PAUL VORBACH
*Managing Director,
AcademyGlobal &
Visiting Professor,
UTS Faculty of Law*

KIN PAN
*Research Associate,
AcademyGlobal*

feature

LEADING THE CORPORATE TURNAROUND

The role of personality and style-preference in leadership effectiveness.

An examination of notable corporate crises confirms that companies can fail for a wide variety of reasons. A number have made poor assessments of market opportunities, leading to acquisitions that fail to deliver on their promise (Slater and Gordon, ABC Learning). Other companies have suffered from inadequate corporate governance, contributing to a culture of hubris (Allco) or even fraud (Clive Peeters). However, perhaps the most common and enduring factor behind corporate failure is a significant and sustained downturn in the market in which a firm operates and the attendant inability to respond early enough to effect a recovery.

While each corporate failure has its own unique features, poor leadership is often attributed as being a key underlying cause. When the sources of decline can be traced to internal conditions, this appears reasonable. But even when the factors are external, the leadership of a firm is ultimately held accountable for anticipating and engaging with market challenges. Whether this is fair or reasonable remains subject to the particular context and conjecture. Regardless, it is clear that new leadership is usually required to recover a struggling business. The following insights are based upon the psychometric testing of over 200 practitioners in the restructuring, insolvency and turnaround profession conducted as part of training programs over the last decade.

WHO WILL LEAD THE TURNAROUND?

Turnarounds are usually complex, stressful and chaotic processes. While significant planning is often needed to change the trend line of a failing business, the turnaround leader must be able to prioritise the critical options and project manage their execution within the constraints of a crisis.

Adding to this challenge is the reality that distressed situations tend to foster the conditions for conflicts between stakeholders. It is perhaps ironic that when a firm most needs cohesion, the behaviours of key staff and other stakeholders can be destructive and harmful to the prospects of a successful turnaround. To arrest this, the leader in a crisis must leverage the symbolism of a burning platform to galvanise and align stakeholders for the turnaround.

Given the need to muster critical support in a turnaround, the common view is that the incumbent CEO who has led the firm into the crisis should be held accountable. Having failed to course correct, that leader should be replaced.

On a practical level, the turnaround leader might be an interim CEO who comes into the organisation with a view to stabilising it and setting it on the road to recovery. After education provider Vocation Ltd rapidly lost the confidence of the market in 2015, Stewart Cummins was appointed as CEO to stem the bleed, salvage what was possible and attempt to restore value. In other situations, the turnaround leader can be appointed with a view to leading a strategic organisational transformation.[1] When Geoff Lloyd was appointed as CEO of Perpetual in 2012, the challenge was to take a company that had lost its confidence and direction, and rebuild it into a modern and sustainable business.[2] Sometimes the incumbent CEO is the right person to lead the turnaround, as knee-jerk dismissals of CEOs can be disruptive in the midst of a crisis.[3] However, this is only if they have the appropriate support in place from the board, major shareholders and perhaps even secured lenders.

1 Interview with Stewart Cummins (Sydney, 9 June 2017). **2** Interview with Geoff Lloyd (Sydney, 6 June 2017). **3** David L. Auchterlonie, 'How to Fix the Rotating CEO Dilemma: Best Practices of Turnaround Management Professionals' (2003) 6(4) *The Journal of Private Equity* 52.

When it comes to selecting the turnaround leader, there is a need to find someone who enjoys the thrill of the restructuring ride and the unique opportunity to make a meaningful difference.

From our interviews with over 40 leaders across different roles in restructuring and turnaround in Australia, it appears that it can be a challenge to find individuals willing to take on turnaround appointments. Concerns include the risk of being seen as 'a bit on the nose', developing a tarnished reputation through consequent association with a failing or failed organisation, and suffering diminished career prospects.[4]

This seems at odds with other parts of the world where experience with business failure can be perceived as valuable and even a mark of distinction. Leaders may also avoid turnaround appointments due to the serious risk that their attempts will be unsuccessful. Ann Sherry AO, the former CEO and now Executive Chairman of Carnival Australia who led the organisation out of a crisis, argues that such attitudes might be rational. 'Most people,' she says, 'are motivated to do the safest things with the highest rewards.' Turnarounds rarely offer this.

When it comes to selecting the turnaround leader, there is a need to find someone who enjoys the thrill of the restructuring ride and the unique opportunity to make a meaningful difference. Turnaround leaders are those who can perceive the potential in a business and are confident in delivering a successful transformation. This defining characteristic of turnaround leaders requires more than a self-awareness of their own readiness and appropriate skills, with a temperament compatible with the demands of a turnaround also essential.

WHAT IS THE RIGHT LEADERSHIP APPROACH?

Kenneth Thomas and Ralph Kilmann introduced the Thomas-Kilmann Conflict Mode Instrument to assess the match between the conditions of stakeholders and the effective leadership approach in those circumstances.[5]
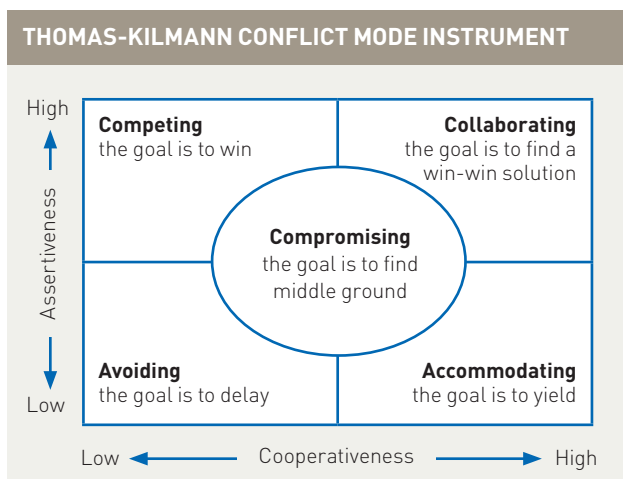
The premise of this model is that there is no single ideal method of leadership. Rather, different situations call for different strategies of leadership that vary on a spectrum in terms of assertiveness and cooperativeness. Most people will have a natural preference for one or two of these strategies, at least when it comes to leading an organisation for an extended time period. The problem with crisis situations is that people tend to revert under pressure to what is most comfortable or natural for them.

Through developing and delivering training programs on turnaround leadership over the last decade, it has become clear that the preferred styles of leaders in the restructuring and turnaround industry are the *competing* and *compromising* styles.

Compared to a business-as-usual situation, the pressures of a crisis situation may tempt a leader to revert to styles that are sub-optimal for a turnaround. For example, a preference for avoidance could prove fatal in urgent situations. The accommodation approach may also be harmful due to the resource constraints of a crisis and the need of the leader to secure quick gains. The strong preference for collaboration, which is optimal in business as usual situations, proves ineffective because the conditions for collaboration – time and trust – will probably not exist, at least certainly not in the early stages of a turnaround.

Both competing and compromising strategies are well suited to turnaround leaders who must have a bias for action. Of these two approaches, the turnaround leader will often lean towards a compromising style when managing external stakeholders, such as key customers or critical suppliers. This quick to execute win/win approach provides small gains for both parties and serves to create the conditions where trust can be rebuilt and support gained for the restructure. In contrast, when it comes to managing internal stakeholders, the turnaround leader will often require a more competing approach, reflecting the need to take control, restrict delegations and stabilise the business.

THOMAS-KILMANN CONFLICT MODE INSTRUMENT

High

Assertiveness

Competing
the goal is to win

Collaborating
the goal is to find a
win-win solution

Compromising
the goal is to find
middle ground

Avoiding
the goal is to delay

Accommodating
the goal is to yield

Low

Low ← Cooperativeness → High

4 Boris Groysberg et al, 'The Scandal Effect' (2016) 94(9) *The Harvard Business Review* 90. **5** Kenneth W. Thomas and Ralph H. Kilmann, *Conflict Mode Instrument* (Xicom, 1974).

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SITUATIONAL LEADERSHIP FOR THE TURNAROUND TEAM

An effective approach to turnaround leadership will also be dependent upon an accurate assessment of the *maturity* of staff. Maturity refers to an individual's *will* to change and also their *skill*. A person who has the will to change can be said to possess a realistic appreciation of the predicament of the business and the required resilience and enthusiasm for change. A person with skill possesses the requisite experience, expertise or talent.

According to Paul Hersey and Kenneth Blanchard, the situational leadership style that should be used will depend on your followers' maturity level.[6] Each leadership style is a combination of task behaviour and relationship behaviour. Task behaviour refers to the amount of direction a leader provides to their followers. For example, telling them what to do, how to do it, when to do it, and where to do it.

Relationship behaviour refers to the amount of two-way communication the leader uses with their staff. This includes active listening and other supportive behaviours. The table below connects the maturity level with a corresponding situational leadership style, based on the required degree of task and relationship behaviour.

MATURITY OF STAFF	
Maturity level	**Description**
M1 Low	The individual is not able and not willing to do the given task.
M2 Low to moderate	The individual is not able but willing to do the given task.
M3 Moderate to high	The individual is able but not willing to do the given task.
M4 High	The individual is able and willing to do the given task.

STAFF MATURITY AND SITUATIONAL LEADERSHIP STYLE			
Follower maturity	**Leadership style**	**Leadership behaviour**	**Guidance**
M1	S1 Telling	High Task & Low Relationship	For the turnaround leader, staff in this quadrant lack both the will and skill and should be removed. Their need for clear directions and continual guidance on what, how, when and where to perform specific tasks means that they are of little immediate value.
M2	S2 Selling	High Task & High Relationship	In this quadrant, staff lack skill but possess the will to participate in the turnaround. Given the resource constraints in a turnaround, it is not usually possible for a leader to provide the degree of support needed. It is highly likely that these staff will also be casualties.
M3	S3 Participating	Low Task & High Relationship	Good people with appropriate skill often lose confidence and enthusiasm when the organisation is in decline. Supportive leadership behaviour and time required by this is challenging given the resource constraints. In turnarounds, active listening and sharing in decision-making is limited to select staff members.
M4	S4 Delegating	Low Task & Low Relationship	These staff need less direction or little support. Followers are self-directed at this level and are motivated towards achieving outcomes. These are the optimal team members in a turnaround. As a turnaround progresses and confidence builds around the achievement of outcomes, this maturity level should become more prevalent.

6 Paul Hersey and Kenneth H. Blanchard, *Management of Organizational Behavio*r (Prentice-Hall, 6th ed, 1993).

BUILDING THE TURNAROUND TEAM

The multi-faceted nature of turnarounds drives the need for a diverse range of skills and competencies to be brought together to achieve quick wins in a tight timeframe. When utilised well, team structures can increase the pace and success of a turnaround. Each team member will have technical and personal competencies.

Technical competencies can be generalist, such as management skills, or specialist, such as deep operational, legal or financial expertise. In contrast, personal competencies are individual by nature. These include but are not limited to temperament, personality and self-discipline.

While turnaround leaders rarely face a surplus of talent, it is nonetheless important to assemble the best team within these constraints. A useful tool to ensure that team members are broadly compatible with the turnaround plan is the Belbin Team Roles instrument. Meredith Belbin identified eight team roles that could be categorised into three groups: Action Oriented, People Oriented and Thought Oriented.[7]

Each team role is associated with behavioural and interpersonal strengths, as well as characteristic weaknesses. These weaknesses, however, are allowable in the sense that people can be conscious of them and strive to improve on them.

1. Action Oriented Roles

Shapers (SH) are people who challenge teams to improve. Sometimes extroverted with a passion for stimulating others, questioning norms and finding the best problem-solving approaches, Shapers like to shake things up. Rather than seeing obstacles as insurmountable challenges, Shapers have the grit to see things through. The weakness in this is that they can be argumentative and offensive to the feelings of others. Shapers are usually temperamentally well suited to being the turnaround leader. If not the turnaround leader, it is crucial for them to be aligned and supportive. If this is not possible, Shapers can undermine the turnaround, and the leader might need to remove them.

Implementers (IMP) are people who deliver on concrete objectives. In a crisis situation, these staff can be the greatest asset to a turnaround leader. Implementers translate the ideas and plans for the organisation into practical actions. With a disciplined, organised and efficient approach, these people can be relied upon to get the job done. On the downside, Implementers can be rather inflexible and be resistant to change. It is critical for the turnaround leader to bring these people on board in the initial stages of a turnaround.

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7 Meredith Belbin, Management Teams: *Why They Succeed or Fail* (Butterworth-Heinemann, 1981).

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Completer-Finishers (CF) are people who ensure that projects are completed with minimal errors or omissions. Often concerned with deadlines and details, Completer-Finishers deliver on their promises, which is critical to rebuilding trust in an organisation. However, their perfectionist streak is valuable only insofar as it facilitates the effective implementation of a turnaround plan. The completer-finisher must be prevented from focusing on trivial details where other more pressing tasks need to be addressed. The turnaround leader will need to signal clearly when 'enough is enough'.

2. People Oriented Roles

Coordinators (CO) are people who take on the traditional team-leader role in a stable environment. Providing team guidance as to the objectives of the turnaround, Coordinators are also excellent listeners with a knack for recognising the value each team member brings to the table. With a calm and good-natured approach, Coordinators delegate tasks well. This role type, however, is not a necessity in most turnaround situations. Their potential weakness in a turnaround includes the tendency to delegate excessively at a time where a more directive and controlling approach would be more appropriate.

Team Workers (TW) provide support and ensure that team members work well together. When the turnaround team is under pressure, these people are effective negotiators in creating team cohesion through their flexible, diplomatic and perceptive approach. While popular and often capable in their own right, Team Workers prioritise team collaboration, and are therefore useful foils and allies to turnaround leaders. Their weaknesses include being prone to indecision during team deliberation and decision-making. The turnaround leader must watch over Team Workers to ensure that vital momentum is not lost.

Resource Investigators (RI) are innovative and curious. With a preference for exploring options, developing contacts and negotiating resources, Resource Investigators are enthusiastic team members who have an aptitude for managing stakeholders to help a team achieve its objectives. They are outgoing and often extroverted, meaning that others are often receptive to them and their ideas. In a turnaround, their energy and natural tendency to communicate can be harnessed to useful effect. On the downside, they may be excessively communicative, potentially lose enthusiasm and are commonly overly optimistic.

3. Thought Oriented Roles

Plants (PL) are creative innovators who comes up with new ideas and approaches. They thrive on praise but criticism can be hard for them to deal with. Plants are often introverted and prefer to work apart from the team. Because their ideas are so novel, they can be impractical at times. They may also be poor communicators and can tend to ignore given parameters and constraints. In a turnaround, the Plant might discover novel new ways of solving problems and thus be invaluable. But these strengths need to be balanced against the aforementioned weaknesses.

Monitor-Evaluator (ME) describes people who are the best at examining and evaluating the ideas that others come up with. Shrewd and objective, these people measure up the pros and cons of all options before making decisions. With their critical thinking and strategic approach, Monitor-Evaluators can prove an excellent resource to fast-moving turnaround leaders. However, they are often perceived as detached or unemotional. They can subsequently be poor motivators reacting to events rather than engaging with them, a trait that the turnaround leader must monitor and address.

THE TURNAROUND TEAM		
	Turnaround Leader	Turnaround Team Member
Shaper	✔ ✔ ✔	
Implementer	✔	✔ ✔ ✔
Completer-Finisher		✔ ✔ ✔
Coordinator		✔
Team Worker		✔
Resource Investigator	✔ ✔	✔ ✔
Plant		✔
Monitor-Evaluator		✔ ✔

✔ ✔ ✔ **Critical** ✔ ✔ **Important** ✔ **Desirable**

THE LIMITS TO PERSONALITY, STYLE AND PREFERENCE IN TURNAROUND

The work of restructuring and turnaround is demanding, energy-sapping and often bruising. It is intellectually demanding and the conditions of crisis reduce time available for contemplation and refection. The ability of the leader to accurately self-assess the strengths and weaknesses of both themselves and those of team members is critical.

Only an accurate diagnosis will enable skill and other gaps to be plugged as the leader drives to harness the essential capabilities and capacity necessary to stabilise and rebuild the organisation.

WHEN DOES THE TURNAROUND END?

Towards the end of a successful yet typically gruelling restructure and turnaround, a further change in leadership style may be required. While the burning platform of a crisis rewards those with a deep focus on business stabilisation and a readiness for urgent and hard decisions, maintaining such a myopic focus can limit the opportunity for a return-to-growth.

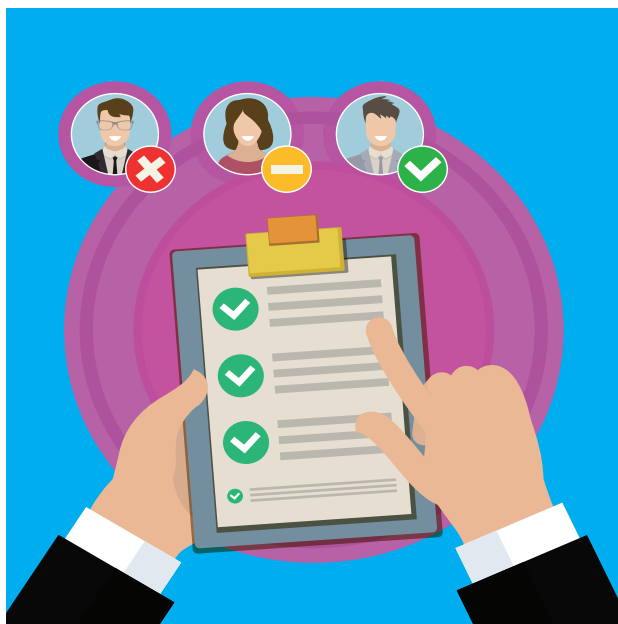Compounding this is the fact that businesses in crisis tend to be unpleasant work environments. To rebuild staff morale and organisational culture, there will be an increasing need to adopt a 'loose-tight' approach to management that focuses on maintaining accountability – for example, through 'continuous and constructive dissatisfaction' – while also providing the freedom for staff to innovate in delivering on such objectives.[8]

While maintaining a spirit of 'constructive dissatisfaction' may be desirable, all successful turnarounds have an end point. Just when this is will vary from situation to situation, and may be viewed differently by different stakeholders.

From the beginning of a turnaround, the board and turnaround leader should have a view of that end goal. The interim leader should have an idea as to when their work is done and when it is time to step aside for the next CEO. It is the promise of further growth that will allow a business to attract high-calibre staff, including the next CEO, and sustain growth into the longer-term.[9]

8 James M. Kilts, John Manfredi & Robert L. Lorber, *Doing What Matters: How to Get Results That Make a Difference-The Revolutionary Old-School Approach* (Crown Business, 2007).
9 Peter Gosnell, 'Ron Gauci and the Art of Transformation' (2016) 28(1) *Australian Insolvency Journal* 14, 17.