

Seven Steps to Critical Thinking in a Turnaround by Henry Hillenmeyer, Senior Adviser



Companies in trouble often fail to turn their businesses around because of a lack of critical thinking. Sometimes companies simply try to redouble their efforts by repeating what they have done in the past. This usually fails because the world has changed and their old methods led to trouble in the first place. Conversely, sometimes companies choose a completely new course and fail because they do not have the necessary skills to succeed on that course. What will offer a troubled company the greatest chance for a successful turnaround is some real *critical thinking*. Here are seven ‘critical thinking’ steps every troubled company hoping to turn the business around should follow.

Step 1: Take an objective look at the company and ask the question: “Does the company have any real expertise in anything that it does which can be the basis for a profitable business?” Sometimes this question is best answered by an outside adviser who is impartial and not tied to the company’s past. If the answer is “No”, chances for a successful turnaround are slim. If the answer is “Yes”, the company or its outside adviser should move to the next step.

Step 2: Step back from the company and ask the question: “If we are to be solely in that business and we know we have real expertise, what would the ideal organization look like in order for the business to succeed?” Answering this question should result in an organization chart which includes definitions of the skills and experiences required for each position on the chart.

Step 3: Identify those individuals in the company who possess the appropriate background for a position on the chart. The company will already employ some of these people or the company could not have declared in Step 1 that it had real expertise in the chosen area. Sometimes the individuals exist within the organization but presently may be in the wrong positions. They need to be moved to the positions that more fully reflect their skill set.

Step 4: Circle the “missing people” on the organization chart. Once these positions are identified and their required qualifications defined, the company needs to go out into the marketplace and find these critical people, bringing them into the company in the proper positions.

Step 5: Terminate those people who are “left over” – who do not have the necessary qualifications for a slot on the chart. This is a difficult step, especially because sometimes it

is not the employee’s fault that he/she no longer fits in the company. For instance, he or she may have been in a line of

the company’s business which is being eliminated. Nevertheless, it is just as important for the individual as it is for the company to take this step; employees should not be perpetuated in jobs that lead nowhere, and a company owes it to them to inform them that is the case.

Step 6: Set up proper compensation and incentives for all the employees in the “new” organization, being certain to align their interests with those of the company so that they prosper when the company prospers.

Step 7: Assure that the company is properly capitalized for the future. This may be difficult for a turnaround company, and it may take some time to obtain the necessary debt and/or equity. However, this should be easier with new management in place, and it should become increasingly easy as the new management begins to affect the business. It is worth noting at this juncture that obtaining capital sometimes is tied to bringing in new management, and therefore occurs simultaneously with Step 4.

This seven-step, critical process enables a company to avoid the “fuzzy thinking” that sometimes occurs in a troubled company. It also helps the company define its clear direction for a successful, prosperous future.

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