



STAR RESORT GROUP

Ron Frank RRP (an Vice President of Star Resort Group) has participated in this study with the understanding that his comments are provided for the purposes of this report, written by Dr. Rosalind Wilson for the course “Managing Corporate Turnaround” at London Business School, submitted June 10th, 2005 and are intended to be used for discussion purposes in that context only. Any other use of Mr. Frank’s comments without his specific written permission is strictly prohibited.

Managing Corporate Turnaround – Final Assignment
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Option 2: Turnaround Leadership

Introduction

This report focuses on the role of leadership within the setting of project turnarounds, based on a series of discussions with Ron Frank, a specialist in project turnaround in the leisure and timeshare resort industry.

Section one provides background information about Ron and the approach taken for this report. Section two discusses Ron’s leadership approach to project turnaround, highlighting links with the framework for turnaround success discussed in the Managing Corporate Turnaround elective. Section three summarises the conclusions from this study.

1. Background and Methodology

Ron Frank is known throughout the leisure and timeshare resort industry as a top-level executive with a straightforward approach and a “can do” attitude. During his 25+ years in the resort industry Ron has held Executive positions with such industry leaders as Fairfield, Shell Vacations, Sunterra Resorts and Radisson Hotels and Resorts. As a Regional VP of Sales and Marketing for Sunterra Corporation, Ron was part of the team that brought the corporation out of Chapter 11. Ron has an extensive Sales and Marketing background specialising in start-ups and workouts, budget management and strategic planning. Ron has highly specialised skills in staff planning, recruitment, supervision, training, evaluation and reorganisation, and is recognised as having a

natural talent for managing and developing all levels of resort staff. An innovative thinker with extensive international experience, Ron has been responsible for creating and managing Sales and Marketing Teams that have produced in excess of US\$40 million annually. Ron is a Registered Resort Professional, the highest designation given by the resort industry's professional organisation, the American Resort Development Association (ARDA).

Ron is brought in as a “hired gun”, either as a consultant or as a new appointment, on underperforming projects within the resort industry. His principal client is most frequently the project developer or owner, although he has also been involved in workouts on behalf of debtholders. Assignments vary in length, averaging 18 months to two years, at which point the turnaround has been effected and Ron's specialist skills are no longer required – in his own words “your job is to work yourself out of a job by turning the project around and replacing yourself with a new leader”.

In a series of telephone interviews and written correspondences, we explored Ron's approach to leading turnarounds. A series of questions (Appendix 1) covering three areas – the nature of leadership; the practicalities of turnaround leadership; and Ron's individual characteristics – were used as a framework for discussion.

2. Interview Findings

2.1 The Nature of Leadership

The conventional view that “management” and “leadership” differ is echoed by Ron's thoughts on the question “are managers and leaders different?”:

“I have little doubt that there are major differences between managers and leaders. Managers manage tasks that can involve people; leaders lead the people who manage those tasks. Managers generally have stronger analytical skills while leaders need to have analytical skills that are maximised by their social/people skills – what I would call leadership skills.”

Similarly, Ron's view on whether it is possible or important to develop leadership skills is consistent with current thinking:

“Managers can be leaders – and most often are to some extent. Managers who can also lead are themselves better managers. However, there are many examples of managers who are effective without leadership qualities, for example Business Managers in the resort industry. These are the “numbers” people from the operational point of view; financial analysts who monitor the operation, manage the costs and give feedback and data to the Vice Presidents. If I want to look at a particular cost or revenue issue then I will ask the Business Manager for a report that provides the data I need to make a decision about the viability of the program. There is very little leadership involved in this case. However, if the Business Manager has leadership skills then I may involve the Business Manager in interactions with employees that will be affected by the decision.

“In my experience a good lower level manager who wants to advance has got to develop leadership qualities. At a certain point on the corporate ladder, a good manager will develop more leadership qualities and as a result will both become a better manager and evolve into a leader.

To advance as a manager I believe you must become a leader and the more one wants to advance in the corporate world the more leadership skills you need to develop.”

The importance of leadership in a turnaround situation is paramount. The leader of a turnaround assumes a significant level of responsibility and accountability for both the project and the team:

“Turnaround situations are the result of the business or project failing, or at the very least not achieving what the Board or stockholders require to make the project viable. Before the specialist is called in there have invariably been attempts to “turn the business around” using existing in-house talent and these have also failed. The line personnel are scared of losing their jobs and generally have been made promises that management has, for whatever reason, been unable to keep. The turnaround specialist enters a hostile arena. The personnel are cynical and sceptical of the “outsider” who now will be determining their and the company’s future.

“In a turnaround setting, there is a tremendous responsibility on the leader. There’s a well-known saying that, “Success has many parents – while failure is an orphan”. In the turnaround situation my own version of this is, “Success has many parents – failure has only one – me.” The leader has the authority to make the decisions – if those decisions are wrong it is the leader’s failure – by this I mean that if the wrong decisions lead to failure of the project then the leader has failed in their responsibilities. On the other hand, if those decisions lead to success then while the leader’s decisions were the right ones, the credit goes to the team because they have successfully executed the plan – a true leader accepts responsibility and deflects praise: “If we fail it is on me, my plan failed or I failed to build a team that could execute the plan – if we succeed it is the result of the combined effort of the team, and the team deserves the credit”.

“This, to me, is lesson one of being a leader.”

Success is the team’s achievement; failure is the leader’s responsibility

Ron was working on a project where he strongly recommended a particular marketing programme. He delegated this programme to one of his team but after eight months the programme had lost US\$250k in contrast with the anticipated gain of US\$750k that had driven its initiation. On reviewing the programme and comparing it with similar activities, Ron realised it was not going to succeed. To the developer and Board, Ron admitted that he “made a million dollar mistake”. Simultaneously, he had set up another initiative that took off rapidly and was highly successful – at the same meeting where he admitted his initial mistake, he added that “the team that I put onto referrals [the other initiative] had done really well”.

2.2 Practicalities of Turnaround Leadership

The “seven key ingredients” of a successful turnaround plan outlined by Slatter & Lovett are a useful framework for assessing Ron’s leadership of project turnarounds. The influence of Ron’s leadership approach is evident in the majority of the seven areas, however we focused on the

strategic and operational issues involved in relatively short-term project turnarounds and did not explore the topic of financial restructuring in detail.

Hands-on involvement from day one is clearly evident, involving an approach that is intended, not only to take control of the levers that will stem the project's losses, but also to send a clear message to the team about Ron's role. The list of priority tasks cited by Ron illustrates that he is simultaneously working to address the project's tangible financial and operational problems whilst addressing the intangible issue of establishing his role as leader:

“The order of tasks may vary slightly depending on the prevailing circumstances –

- Establish credibility with the team as quickly as possible – having a reputation helps
- Do not “sugar coat” the situation, either with the team or stakeholders. It is vital to identify the issues and look for solutions
- Determine the financial viability of the project
- Determine why the project is failing or (more frequently the case) not living up to expectations – consider whether expectations are realistic
- Find the “skeletons” – look under every rock, be sceptical of all information, don't take anything at face value
- Listen to everybody's opinion – even if you know it is wrong
- Identify the staff that you think can be retained
- Determine which programmes or products are profitable and which need to be cut, in the short term to stem cash burn and in the long term for the project's future viability
- Look for redundancy in responsibilities to determine which staff cuts can be made without crippling the organization
- Determine if current reporting systems are accurate and supply the information needed for decision-making – if not, create reporting that accurately measures what you are trying to manage
- Stop the financial bleeding
- Look for corruption – kick-backs to vendors, phantom staff
- Create the plan (for short-term survival as well as long-term success) and determine, based on the human and financial resources available, how much you can accomplish in the shortest amount of time. Prioritise accordingly. Timelines are negotiated with the client and this process often requires “upward management” to re-set expectations
- Set realistic goals that are time-bound and get buy-in from the client and the team

“Most of my projects involve working with hotels so that's where I stay when I'm working – when I arrive, I always ask for a different room, not the one they've prepared for the VP but the one a guest would see. I insist that I'm copied on everything. Even if I'm not looking at it, I want them to think I am. Your level of involvement early on sends a clear message and sets a standard for the type of decisions that need to be made and actions that need to be taken. For example, no new expenditures, no terminations of personnel, no new hires, no payments of invoices without your approval. This approach is severe for all involved, however it accomplishes several things:

- It establishes the absolute authority of the turnaround leader in all areas of the project
- It gives the leader access to all information on how the business is currently operating and the current status of the project

- It enables the leader to interact in a natural, day-to-day fashion with each department head – as opposed to a formal briefing – and helps to build rapport so that the leader can more quickly determine the value of the department head
- It shows the department heads that the leader is competent, or at least understands each person’s area of responsibility and the challenges they face
- By being “hands on” the leader shows they are “in the fight” with the team

“Once I have taken the assignment day one is a bit frightening for all involved. As I go through the first meetings, I have to be sceptical of everything and everyone until I begin to sort out the players, their agendas, and the basic problems. I try to put people at ease while at the same let them know that the situation is serious and that it is my job to act in the best interests of the company at all times, because by doing so I am acting in the best interests of the people. If I can save the project but some people have to go in order to make the project work, then I have done the best for the people that have been retained because they have their positions – and those who are not retained would eventually go anyway, or the project would fail and everyone would lose their jobs.”

Abraham Lincoln and leadership

Ron tells this story to each new team that he works with. This modern “parable” captures his perspective on the job ahead and signals his willingness to take tough decisions.

When Abraham Lincoln was about to issue the emancipation proclamation, he gathered his cabinet of 11 senior advisers around him to discuss the matter. For several days, they debated the issue vigorously, with everyone having ample opportunity to air their views. At the end of the discussion, a vote was taken. Each cabinet member, in turn, voted “No” – the last to vote, Lincoln raised his hand and said, “Yes – the Yes’s have it”.

Nevertheless, Ron is aware of the need to balance hands-on involvement to get to the crux of the issues with effective teamwork:

“Until you have determined who on the existing team is competent and can be trusted, or until you have been able to bring in your own key people, you have to involve yourself in every detail. Clearly, it is not possible to micro-manage every aspect. However, once you have prioritised the issues you have to be involved in “drilling down” into each of them, to analyse the problem and then instruct your managers on how to turn it from failure to success.

“Communication is all about accessibility. Your level of visibility depends on the type of the project – on my current project I visit the telemarketing centre twice each month and they all know me by my first name.”

The issue of management and team changes arises early, as with many turnarounds. Simultaneously, a parallel work stream addressing strategic focus, organisational change and critical process improvements can be seen to emerge:

“During the first week I continue the due diligence by gathering information and beginning the priority tasks listed above. At the same time I am learning about the people and they are learning about me, so both sides are making judgements and decisions. Generally during the first 30-60 days I am learning the particulars of the project, the market and the personnel, determining who goes, who stays, what programs to cut, how to fix the remaining ones and so on.

“The people you are meeting during the first 30 days are generally not going to be there by 60 days – almost 100% of the senior team members will go. Sales and marketing is a business that is all about human interaction and relies on the ability to lead people; if the team has lost confidence in management it’s hard to get it back. Within the first 30 days I try to identify a second-tier manager who is viable as the next project leader, someone who can be coached, who has some rapport with the team and who knows where the “skeletons” in the project are. Once that person is identified, it’s time to let the project director go – this is brutal and instant. It’s not their fault, but the fact is they’ve done everything they can but they are not delivering. My approach is to pay in advance rather than fight lawsuits; they are given a generous severance package and a neutral recommendation.

“By 60 days I usually know who else I am going to keep, and am looking for replacements for those that need to go. This involves identifying all the available talent in the second- and third-levels of management – people who have the ability to take on more and grow. I may also need to bring in people from outside, often a sales manager. It’s very important, with so much going on, to create “pockets” of activity where you feel comfortable that things will be handled effectively – it’s impossible to fix everything at once.”

Achieving organisational change is, in Ron’s view, primarily about coaching people and establishing a desired culture:

“I never use the word “change” because it puts up defences. Instead, I talk about “improvement”. Identifying people who can be coached to improve their performance is key – a person who succeeds on the basis of natural talent but breaks the rules in doing so cannot stay, because they’re not going to do things your way. They may be highly successful but keeping that person is not a credible act to the ten people around them who may not be as naturally talented but will succeed if they are coached. It takes courage to let that person go but usually about 80% of their activity is recouped by the team, and combined with an improvement in the team’s performance the net result is positive.”

Over time, critical process improvements and organisational change replace the initial short-term crisis stabilisation mode:

“The first 6 months is roughly divided into – 90 days to understand it and break it, followed by 90 days to put it back together in its new, improved form. A five-year plan is nonsense – the focus is on 18 months, or shorter, in which to get results. The nature of this business enables results to be seen relatively quickly, due to the level of measurement that is applied. In the period between days 60 and 90 I am making the necessary people and programme changes and putting

the longer-term strategies in place. During the next 90 days these changes are taking hold and should be moving the project in the right direction from the human resource perspective, the operating cost perspective and the revenue perspective. Mistakes are made during this period – the early phase requires rapid decisions to be taken and it's inevitable that some of those decisions are wrong. During the next six months you are correcting those mistakes and in this time you should be seeing results and gaining momentum.

“Building momentum is about encouragement, lots of pats on the back for the team. Let them feel they're getting close to you and you're getting close to them. People often are scared and may not see the progress being made, so it's good to point it out. Building the team means celebrating even minor victories, but not in the early stages. Achieving the goals that have been set is an obvious time to congratulate people.”

Accountability to stakeholders and the importance of stakeholder management is revealed in Ron's experience as a recurring theme of “upward management”. In addition, the concept of the “reality gap” appears in terms of setting and managing realistic expectations on the part of the stakeholders:

“At the end of the first year you should have reached your baseline goals, which were determined with the client early on as part of the process of setting realistic expectations. By the end of the first year you have either obtained acceptable results and are moving on to growing the business or you have been terminated because the plan didn't work or they didn't like what you were telling them. These are the preferred timelines – however your client may want all this accomplished in 90 or 180 days and that is why the analysis of realistic expectations and financial resources in the initial phase is so critical.

“Stakeholder management is part of the art of “managing up” and a constant challenge. I have to switch hats when I speak to them – be patient, over-explain. They are dependent on me to fix the project but they are also strong personalities who want to keep some control and have their say. Sometimes you're the messenger – they don't know what you've found out about the project and you have to tell them, which is part of the process of setting realistic expectations. And then the only way you know you're doing a good job is if the assignment gets extended or they offer you a permanent position.”

2.3 Individual Characteristics

Finally, our discussion focused on the question of individual characteristics – what it takes to be a good turnaround leader. The pressures of the role were clearly expressed by someone with over 25 years' experience in the field:

“Turnaround is a unique situation and being a turnaround specialist is not for everyone. Being involved in multiple activities, many to a significant level of detail, is a tremendous personal challenge. I prioritise as much as possible and work long hours – generally the project is not close to home, so I spend 12 to 14 hours a day at the office while “living” in a hotel. With more distant projects (for example, in South America) I would be on site for three to four weeks at a time, between the office and the hotel.

“The business is in trouble and you are there to fix it or kill it – that is a huge responsibility and, for lack of a better term, it’s a triage situation. This is why the specialist is highly compensated and it takes a special kind of person to do it. People often ask me why I always seem to have so much stress on these projects – my answer is that if it were not stressful they would not need me and would not pay me what they do.”

In Ron’s view, the short-term nature of project turnaround and the skill set required to effect rapid changes are generally not conducive to continued involvement in the project. In addition, an interesting link was made between turnaround and start-ups:

“Effectively your job is to work yourself out of a job by turning the project around and replacing yourself with a new leader. It takes a special breed of person to do this and the fundamental components are that you love what you do, you do it with passion and you are durable and persistent. You can become addicted to the pressure and once things are running smoothly it can easily become boring – this is usually what happens for me at around the two-year mark. I enjoy putting things in place, which is why I also enjoy start-ups. The connection is fairly clear – if I build it right from the beginning there will be little need to call me in later to fix it!

“It’s time to go when I start to get bored. I know I’ve done what I was asked to do and I know I’m expensive. It’s a 50:50 split between making the decision myself and being told they don’t need me anymore. It’s a form of rejection but this is outweighed by the thrill of victory. With experience the sense of rejection lessens – and I’m very well compensated for it.”

Abraham Lincoln revisited

At the end of every project Ron calls the team together. In person, then reinforced by a short memo left with each person at the end of the meeting, he reviews their achievements, thanks them for their commitment and closes with another quote from Abraham Lincoln:

*“I do the best I can,
The very best I know how,
And I mean to keep doing it until the very end,
If in the end I am right,
What is said against me will amount to nothing,
If in the end I am wrong,
One Hundred Angels swearing I was right will make no difference!”*

The relevant personal qualities and the importance of experience were two further themes that emerged in talking about the type of person who succeeds in turnarounds:

“The combination of my interpersonal skills and business acumen are the foundation of my success in the business world. I am fortunate to have had many mentors in my life so I have a very strong set of skills. In addition to having a Masters in Behavioural Science I have continued my study and training in Sales and Motivation my entire career; I am a Sales Master and thus

have very strong interpersonal skills. I was also taught by my father what it takes to be a good businessman and therefore am highly analytical and bottom line/numbers oriented.

“I have been doing this a very long time and there is no substitute for experience. I came to my current position by working my way up, so I have experienced first-hand the challenges, rewards and failures of most of the positions of the people that will report to me and the people that report to them – this gives me an edge. Most people consider whether the glass is half empty or half full. My response is I don’t care – I only care how much water I have and how many people have to drink and for how long! I am a realist – that is critical for the turnaround specialist, to be able to assess what the available assets are and what can be achieved.

“In addition to fundamental skills (such as sales, marketing, budget development/management, communication and human resource management), there are a number of key qualities that I believe make a turnaround (or any other) leader successful – these are qualities that I have either mastered or continue to try and master.

“*Integrity and acceptance of the fiduciary responsibility* are critical, to make the decisions that in the leader’s best judgment best serve the goals and interests of the company/client.

“You must learn to *respond and not react* – while it is sometimes necessary to make a quick decision, this must be done in a responsive, rather than reactive, way. There should be no “knee jerk” reactions. When in doubt sleep on it, think about it, and be sure to detach your personality from the situation.

Respond rather than react

Ron was sent in to dismiss and replace the leader of a major project, a person whom he did not particularly like. After spending a few days with him, however, Ron became convinced that he and his team were salvageable. He felt the chance of success would be higher, and consequently the company’s interests were better served, by working with them rather than “blowing them up” according to his original instructions. Ron admits that in part he had been looking forward to firing the individual, however his judgment was that salvaging him was the best move to accomplish the turnaround as quickly and cost-effectively as possible. Ron raised this with the client, who left the decision in his hands. Ron took the decision to retain the existing team and with it, a significant personal risk. He and the project leader fought constantly. Nevertheless, within one year the project was back on track and exceeding expectations, resulting in a more profitable year for the company than anticipated and larger bonuses for the team. Ron maintains, “While I still don’t like the guy I do admire his talent”.

“You must be *confident and consistent*. Confidence comes from training, experience and success. Only when you are confident can you be a risk-taker and that is part of every minute of the day for a leader. Consistency is one of my personal favourites. Many times you hear in business, “That is not fair”. My response is that life is not fair, business is not fair etc...I have a speech that I give when meeting a new team that goes something along these lines –

“I am not here to be fair; I am here to serve the company’s best interest and you can rely on the fact that I will consistently make the decision that is best for the company. If, in making that decision, I can treat people in a positive and enlightened manner and I feel their efforts warrant such treatment, I will act accordingly.”

“I cannot emphasise enough how important I believe consistency is, especially in a turnaround situation. I want people to start thinking, as quickly as possible, “What would Ron say to this?” – it gives them stability. Even if they don’t like it, they know what to expect from me – no surprises. “What you see is what you get” is my reputation and I am very happy with that.

“You must be a good *listener* to people within your organisation – their concerns are your concerns. At the same time, you must interpret their input from their individual perspective as well as in relation to the project.

“*Humanity* – while much of what I do appears to come from a very hard perspective, in reality I am a very nice person and try to treat all with respect. I enjoy growing people and there are numerous people in my industry who would drop what they were doing to come and work with me, because my management style is very clear-cut and I reward loyalty and results. You cannot have *charisma* without humanity and you cannot lead without charisma.

“*Durability, perseverance, and good judgment.* You must not be easily deterred – the work is about solving problems and setbacks are a part of any project. You must persist and develop the judgment skills to determine if and when it is time to press forward with the plan and when it is time to make a new plan. You have to learn to determine if you have good people doing a good job in a difficult situation – and therefore the results are satisfactory and will continue to improve – or if you have mediocre people in a rather straightforward situation who are failing to execute. There are many shades of grey in between these two extremes and being able to distinguish them is strongly linked to experience and forms the basis for setting realistic expectations.

“*Enthusiasm and passion.* Leadership is ultimately a transfer of knowledge and emotion, especially in the turnaround situation. If you don’t know what you are doing, your people will know and they will not respond with their highest level of effort. If you are not enthusiastic and passionate, they will know and will also not be enthusiastic in their efforts. Nowhere is the concept of Karma or “you reap what you sow” more applicable than in a leadership role.

“Finally, as a leader you have the responsibility to *pass on what you know*. “Pass it on!” was the response I got many years ago when I tried to thank one of my mentors for his profound help in my career. That is what I have tried to do here and throughout my career.”

Passing it on in a competitive world

Ron was working on a project in a market within which a previous mentor was working. Ron contacted his ex-mentor and arranged to meet. During one afternoon this person shared everything with Ron – knowledge, activities and insights. Ron asked why he was doing this, when he knew they would soon be direct competitors. They replied, “Just because I tell you what I’m doing doesn’t mean you can execute in the same way”.

3. Conclusions

Several themes were evident throughout the interviews with Ron and in the writing of this report. First, turnaround leaders deal with both tangible (finances, operations, strategy, process improvements) and intangible (leadership, team changes, coaching, development, cultural change) elements simultaneously. This blend is evident throughout the entire process and this duality of the role of the leader is critical for success.

Second, the turnaround leader is an external catalyst for change – their arrival provides a focal point around which to distil the organisation’s concerns. The turnaround leader expresses, in a single voice, the organisation’s dissatisfaction. Through their initial interactions and autocratic involvement they create a sense of urgency and awareness of the need to change. Finally, they help to drive changes through, initially by making the tough decisions, and eventually by refining the skills of the team and coaching individuals to the point that their involvement is no longer required. Ron’s explanation of first understanding, then breaking, then fixing the business in a new form is a succinct description of the turnaround process.

Third, leadership in turnaround balances judgements about performance and expectations. The turnaround leader must not only assess what is achievable with the available resources, but also communicate this both internally and externally. Internal communication is critical to set the pace and direction of the turnaround, while external communication is critical to manage stakeholder expectations. Thus the turnaround leader acts, on the one hand, as an agent of change on behalf of the stakeholders, and on the other, as a reality check for the stakeholders on behalf of the resources under his care.

Fourth, leadership in turnaround is as much a personal experience as in any other setting. The strength of a leader results from the way in which their combination of practical skills and experience are applied to the problem. This, in turn, is driven by their personal style and qualities. Ron’s use of stories and quotes to definitively signal both the beginning and the end of his engagement with a project team, are a notable illustration of the personal nature of leadership.

Finally, differences between project turnaround and broader company turnaround are evident from Ron’s experience as a project turnaround specialist. The differences are principally in the scale of the assignment – in project turnarounds, the financial stakes tend to be lower and the length of the engagement appears to be shorter (12 months to show clear evidence of turnaround and 12 months to consolidate). In addition, the more encapsulated nature of a project potentially lends itself to easier measurement of performance improvements. Nevertheless, the role of the turnaround leader in a project setting is as critical as in the wider company scenario. Indeed, successful turnaround of a focused, discrete project within a relatively short timeframe potentially requires even more effective leadership.

Appendix 1. Interview Questions

Question 1 – the nature of leadership

- a) There are many different views of "management" and "leadership" - are managers different from leaders? In what way?
- b) Why is this important in a turnaround setting?
- c) How much of the success of a turnaround is attributable to leadership?

Questions 2 – practicalities of turnaround leadership

- a) What do you see as the key tasks of the leader of the turnaround?
- b) What questions/issues/priorities does the turnaround leader need to focus on, and what can be dealt with by others?
- c) How do you manage multiple demands on your time?
- d) Does this change over time e.g. prior to taking on the job, compared with day 1, week 1, month 1, year 1 etc...?
- e) In your experience, are the tasks of a turnaround leader consistent across different turnaround projects?

Question 3 – individual characteristics

How would you describe yourself, in terms of skills, personal qualities? Which of these are most important if a turnaround is to be successful?