

Staying on Track in a Turnaround

By Jeffrey C. Thomson, CMA

The management accountant is a trusted business advisor at all levels, whether it's processing transactions with accuracy and integrity or helping an organization to envision and realize the future enabled by a robust strategic plan. At times, the management accountant on the CFO team may be playing a lead role in a turnaround, and, at other times, it's a support role.

Based on my experience in a large, for-profit organization (more than two decades in a global telecommunications company) and several not-for-profit organizations (IMA®, high school and college teaching), I've put together the elements of a turnaround that transcend organizational size, structure, or global boundaries. And they can help management accountants and their companies keep on the right track during the entire process.

Take Stock

This doesn't mean taking out your stock holdings and liquidating them because of economic conditions! In a turnaround situation, to take stock means to recognize head-on that there's a problem and that the organization needs to make some radical changes because results are unacceptable, it isn't delivering sustainable value to its stakeholders, or it isn't differentiating itself in a competitive marketplace.

Later I'll talk about elements of leadership that are critical throughout a business turnaround. Briefly, however, one of the most important elements is courage. Courage to challenge the status quo. Courage to recognize that leading indicators reveal a downturn in performance. Courage to take stock and radically change behaviors and business processes. Many turnarounds don't get off the ground, or they become infinite-loop turnarounds, because some people think that calling their situation a turnaround means that the trajectory to this point has been unacceptable in some regard. But a key role of the management accountant as trusted business advisor is to help make the gutsy calls. Having historical key performance indicators (KPIs) and projected key risk indicators (KRIs) helps support the cause.

Set the Foundation Before Building the Addition

Once you've taken stock and squarely faced the need for a turnaround and transformational change, step back and address some core foundational elements before jumping into quick-fix solutions that may have high public relations value but little tangible value in sustaining positive business outcomes. Let's go over some core foundational elements.

Ensure you have a robust strategic plan that all stakeholders believe in. If not, get the right minds inside and outside the organization to develop one. Figure 1 shows the basic elements of a robust strategic plan. Also key to a robust strategic plan are best practices of strategic planning and the role of the management accountant (see Table 1 for an example from my October 2007 *Strategic Finance* article, "Anatomy of a Plan: Better Practices for Management Accountants"). There are tons of resources available to help you. The main point here is that strategic planning is a global body of knowledge that requires intelligent understanding and application.

Get weigh-in before you get buy-in to acknowledge the call to action. It's fine to be pas-

Figure 1: Key Elements in the Strategic Planning Process



sionate about the need for a turnaround. But your "fire in the belly" must also be viewed as a "burning platform" by all stakeholders, including the board of directors, the leadership team, and all employees. This is a time to over-communicate and do a lot of listening. In other words, employees in particular need to weigh in on the need for transformational change, and you need to listen carefully to their concerns. After all, as a leader, you want to build "followership" and not just polite support for the call to action that will be implemented by employees.

Get the right team in place—those who are ready to do battle. Make no mistake about it—a business turnaround is *not* for the faint of heart. You need to have a team around you that's composed of individuals who are battle tested and ready to lead the organization on a transformational journey that may have more valleys than peaks. This team must be able to ride the waves in

Table 1: Key Planning Activities and Management Accountants

KEY PLANNING ACTIVITY	ROLE OF THE MANAGEMENT ACCOUNTANT	SUGGESTED FREQUENCY
Setting/Validating the Vision	Contributing to feedback sessions to set or validate the Vision.	Every three years
Setting/Validating the Mission	Contributing to feedback sessions to set or validate the Mission.	Every three years
Environmental Scan/ Business Landscape	Research and synthesize intelligence on key environmental factors, including regulatory environment and competitors.	Every three to six months
Product and Market Priorities	Identify key market segments, inventory current product and service set, and determine the priority products and markets for resource allocation, market launches, etc.	Every six to 12 months
Strategic Change Portfolio	Work with cross-functional teams to create and update “strategic initiatives” that overlay the multiyear baseline view to achieve strategic goals.	Every six to 12 months
Determine Measures of Success ◆ Strategic goal setting ◆ Forecasting at micro and macro levels (Baseline + Initiatives) ◆ Budget detail ◆ Financial and nonfinancial measures	Key role for the management accountant in terms of determining goals, key financial and nonfinancial measures (e.g., use of balanced scorecard and strategy maps), long-run forecasting of key measures, budget expense detail for first year of plan, etc.	12 months (budget/plan cycle) supplemented by periodic in-year outlook updates (e.g., quarterly)
Develop, Deploy, and Sustain a Continuous Improvement Process (“the plan for the plan”)	Work closely with cross-functional teams to support or lead continuous process improvement efforts for one of the organization’s most critical business processes: strategic planning, budgeting, and forecasting.	Ongoing

turbulent times and come out of the turbulence with strength and conviction. Yes, this is easier said than done. But it starts with getting the right mix of leaders and team to start the journey. Even if it involves employee terminations (cleaning house, in effect), building a team with complementary skills and the willingness to do battle—even with each other in a direct and respectful manner with “fierce conversations”—makes for great business outcomes.

The answer to “What makes a great leadership team?” isn’t simple. As the basis of their book, *Strengths-Based Leadership: Great Leaders, Teams, and Why People Follow*, Tom Rath and Barry Conchie performed extensive research and determined that the four domains of leadership strength are Executing, Influencing, Relationship Building, and Strategic Thinking.

Make “Creating Value Through Values” a leadership priority. There are two elements to this leadership priority:

Creating Value—This is the outcome or output side of the relationship. Creating value transcends organization size, organization structure, and global boundaries. Put simply, if you aren’t creating and sustaining value for some stakeholder group, it’s highly unlikely that you’ll

experience positive business outcomes as measured by your KPIs, balanced scorecard, or dashboard. The organization must have an unwavering focus on defining, creating, and enhancing value for its defined target markets.

...*Through Values*—This is the input side of the relationship. It might sound as though you’re being a “softie” vs. having the battle-tested approach I described earlier. But it has been proven time and time again that organizations with strong values imbued into their culture experience more positive business outcomes. These values should be developed by senior people in the C-suite (the CEO, CFO, etc.), not by consultants or by committee. Values serve as guideposts to appropriate business behavior in dealing with all stakeholders in the community—your board, your people, your customers, your competitors, and your partners.

Two elements make values “successful”: (1) Tone at the top. If the senior-most leaders don’t exhibit in their everyday actions the values they extol, there’s no hope for values. The values become victims, in effect. This is why these leaders must draft the initial values statement. (2) Embed the values into your performance management and incentive structure. While SMART (Specific, Measurable, Actionable, Realistic, and Time-Bound) goals

Figure 2: Evolution of Risk Management

From Old Paradigm of “Risk”► To New Paradigm of “Risk”



seem very reasonable to set and measure, they are very outcome based. If you achieve your numbers by competing with and/or abusing your teammates, is this a good thing? Is this a team that will sustain the organization in good times and in bad? At IMA, our performance appraisals include achievement of specific business goals (at the company and individual job levels), but they also include a weighting for how these goals were achieved (the values).

Table 2 contains the IMA global staff core values. As CEO, I developed the values, which I believe in deeply as foundational—and mandatory—for business success. Next, my Senior Leadership Team (SLT) reviewed them. I then allowed a 60-day comment period about them for all IMA global staff, whether they work in Montvale, N.J.; Dubai; or Beijing. People must weigh in before they buy in.

Especially in a business turnaround situation, core values are the gut-check that allows great leaders, great people, and great organizations to squarely address turbulence with deliberation, with passion, and with an eye on the prize. They keep everyone on track.

Execute the Strategy

This obviously means do it (*not* kill it). If you’ve developed an integrated strategic plan that engages all stakeholders, then put it into action. Earlier, albeit at a very high level, I described the elements of the planning cycle

and the role of the management accountant. The expertise of the management accountant kicks in here. Rather than focus on all elements of strategy execution, I’ll focus on three critical success factors that are powerful yet often aren’t practiced as optimally as they could be.

Risk Management. Risk management is a global body of knowledge that increasingly is becoming a critical competency, not just for the auditing community but for the management accountant/CFO team as well. One of the best definitions of enterprise risk management (ERM) is offered by James DeLoach, managing director at Protiviti (a Robert Half company): “ERM is a structured and disciplined approach: It aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the uncertainties the enterprise faces as it creates value. It means a truly holistic, integrated, forward-looking and process-oriented approach to managing all key business risks and opportunities (not just financial ones) with the intent of maximizing shareholder value for the enterprise as a whole.” As noted in Figure 2, the risk management body of knowledge has evolved well beyond only financial risks to include all portfolio and business risks.

Risk management is especially important in business turnaround situations and during turbulent times. Proactive and cross-functional risk management allows an organization to deal with future “land mines” on its

Table 2: IMA Global Staff Core Values

Respect for the Individual

We treat each other with respect and dignity, valuing individual and cultural differences. We communicate frequently and with candor, engaging in healthy debate and listening to each other, regardless of position or level. We work hard to create an environment that respects individuals in an atmosphere of open communication, growth, and learning.

Passion for Serving Members

We enable individuals to use their capabilities to the fullest to deliver exemplary products and services to members. That enablement extends to being passionate advocates in advancing our global profession. We care for all members—building enduring relationships—and each time we serve them should be better than the time before. We appropriately recognize our volunteer leaders, who are so giving of their time and expertise.

Highest Standards of Integrity and Trust

We understand and abide by the *IMA Statement of Ethical Professional Practice* in our everyday business dealings. Our personal conduct ensures that the IMA name is always worthy of trust—our members around the globe expect nothing less. We treat each other fairly, keep our promises, take responsibility for our actions, and admit our mistakes.

Innovation and Continuous Improvement

We believe innovation and a spirit of continuous improvement are engines that keep us relevant, vital, and growing. Our culture embraces creativity and seeks different perspectives. We behave like owners of a “business,” managing risks and identifying new opportunities in serving members and advancing the profession.

Teaming to Achieve

We encourage and reward both individual and team achievements, proactively working across organizational boundaries to always “remember the member.” Our spirit of team achievement extends to advancing our profession and to being responsible and caring partners in the communities where we live and work.

growth journey while being opportunistic at the same time. The key question often never asked is, “Is the level of residual risk acceptable to managers and oversight bodies in pursuit of strategic objectives?” Rigorous risk management using an established framework allows managers to have some tough conversations that transcend organization boundaries as they implement change initiatives. In these conversations about material risks, managers with courage, conviction, and credibility address risks head-on and tee-up choices, opportunities, and actions.

IMA is a thought and educational leader in risk man-

agement, internal controls, and deterrence of fraud. It’s a founding board member of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO, a committee of five accounting associations—IMA, the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), and the Institute of Internal Auditors (IIA)—has been a recognized thought leader and provider of guidance and research in these bodies of knowledge for more than two decades. Its mission and vision are described in Table 3. COSO resources in risk management, internal controls,

and fraud deterrence are available to all IMA members for free or for a nominal fee (see www.coso.org). In addition, IMA has developed its own resources in these areas in the form of *Strategic Finance* articles, research studies, and Statements on Management Accounting (SMAs).

Technology Enablement. The management accountant plays a critical role in the area of technology enablement, especially in business turnarounds and turbulent environmental conditions. This isn't strictly the domain of IT/IS departments. It's up to business managers, enabled and supported by their trusted business advisors, to determine how technology investments can create step changes in business performance and create products and services that transform the customer experience. Management accountants are the drivers of the enablement because they experience the "pain points" in terms of suboptimal transaction processing, analysis and data mining capability, and financial reporting accuracy.

Technology enablement is also a foundational element of a successful turnaround. A robust enterprise resource planning (ERP) system, customer relationship management (CRM) system, or association management system (AMS) can be the make-or-break difference between good vs. bad KPIs or between sustainable business success and "one-hit wonder" business success. Technology enablement is also critical to the cycle of continuous improvement and innovation.

Transformation and innovation are key to any turnaround and step change in business performance. For example, at IMA we sometimes were hesitant to develop innovative ideas because we knew our old enterprise technology platforms simply couldn't support the innovation or change initiative without significant manual processes. Now we've invested in a new AMS, a new website, and a new learning management system (LMS) that we believe will help us create superb member service and make us more agile in developing new, innovative, value-enhancing products and services. Also, IMA was an original thought leader regarding the eXtensible Business Reporting Language (XBRL) open standard, which tags information content to enable more effective internal applications, such as transaction processing, financial and operational reporting, business intelligence, data mining, and more.

Horizontal and Vertical Supply Chain Management. Another key element in strategy execution is implementing best practices of supply chain management. Supply chain management is a challenge because it involves integration of internal, cross-functional silos as

Table 3: COSO Mission and Vision

COSO's Mission is to provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control, and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.

COSO's Vision is to be a recognized thought leader in the global marketplace on the development of guidance in the areas of risk and controls which enable good organizational governance and reduction of fraud.

well as external partners, including outsourcers and agents. In business turnaround situations especially, a supply chain approach is necessary to create sustained value for customers in your target markets. "Horizontal" supply chain management involves all design and production elements in your supply chain, whether they're internal or external to the organization. "Vertical" supply chain management refers more to the distribution channel side of the supply chain.

An IMA example of *horizontal* supply chain management is the CMA® (Certified Management Accountant) exam. Since its inception in 1972, the CMA exam, governed by the Board of Regents of the ICMA (Institute of Certified Management Accountants), has been a world-class exam. But it takes more than a great product (content) to have strong marketplace appeal. It takes an integrated supply chain approach as well. In fiscal 2009, the four-part CMA exam experienced 16% growth in new CMA candidates (13% in the U.S. and 18% outside

the U.S.). In fiscal 2010, the new two-part CMA exam took off in the marketplace and resulted in nearly 12,000 new CMA applicants (including those who opted for a transition exam), about double compared to the previous year. This marketplace success was partly because of an explicit supply chain strategy that included corporate development, marketing and branding, learning system enablement, and infrastructure support. The rigorous CMA exam is focused squarely on the critical competencies articulated by CFOs and controllers around the globe, especially FP&A (financial planning and analysis), risk management and internal controls, strategic cost management, and more.

An example of *vertical* supply chain management is IMA's network of about 200 local chapters around the globe and 22 councils. IMA's chapters are key to strategy success in several ways. They serve as a means to create local communities of passionate volunteers and members who can network about job openings, best practices, and more. Chapter members can engage, share lessons learned or life stories, contribute to the educational mission of IMA (e.g., in terms of student scholarships and thought leadership), or simply become lifelong friends. Chapters and councils also serve as "local ambassadors" to grow IMA membership, certified members, and community engagement. With the appropriate level of enablement from global headquarters and a "knowledge management system" for chapters around the world to share best practices, IMA's network of chapters and councils will continue to play a major role in the success of the association's strategy. In the past 12 months, more than 20 IMA chapters have been formed or revitalized.

Here's a great example of what I'm talking about. Timothy Dallmann, CMA, president of the Minneapolis Chapter, applied rock-solid principles of management accounting in achieving positive outcomes for his chapter, including a 400% increase in attendance at monthly meetings. The 2008-2009 "State of the Chapter Report" said, "Our Board of Directors worked hard to accomplish the organizational achievements which made our Minneapolis Chapter successful in 2008-2009. These included a vision, having a well-run organization, having quality and consistent communication, having quality and interesting speakers and topics, reaching out to our membership and business organizations to educate and welcome, and having a motivated, cohesive and quality Board of Directors." In his "President's Vision," Tim stated, "I look forward to serving every member of the Minneapolis

Chapter by placing a special emphasis on inviting exciting and interesting speakers to address relevant topics at our monthly dinner meetings, helping members by promoting education as well as networking opportunities within

the Minneapolis Chapter, and educating companies about IMA and the CMA through businesses in the Twin Cities."

It was volunteers who created IMA and, in many ways, a profession more than 90 years ago. And it will be volunteers who will sustain IMA on a growth trajectory, as evidenced by Tim's passion, intellect, and service.

There Is an "I" in Team: Innovation

Continuous improvement and innovation are two of the keys to sustaining the gains, especially in the early stages of your business turnaround. We've all heard that there's no "I" in team, but innovation enabled by an agile supply chain, technology, and a will to win (e.g., an *unwavering* focus on creating value for customers) is critical to sustainable business success. In many ways, innovation means wiping the slate clean and conceiving value-enhancing ideas that your organization could never have dreamed of. Outside facilitation and thinkers are often necessary for achieving true and far-reaching innovation. In fact, many great innovations of our time have come from users in the marketplace (think Apple Computer's user-defined software applications) and from projects/products gone awry (think 3M Post-it® Notes), not just straight from R&D laboratories at big companies.

Put simply, user innovation is a key element of any continuous improvement process, and users provide the viral "word of mouth marketing" that may far exceed the impact and reach of the global marketing budget. Another key element of innovation, or even incremental improvement, is employees who have never been asked about their ideas for improvements in business performance. IMA has used "employee ideation teams" to develop new ideas and new thinking to improve service to members (e.g., technology infrastructure improvements). All you have to do is ask, and employees will rise

to the occasion when they feel that they are part of the journey to realize a great future for the organization and its customers. Remember, key stakeholders such as employees must weigh in before they will buy in.

But there are a couple of cautions. “Innovation” is often one of those words that everyone claims to be doing. When you or a member of the team develops a new idea, incremental or transformational, and the reaction is, “Here’s why that isn’t possible,” the ideation has prematurely fast-forwarded to implementation mode, even though you have a long way to go to create an agile, innovative team. If the reaction is, “Wow, let’s take that a step further and envision how this *might* work,” you’re on the right path. Also, if the tone of the organization is that it has already discovered the “soul of service” (i.e., those magic intangibles that create customer ambassadors for life, as experienced by a sacred few such as Apple Computer and Southwest Airlines), plan on *rediscovering* it, and never rest on your laurels. The marketplace is simply too intelligent and demanding.

Leadership Is Key

Sustaining the gains, or even embarking on the turnaround journey, doesn’t have to consist of big-bang, transformational innovations. They could simply be one-step-at-a-time continuous improvements that are imbued into your organization’s business processes and cultural fabric. Never overlook the symbolism of leadership and tone at the top. Early in my tenure as IMA’s CEO, I told the story of the “plant lady” who watered the plants at our global headquarters in Montvale. When I asked how much this cost, the answer was \$700 per month! We terminated the contract, bought employees inexpensive watering cans, and made a commitment to manage costs more aggressively on behalf of IMA’s shareholders—its members around the globe. While I’ve embellished this story just a tad, this symbolic move—combined with implementing rigorous internal cost management principles and surpassing all revenue goals—has contributed toward two straight years of solid surpluses after several years of significant operating deficits.

Sustaining the gains involves many other basic activities, but they always start with a will to win. If winning isn’t in the heart of the key stakeholders in the organization, creating—let alone sustaining—gains won’t be possible. Other sustenance activities include succession planning (from the get-go, not when you’re about to retire) and leadership development. Leadership development training in the form of interactive off-site retreats

that truly determine whether a team has what it takes to envision and realize great things for the organization is a must. One of the best resources for facilitating leadership retreats is Patrick Lencione’s book, *The Five Dysfunctions of a Team*.

Leadership and leadership development are critical to business success, especially in turnaround situations. Staying calm, deliberate, focused, and gutsy in the face of adversity is what tone at the top is all about. The six Cs of leadership, as described at an IMA conference by Charles Christy, CFO of CoastalSouth Bancshares, Inc., can help. They are:

Competence—Demonstrated proficiency in “hard” technical skills and “soft” behavioral, influencing, and leadership skills.

Composure—Remaining calm under fire (stressful or turbulent environments).

Conviction—Passion and commitment toward your views or the views of others.

Character—Consistent demonstration of integrity, honesty, respect, and trust. It’s a “table stake” for leadership—a must to be a successful leader. No questions asked.

Care—Demonstration of concern for the personal and professional well-being of others.

Courage—Willingness to stand up for your beliefs, admit your mistakes, and challenge the status quo when necessary in the spirit of “constructive contention” (willing to surface difficult risks or issues but facilitating a discussion professionally with no personal attacks).

A Major Role

I truly believe that the management accountant plays a major role in the technical aspects of a business turnaround and in getting an organization to take stock of the call to action (i.e., the business turnaround). Steady leadership requires “followership” and a buy-in to the gut-check aspect of a business turnaround. As John C. Maxwell said in his 2007 book, *The 21 Irrefutable Laws of Leadership*: “Leaders touch a heart before they ask for a hand. It’s one thing to communicate to people because you have something of value to say. It’s another to communicate with people because you believe they have value.” Follow these principles, and you can stay on the right track during any kind of turnaround. Your stakeholders should expect nothing less. **SF**

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