Turnaround Management

By Thomas A. McLaughlin

Recessions resurrect old chestnuts, and one of these is the concept of turnaround management. Of course, in the nonprofit sector turnarounds are not common. Or are they?

Consider the merits of this assertion. Turnaround management does exist in the nonprofit sector but it is more likely to be called something else, such as "interim management." Interim nonprofit leaders are typically short-term executives brought in for one of two reasons – either the previous CEO left abruptly, or there is a question about whether the organization will survive at all, and the interim leader is there to help in the short term. Often the primary goals of the interim leader are to stabilize a difficult situation and help buy some time to solve broader strategic issues. Equating interim leadership with turnaround management is not always an exact fit, but it's close enough to remind everyone that even nonprofits run into rough patches.

In an earlier column the typical patterns of distressed nonprofits were covered (see "Beating the Death Spiral" in the October 2009 edition of The NPT). Often, nonprofits in a crisis reached that state after a number of years. A reliable marker of the decline is the total amount of cash and investments available to them at any given time. But that is the end-stage picture. To correct the situation, the turnaround streetsmart manager has to understand what brought the organization to crisis in the first place.

There are many potential causes for declining performance. An ill-advised purchase of a building can trigger a decline when the new venue is too large or the debt service too onerous. Economic downturns might stress weak management controls. Mission drift might have created fragmentation, or a business model that worked for a smaller revenue base becomes unworkable in a larger one. Whatever the cause, the turnaround manager must pinpoint drivers and act rapidly to fix them.

A nonprofit's board of directors must play a role in the turnaround. Ideally, the board will recognize the problem in its early stages and initiate a turnaround plan. The board at this stage must explicitly empower a turnaround executive or some external entity that is given substantial short term executive power, usually in the role of chief executive officer. This acknowledgement helps support the turnaround process in substance and in symbol.

The turnaround executive has the unenviable task of rebuilding the airplane while flying it. What might seem like a blur of events and decisions to an outsider can usually be separated into three distinct phases: discovery and analysis; short-term planning; and long-term restructuring.
Discovery and Analysis. The turnaround executive offers an inherently valuable advantage: a fresh perspective unburdened by the baggage of previous experience with the entity. This means the person sees things in a fresh way, cannot be accused of "getting us into this mess," and has no demonstrable loyalty to any one individual or way of doing things. This advantage will last for about six to eight months, during which the executive -- or the turnaround team -- must learn an enormous amount about the organization in a compressed period of time.

The first step is a coordinated program of discovery and analysis -- talking to everyone who might have some insight into the source of the problems, reading a wide range of documents to backfill one's knowledge about the entity and its recent decisions, and verifying whatever assets and strengths might be available.

Short-Term Planning. While all that learning and discovery is going on, the turnaround executive has to assemble a plan for the short term. Defining short term is largely a matter of understanding the organization's business cycle. A way to get at the business cycle is to ask "if we were to make a decision today to initiate major changes in the way we provide our services, how long would it take the consumer to feel the effects?" Different types of nonprofits have different cycles. A performing arts organization's business cycle will probably be one full subscription series, or typically the better part of a calendar year. A college's business cycle is a full academic year.

The next question to investigate is whether the organization can be expected to survive for at least as long as its cycle will last. This is mostly a question of cash flow. Will there be enough cash coming in to cover the demands for cash going out? Are there significant negative or positive developments that can be expected during the cycle?

For instance, a nonprofit had been unable to pay a major construction-related invoice and the contractor sued for payment. It was known that on a specific date two months hence the contractor's court appearance would probably result in a lien being placed on the property, which would have several predictable repercussions. Both the court action and the expected related developments had to be accounted for in the short-term plan.

During the short term, the turnaround executive must do one thing successfully: buy time. The person must constantly make quick decisions, be responsive and transparent to creditors and lenders, think creatively, and look for every potential advantage no matter how small. One manager in this situation identified his top three accounts receivable and personally called each organization to explain the urgency of their situation and to ask for at least immediate partial payment. This single action might have been what gave the organization enough time to make plans for major changes that ultimately helped the entity to survive.

Long-Term Planning. Managing the short term is necessary to get the time and resources needed to reposition the organization for the long term. While the short-term effort is all about ready-fire-aim, the long term has to be well planned. To put a fine point on it, going through the gauntlet of the short term is pointless if there is no realistic longer-term future.

Restructuring the entity for the long term involves all aspects of the organization. The board of directors will almost certainly need to be overhauled, the senior staff replenished, administrative systems replaced, and programs closed or trimmed. Chances are good that the entire business model will need serious re-thinking to avoid another decline.

This process goes much deeper than what is typically considered a "strategic plan" because it has to touch all aspects of the organization. At this point the distressed nonprofit might well be smaller than it was just a year or so ago, and many of the individuals associated with it could be gone or exhausted.

While this could be the hardest part of the entire process, it will be helpful for the leaders to consider their efforts in a larger context. A successful turnaround means a mission and its associated resources were saved, an organization was made more efficient, and the entity is likely to be stronger at that point than at any other time in its recent history. The process of getting to that stage was probably not pretty, but the community's collective ability to solve at least one type of social problem is now improved, not bad for an old chestnut.

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