ABC Telco was already a management morass when the CFO resigned and the CEO stepped down due to a terminal illness. The two executives had virtually been at war with each other, and each had his camp of loyal managers. Earnings were reeling from the impact of competition, as well as the additional obligations and cost of Sarbanes-Oxley (SOX) compliance to avoid being delisted by NASDAQ. Revenue had fallen from $30 to $25 million, and operating profit had fallen from $2 million to a loss of $2 million.

Morale was down as a result of a (voluntary) layoff of 20 percent of the company’s 125 employees, tedious new processes for SOX, and persistent loss of business to cable TV competition, while executives and the Board blocked investment for expanded video service that many felt was critical to be competitive. In the past twelve months, the Board had replaced one-third of its members, lost a dissident shareholder suit, and saw a nine-month effort to sell the company blow up at the last minute. Two weeks later, at the end of November, the CFO resigned and the CEO gave six weeks notice.

Recognizing the urgent need for day-to-day leadership, the Board brought in an “interim CEO” in mid-January while it conducted a disciplined search for a permanent chief executive, a process that was expected to take three to six months. The interim CEO was a telecom consultant with more than 35 years experience at all levels of the telecom industry and in other industries as well, who preferred project work rather than a permanent assignment.

The Board’s goal was to move the operating company toward profitability in the current year or the next, to enable a new search for an acquirer. The interim CEO’s role was to develop a new strategy to achieve that goal, as well as lead the company’s daily efforts.

The First 30 Days: Where Do I Start?
The interim CEO’s practice was to gain alignment around a new strategy by conducting an offsite meeting with the top 15 or so managers as soon as the necessary information could be assembled. His target was three weeks after his arrival. Having run such meetings nearly a dozen times before, he knew they had to begin with reliable facts about the company’s current position in terms of the market, operations, and financials to begin the process of turning around the company. Usually, such facts had never been gathered and presented to such managers all at the same time.

The jolt provided by such a dispassionate assessment would provide the trigger to get the team to envision and describe how they wanted their company to be operating three years later, and then to develop a strategy to get there. Once a strategy was agreed, the meeting with ABC Telco managers would be concluded by selecting projects (tactics) that would enable them to achieve the strategy, assigning project managers, and selecting key performance indicators (KPIs) to measure success.

With this short term goal in mind, the interim CEO began Phase 1: Evaluation. Shortly after his appointment and two weeks before his arrival, he sent a “data request” to his new assistant to gather the information from the appropriate managers and have it available on his arrival, or send it sooner by email if possible. Information requested included metrics, financials, organization, top 10 suppliers, top 10 customers, network design, and other data. At the same time, he sent a 30-day work plan to the board.
The interim CEO’s first task, after being introduced by the outgoing CEO in an all-employee cafeteria breakfast, was to understand the company’s cash position. ABC Telco had several million dollars in a certificate of deposit as proceeds from prudent borrowing, plus a sizable credit line with a local bank, and other cash-generating investments. Thus, cash was not an immediate problem even if the operating company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) and earnings before interest and taxes (EBIT) were negative.

The second priority was to assign managers to produce the analyses that would be crucial to the offsite meeting: the evolution of the market (lines lost), comparison to competition, product line contribution (especially video), general and administrative expenses and vendor payments, financial trends, and major projects that were either underway or proposed. The report generating capability of the new data system installed for SOX compliance reasons was poor, so these analyses were difficult to assemble. But, once produced, they provided some revealing information about the company to management.

While the reports were being developed, the interim CEO held one-hour interviews with the outgoing CEO and CFO, about 15 to 20 managers, and available board members. In addition to getting to know these individuals, the goal was to understand their views of the business as it existed and what needed to be done. It quickly became evident that potential CFO replacements would not be available soon, so the interim CEO recruited an interim CFO from his firm, who arrived for the second week of the engagement. Both interim officers were added to the company’s directors and officers (D&O) insurance.

The offsite strategy meeting was held on the Friday and Saturday at the end of the interim CEO’s third week. It achieved its goals: developing a common understanding of the situation; reaching agreement on a vision for 2010 and strategy to get there; selecting key projects to implement the strategy; assigning project managers; selecting KPIs; identifying new skills/positions needed; and putting together a plan to communicate all these undertakings to employees.

The interim CEO achieved other objectives in the meeting as well. These included assessing individual managers’ strengths and weaknesses, developing teamwork, and gaining personal credibility with the staff. After discussion with the interim CFO, the next day he wrote and sent to the board a summary of the meeting and the new strategy, and his plan to reorganize management, including new skills to be hired and positions to be eliminated. He followed up the next week and obtained Board approval, and implementation began immediately.

That next week the interim CEO also held an all-employee breakfast meeting to describe the offsite meeting’s outcome. He also introduced a new communication tool, a graphic representing the three-part strategy. Copies were framed and posted throughout the company buildings. A second component of a plan to improve employee communications, a monthly pizza lunch for about eight employees and the CEO, began that week as well.

The next step was development of project plans by the newly appointed owners of the key implementation projects. These were completed by the end of that week, and the routine of submitting weekly status updates to the CEO began the following week. The CEO reviewed these reports each Monday morning and met briefly with each project manager during the week. After 30 days, updates were provided biweekly.

The Second 30 Days: Delivering on Promises
The CEO had assigned himself as project manager for defining policies/processes, and for staffing and launching a growth initiative outside the local franchise area (until a new Marketing Director could be found). In this context, he developed a “management system”, including performance objectives, status reports, and end of year bonus compensation for both individual and company performance. The company had never had individual objectives tied to its strategy, and had never had a bonus plan.

At the offsite meeting, vendor expenses, especially legal and accounting/auditing and information technology (IT), were shown to have risen significantly in the last two years in response to the SOX compliance efforts and the board’s attempt to find a buyer. The interim CEO and CFO therefore developed a vendor management system that assigned major vendors to individual managers and held them accountable for a (newly reduced) maximum amount to be paid to their vendors for the year.

For example, the CEO was responsible for legal and board expenses. Under the new system, when a vendor was paid, it was also informed of the amount of budgeted dollars remaining for its services for the year. Previously there had been no vendor or departmental budgets.

While managers began to implement their projects, the CEO and CFO began to develop the revenue, expense, and capital budget for the year, targeting a Board meeting in four weeks out for approval. No such budgets had been created for the prior two years.

This effort produced the vendor budgets noted earlier. It also led to an analysis of employee and retiree benefits programs, where several significant opportunities for cost savings surfaced around healthcare, 401k matching contributions, and pension funding. Headcount available for project implementation was determined in this process, and it also forced decisions on major capital projects that were either proposed or underway. Using a new major project approval process, the CEO and CFO drove the development of business cases and projected benefits for these projects, enabling rational go/no-go decision making and accountability for those that went forward.

By the end of the second month, the Board Presentation included a situation analysis; strategy and key implementation projects; progress to date; new organization; management system and Incentive compensation plan; financial targets for the year and projection for the following year; major project business cases; and capital requirements.

Due in part to suitable advance communications with the board, the plan was approved. A newly-discovered $4 million operating loss for the prior year on $25 million revenue was projected to become a $1.5 million loss for the current year, with breakeven possible the following year despite continued strong competition.

Following the Board meeting, the interim CEO shared the entire presentation with the management team and held an all-employee meeting to share the main points with the workforce.

**Days 60 to 100: Sustaining Momentum**

During the third month, the interim CEO participated in the board’s search for the permanent CEO, developed the presentation for the annual shareholder meeting, and led the Board to invest in an additional tranche of the wireless partnership which became available via right of first refusal. At the same time, the 10K was completed, vendor budgets were renegotiated, new skills were hired, departments were reorganized, managers completed their one-page plans (annual objectives), and project implementation moved forward.
By Day 100, the annual meeting was held without shareholder rancor, and the new permanent CEO was introduced. He quickly arranged to make the Interim CFO a permanent hire.

Results for the first year were better than planned, and the operating company became cash flow positive. The second year has been better than the first year, though EBIT may not reach the breakeven level until next year. Expense control and capital control were achieved quickly, while revenue efforts took longer than planned to bear fruit.

While every company has its own unique issues, these operational turnaround techniques in the hands of a communicating leader have been effective in several companies and in industries other than telecom. CTPs and other turnaround professionals can use these techniques to save businesses and jobs. Leadership, turnaround techniques, and strong frequent communications at all levels are all critical to success, and when all three are present, operations can be turned around quickly.

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