was first created, confidence was measured at 100.0 in the second quarter of 2003 and 108.7 in the third quarter.

"Of the 2,103 business leaders surveyed, the concern is not only about the economy, but also about the availability and cost of credit to their companies," says Richard Curtin, a consultant for the Vistage CEO Confidence Index and director of consumer surveys at the University of Michigan. "Because of this, executives plan to put some of their planned investments on hold for the remainder of the year."

Overall, the survey indicates business leaders expect a slowdown, but not a turndown in the economy. Companies still expect strong growth in their revenues, and have no plans to cut payroll. As in the prior quarter, recruiting and retaining talent is the most important challenge executives face, although uncertainty about the economy may also slow hiring.

"CEOs are expressing guarded optimism that their companies are in a position to withstand the stiffer headwinds from the credit storm," says Rafael Pastor, Vistage chairman of the board and CEO. "Our members are resistant to staff downsizing, which is a clear indication they have not adopted a pessimistic view. They're simply becoming more cautious."

Despite the sharp decline in confidence, 59 percent of business leaders surveyed did not think the economy would worsen any more this year.

Pittsburgh Office Opens

Beane Associates, Inc., has expanded its activities into western Pennsylvania and Ohio by opening a Pittsburgh office. Robert W. Pater, who has nearly 20 years experience in refinancing, turnaround management and marketing, has joined the firm as a Director and will be responsible for the company's activities in that area. Pater will be based in Butler, Pa., a Pittsburgh suburb.

"For 23 years, Beane Associates has built a reputation for integrity and excellence in business consulting," said Thomas J. Beane, President and CEO. "With this new office, we will be able to provide even better services to businesses in the Greater Pittsburgh area."

For the past seven years, Pater has been a director with a boutique finance firm in Butler, where he gained extensive experience in restructuring secured and unsecured debt as well as in the private placement of senior and subordinated debt.

Pater earned a B.A. in Business Administration and Economics from Grove City College.

About Beane Associates, Inc.

Founded in 1984, Beane Associates, Inc. continues to build an impressive track record in helping private and publicly owned companies improve operational effectiveness and profitability during a time of financial challenge. The company has offices in Wilmington, DE, Charlotte, NC, and Atlanta, GA.

Baynard Building, Suite 207, 3411 Silverside Road, Wilmington, DE 19810-4808 Phone: 302.479.5438 Fax: 302.479.5434 www.beaneassociates.com