Active Turnaround and Restructuring Dichotomy under a Disruptive Eve

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Abstract. *Since the 1980s, humankind stepped into a disruptive era called "Disruptive Eve", triggered by "Disruptive Innovation", a concept consecrated by Clayton Christensen. This period has been marked by several disruptive factors such as specific technological advancements, economic trends, social changes, pandemics, and geopolitical events, making it stand out through its ever-increasing complexity and exponential developments. This volatile environment forces companies to face huge challenges. By far, the greatest challenges to deal with are business continuity, growth, and resilience capacity. To successfully provide these conditions, the company should embrace a new approach that this article is introducing, the new concept of Active Turnaround. Without this approach, it is difficult, if not impossible, to cope with all these intricacies, given such a complex and disruptive world. Active Turnaround is a key condition in providing "Preventive Leadership" and consecrating a new concept and practice, called "4As Leadership", which is based on four imperative traits and capacities: Alertness, Agility, Anticipation, and Adaptability. Therefore, this article brings into debate several key concepts and processes that define and characterize Active Turnaround. The author presents the difference between turnaround and restructuring, details Active Turnaround as a vital condition of business continuity, growth, and resilience, and analyzes the diagnosis process as the active turnaround's bedrock.*

Key Words: active turnaround, restructuring, diagnosis, 4As leadership, business continuity, resilience.

Introduction

The main objective of the study is to explore and define the conceptual and practical differences between Turnaround and Restructuring and to advance the new concept of Active Turnaround. Due to their need for specific applicability to companies that should keep their business continuity, in many cases the two approaches are seen as being similar. Therefore, it is important to make a clear distinction between their scope, their role, and their points of convergence. But it is equally important to detail what differentiates them fundamentally. It is very important to show their specific applicability and who should be in charge of each process. Based on this comparative analysis, the authors go further on, to sustain and demonstrate the need for Active Turnaround, as a new concept and process.

This study is not an extensive one, being limited only to the differences between the two concepts and processes.

The study addresses companies' business activity. Governed by exponential complexity, companies are facing huge challenges to deal with. By far, the greatest challenges are business continuity, growth, and resilience capacity. To successfully meet these conditions, the companies must actively embrace preventive leadership (introducing the so-called "4As Leadership" model), where Active Turnaround plays a crucial role.

In this context, it is important to underline the differences between Active Turnaround as a "preventive leadership" approach, and company restructuring, as a reactive one. Active Turnaround is a proactive, continuous, and informal process, to provide companies with business continuity, growth, and resilience capacity, while restructuring is based on a reactive approach, and

DOI: 10.2478/picbe-2024-0048

is governed by a formal, judicial system. As described by the current norms and practices, the main source triggering the restructuring process is "the debtor's state of difficulty".

The imperative of the Active Turnaround, as a preventive management approach, is to ensure the company's health through business continuity, growth, and a good resilience capacity. In this context, leadership's vision is critical for organizational success. Disruptive events are omnipresent, having unpredictable impacts on the organization's stability. These events can critically impact the companies' strategy, necessitating dramatic change. They may ask for radical change in the company's vision, core purpose, strategic objectives, functional structure, and so on.

Under these imperatives, a successful Active Turnaround process is based on an exhaustive and accurate diagnosis process, which is the key prerequisite for understanding the company's health condition. Even more, it is important to understand the root causes of its disabilities. An Active Turnaround process is similar to a medical act, addressed not to human beings, but to companies. Financial measures and other key performance indicators represent the effects, the symptoms, not the causes of the company's distress. The only chance to keep the body (in our case, the company) alive and well, and even more, to provide a continuing good health condition. In this respect, it is necessary to get real insights, to have a "zoom-in" process regarding the causes that trigger the body's suffering - the "bleeding holes". Therefore, a paramount condition to provide perpetual health for the company to guarantee its turnaround is to perform an accurate diagnosis process.

The Active Turnaround concept and process are governed fundamentally by the "System thinking" and "System engineering" approaches. Taking into consideration a company, irrespective of its dimension, it can be easily noticed that the organization under scrutiny is an economic system, having several components. Their interaction concurs to performing its fundamental scope, hence generating and providing goods, and services addressed to its market, shareholder, and stakeholder value. The larger as dimension, the more complicated its functional structure is. Even more, a company is not an entity that lives, works or acts in isolation. It is a part of an environment, a complex system, interacting with other competitors, platforms, external stakeholders, regulatory bodies, etc.

Literature Review

In exploring the "Active Turnaround versus Restructuring" dichotomy, this study is based on the available literature review. For the time being, based on literature research, there is little debate on this dichotomy, even if the processes address different conditions and attributes that should be clearly defined. Despite a limited debate on that subject, it is worth mentioning three contributors who brought substantial value through their works.

Barnes, S. (2020) in his article, gives the following perspective: "…turnaround and restructuring are fairly recent concepts that are both aimed at rescuing a business and avoiding it going into liquidation".

Later on, he underlines the difference between the two concepts, by stating that turnaround marks a period of steady growth while providing stability and resilience. It is a process that asks for understanding the company's difficulties and needed changes and set-up a problem-solving strategy. He claims that turnaround management processes are pre-insolvency and they are actions taken by the businesses' leaders as preventive measures.

From this perspective, restructuring is a range of formal insolvency processes triggered by creditors, aiming at helping businesses in severe financial distress avoid bankruptcy.

Damm F. (2016) underlines the challenges that should be taken in conceptualizing Turnaround management as a condition for providing business continuity. He gives a more historical perspective regarding Turnaround and its role: "…corporate turnarounds have been investigated in earnest since the 1970s when the oil crisis altered the competitive landscape from the prosperous post-war years into a restricted, rationed, and depressed global environment". As reported in his work, at that time, even big corporations were confronted with declining sales, dwindling profit levels, and rising problems on a scale not seen before. During this period, it can be said that the first steps of conceptualizing turnaround management began. However, in Damm's opinion, up until today scholars have yet to agree on a commonly accepted definition of what managing a turnaround is. It can be noted, however, that even Damm did not make a clear distinction between turnaround and restructuring, what differentiates them, and the role that should be played by each of them.

Due to a thin border between turnaround and restructuring, in some cases there might be the risk of not differentiating them, to consider them as having the same meaning and the same scope. Nicola Kirk (2023), a reputed practitioner specializing in insolvency and restructuring at Pitmans LLP (USA), makes the following comment: "When a company experiences financial difficulties, it may consider entering into a process with its creditors known as corporate restructuring or turnaround, in an attempt to save the company and/or its business". From Kirk's perspective, it can be noticed that he doesn't make any real difference between restructuring and turnaround, two processes that have different addressability and approaches in dealing with the Organization's challenges generated by an ever-increasing complexity. He links both of the concepts to the creditors' actions, whereas, as earlier discussed, only restructuring has this limited approach. Turnaround is a more complex process, which addresses a preventive approach to avert the company's distress.

Analyzing these three perspectives, the clearest difference between turnaround and restructuring is done by Barnes (2020), while Dam (2016) and Kirk (2023) approach turnaround as a reactive process, linked to the relationship between the company and its creditors, but not as a preventive leadership solution.

Despite consulting a significant number of scientific articles, there couldn't be identified more relevant works on these undervalued, yet very important concepts. Therefore, it is even more important to generate a scientific debate on this subject and to clarify these terms and their specific characteristics.

This article aims to go even further, advancing the new concept of **Active Turnaround**, which is necessary to fill the obvious gap in the existing literature.

Methodology

This article employed qualitative methodology, aiming at the comparison of two research concepts. The research method used was Qualitative Comparative Analysis (QCA), which is a method for identifying and analyzing similarities and differences between two or more concepts, phenomena, or cases. Given its potential for providing evidence of causality in complex systems, QCA is increasingly used in evaluative research.

The criteria used for the comparison were derived from the literature review and practice, from the author's personal experience in a large number of turnaround or restructuring projects. The results of the comparative analysis are presented in the Results and Discussion section.

It is worth mentioning the contribution brought by the "Digital Analysis", and by the R.A.I.S.A (Remote Automated Interactive Self-Assessment) system, respectively, which is a digital platform that generates (among various other information) a monthly "snap-shot" of the company's condition. In this way, in the Active Turnaround process, the company's leadership has continuing control of the company's evolution. The systems which were mentioned before constitute at the same time an efficient and effective "Early Warning Signals" tool. For an effective Active Turnaround, using an "Early Warning Signals" system tool, is mandatory, to achieve the needed alertness, agility, anticipation, and adaptation.

Results and discussions

There is no doubt that under a disruptive environment defined by unpredictable events and increased complexity, business continuity, and resilience are not simple "buzzwords", but vital conditions for the company's survival. Richard Long (2017) from MHA Consulting has a remarkable perspective:"...business continuity is the advanced preparation undertaken to ensure that an organization will have the capability to operate its critical business functions during emergency events". In his view, such events can include natural disasters, a business crisis, a pandemic, workplace violence, or any event that results in a disruption of business operations. And hence the need to promote an active process to keep the company operational.

In providing business continuity, the organization's leadership plays a vital role. G. Sikich, in his seminal work *"Integrated business continuity - Maintaining Resilience in uncertain times",* emphasized leadership's duty in the turnaround process. In this context, it becomes important to embrace business continuity as a fundamental imperative of the organization's strategy: *"Senior management must embrace the process of business continuity as a way of doing business - effectively transforming the business and resulting in resilience, and ultimately growth"* (Sikich G., 2003). Under these conditions, as previously demonstrated, an Active Turnaround process is the condition of providing real business sustainability. A preventive, active turnaround can prevail in front of restructuring.

Through this approach, this study brings together these two concepts to underline and argue the differences between them, and their point of coincidence. An important scope was to define their addressability and their role in the company's effort to deal with disruptions and unpredictability which increase exponentially in the current digital environment.

The Comparison of Turnaround and Restructuring

One of the main aims of this study is to make clear distinctions between Turnaround and Restructuring, to provide scholars and practitioners with a more structured and clear perspective, and to guide them in elaborating and conducting these management processes. Between the two concepts, there are significant differences, but also the commonalities and points of congruence. To bring more clarity, the author conducted a comparative analysis (Table 1):

Table 1. Comparison of Turnaround and Restructuring

Criteria	Turnaround	Restructuring
Time scale	Before creditors' notification of the company's difficulty status	After creditors' notification of the company's difficulty status
Responsibility	Leadership & management	Creditors
Objectives	To maintain business continuity and resilience	To avoid default and bankruptcy
Perception	Preventive, proactive	Reactive
Interest	Company's stakeholders	Creditors, to avoid payment default
Control	Alert, by Early Warning Systems	Post Factum, based on Independent business review

Source: Author's contribution.

It can be seen that the two processes are different from all points of view taken into consideration, their addressability, and their approach: Preventive vs Reactive.

It is also worth mentioning Stephen Barnes' (2020) view regarding the differences between a turnaround consultant and a restructuring advisor (Table 2):

Table 2. The difference between Turnaround and Restructuring advisors

Restructuring advisors are mostly specialized persons, with accountancy and legal backgrounds who look for engagements, whereby the company is placed in administration. One of the primary conditions is to be a licensed insolvency practitioner.
Turnaround consulting is a more proactive exercise that asks for leadership to reshape the business for improved performance. In general, consultants are experienced business leaders who bring their expertise and vision to the turnaround process. They lead by example. Often, they face the challenge of gaining the acceptance and trust of the stakeholders who should embrace their vision. Turnaround consultants must also have restructuring skills as they are often engaged too late that strategy may also include some restructuring.
Turnaround consultants are experienced C-level with "on–the–job" experience working within companies in difficulty. Restructuring advisors, address a more reactive approach and are generally more targeted in their approach than a more holistic Turnaround consultant.

Source: adapted from Barnes S., 2020.

Regarding their points of congruence, it should be mentioned that Turnarounds and Restructuring are both aimed at reviving a business, trying to avoid insolvency and its further specter of outcomes: reorganization, and finally, bankruptcy (Figure 1):

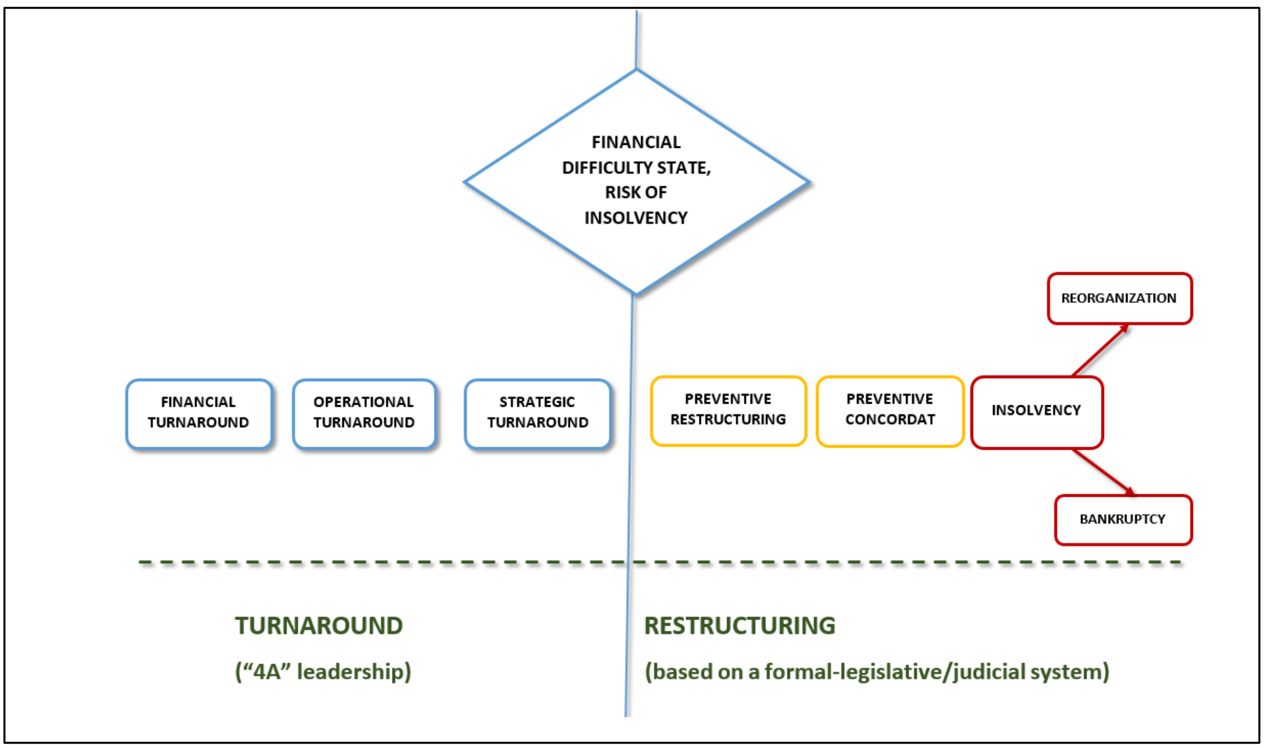

Figure 1. Turnaround versus Restructuring Map

Source: Author's own contribution.

Restructuring

Fundamentally, there are two different paradigms:

Restructuring is triggered by the Company's imminent risk of insolvency, being governed by a formal, judicial system (e.g. European Directive for Preventive Restructuring 2019/2023, national insolvency laws, etc.). Considering the Restructuring philosophy, as described by the current legislative and economic norms and practices, the key concern is "the debtor's state of difficulty", which asks for preventive restructuring, preventive concordat, insolvency, reorganization, or bankruptcy. It should be underlined that from the perspective of this paradigm, the trigger is the debtor's difficulty (mainly financial). This is, as can be observed, the creditors' perspective, and the whole restructuring process gravitates around it.

Due to the imminent insolvency of the company, restructuring is a short-term solution. The company in distress should step in in the shortest time, addressing two dimensions (Figure 2):

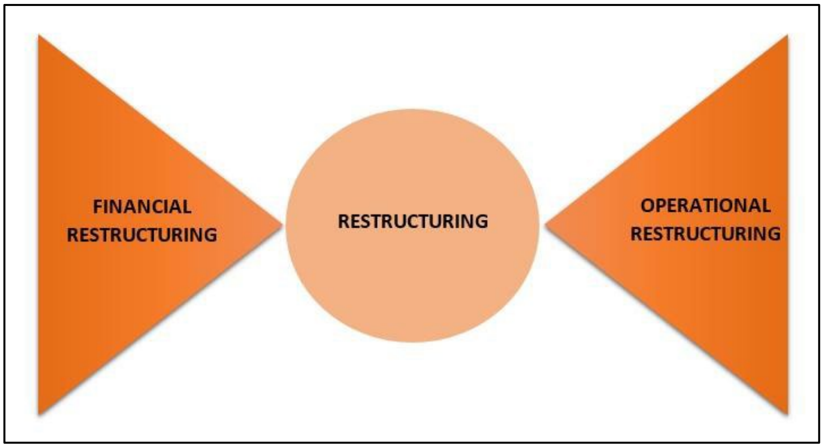

Figure 2. Restructuring solutions

Source: Author's contribution.

- *Financial restructuring* - aiming at rebalancing the financial situation (recovering working capital, liquidity, debt service capacity, etc.). This process has to save the company's debt service capacity, which is dramatically weakened. In this stage, the company as the debtor, based on the arrangement made with its creditors, should restructure its debts;
- *Operational restructuring* – which should be addressed to the company's operational malfunctions (inappropriate functional structure, business model, management system, etc.), and market weaknesses (non-performing products, inappropriate value proposition to its customers, etc.).

In this context, it is worth mentioning again Stephen Barnes's (2020) vision regarding the difference between Restructuring and Turnaround: "Restructuring is, however, a range of formal insolvency processes aiming at helping businesses in severe financial distress". Therefore, this process focuses on the capital structure of the company, the cash generation, and debt-service capacity. In many cases, it requires putting the company into voluntary administration. The formal process allows different negotiations with creditors.

Turnaround

In contrast to restructuring, Turnaround is fundamentally a leadership process, which tries to ensure the Company's business continuity, growth, and increased resilience capacity. Through this process, the company's distress, its insolvency, is avoided. There is a Dutch saying which is relevant from this perspective: *"The house roof should be repaired when the sun is shining"*.

The new Active Turnaround concept

The current world and consequently the business environment is marked by increased complexity and exponential evolution. In his book "Exponential", Azeem Azhar (2023) called it "the exponential age", where the evolutions are no longer linear. Even if they are technological, pandemic, economic, social, or geopolitical, to name a few, the key concern and challenge of a company is mainly ensuring business continuity, while bouncing back all unforeseen risks.

In this respect, Active Turnaround asks for the new "4As Leadership" model, which lists several mandatory traits of successful leaders nowadays:

- ✓ **Alert** "be alert" – scrutinize the environment, be time ready for new changes, new challenges coming from outside, from the market;
- ✓ **Agile –** build up a functional structure that can absorb easily shocks and have quick responsiveness to the exogenous adverse factors;
- ✓ **Anticipate** - try to foresee the future developments of the market, of the environment. Be prepared for "*the next five moves*";
- ✓ **Adaptive –** be ready to adapt all the time to the new conditions, and "be a champion".

Figure 3. "4As Leadership" traits

Source: Author's contribution.

The Active turnaround process, which has to become a *"modus vivendi"* for the company, is a long-term process, embracing paradigms and time horizons in three dimensions:

1. *Short term:*

a) Financial Turnaround, which should keep a continuing state of financial equilibrium. In this respect, the company should use an "Early Warning Signals (EWS)" system. This approach brings the company the capacity to be "Alert", and to have a quick response to all deviations. Generally, in today's digitalized era, it is recommended that companies use a digital system. Considering the company's activity in terms of System thinking and System engineering, the EWS is a feedback mechanism that provides a flowing feedback loop, creating the real premise of an efficient decision mechanism. Developing and managing an EWS dashboard in the turnaround process gives the company the possibility to have a dynamic, alert, and effective decision tool.

Figure 4 presents a model of such an EWS tool, entitled R.A.I.S.A (Remote Automated Interactive Self-Assessment) system. This tool is a digital platform that generates (among various other information) a monthly "snap-shot", through which the leadership team has continuing insight into the Company's evolution (Figure 4):

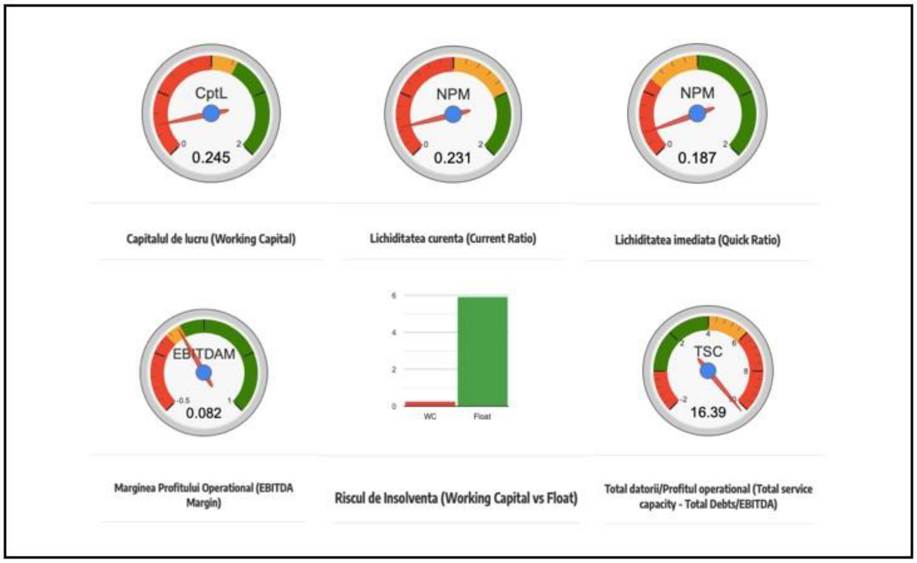

Figure 4. The six critical watches of the R.A.I.S.A. Digital Platform

Source: R.A.I.S.A Digital Platform.

The “snapshot” comprises six critical key performance indicators (KPIs) or “watches”, that provide a continuing insight into the company’s “health status”:

- *Working Capital* - when negative/red, it signals an unbalanced financial situation. There are more ways to calculate this KPI. It signals that the company has used short-term resources (which should be reimbursed in a short period), to finance investment with a long cycle of cash return. Its immediate outcome is financial debalancing;
- *Negative Working Capital* - generates a “spill-over” effect in current and quick liquidity. The most severe outcome might be the lack of cash, which is critical (as the saying goes, “cash is king”);
- *EBITDA* - the operating profit is a key indicator, as it indicates the company’s capacity to generate profit and operational cash flow;
- *The direct relation between Working capital (negative) and Float, positive (relation between receivables and payables)* - indicates if there is an insolvency risk;
- *Total Service Capacity* - the Company’s capacity to service its financial obligations. Under a low EBITDA and a debt burden, these indicators might signal real difficulties.

Therefore, the main purpose of this tool is to constantly (monthly) signal the weaknesses, and derailments of the company’s condition. It helps the leadership to be alert and make the needed decisions to stay in the green areas of the RA.I.S.A. quadrants.

b) Operational Turnaround. This process addresses the operational “Agility” of the company. Its scope is to create an agile functional structure, business model, processes, and decision mechanism, with the capacity to absorb negative events. All these aims keep the company in an operational equilibrium.

2. Medium to long term:

a) Strategic turnaround - which should be based fundamentally on the Leader’s strategic vision, asking for “Anticipation” and “Adaptability”. In the Strategy elaboration process, the company’s leadership should define the “core ideology” (core purpose, vision, mission, value proposition),

DOI: 10.2478/picbe-2024-0048, pp. 563-572, ISSN 2558-9652 |
Proceedings of the 18th International Conference on Business Excellence 2024

strategic objectives, the needed programs for strategy implementation, the structure, and the Integrated Management System.

As already mentioned, in the Active Turnaround process, the Strategy elaboration is, by far, the most challenging. Due to the disruptions and exponential evolution of environmental factors, "strategizing" is a "state of mind". From this perspective, the quick reaction need is pushing traditional strategy development, forecasting, competitive intelligence collection, and analysis to new limits. Strategy is influenced by information in the form of competitive intelligence. Competitive intelligence shapes vision. As G. Sikich (2003) mentioned: "…due to the speed of business in the modern organization, disruptive events are prevalent".

Active Turnaround, as can be seen in Figure 5, incorporates three solutions, which should be used depending on the leadership's decision.

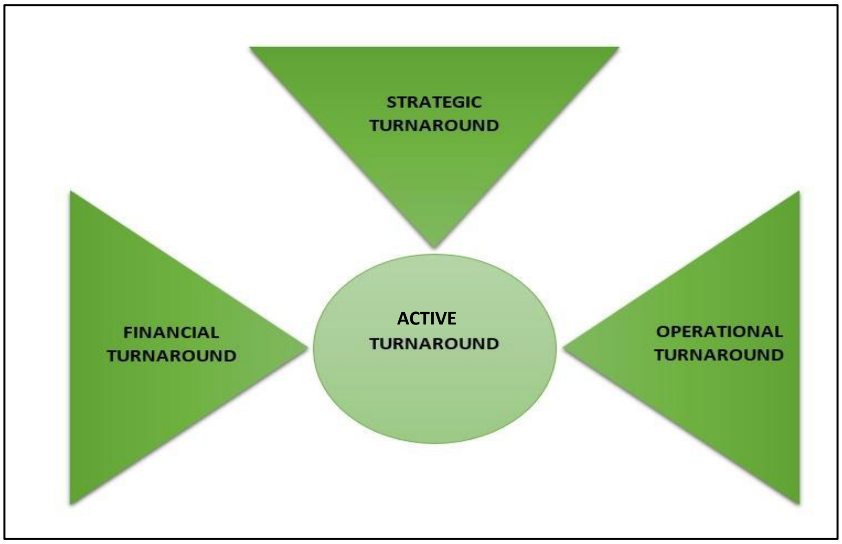

Figure 5. Active Turnaround solutions

Source: Author's contribution.

As already mentioned, leadership plays a key role in the Active Turnaround process. In this context, Stephen Bungay (2021) declares that "…in a stable, predictable environment, businesses need managers, but in an unpredictable world of constant change, they need leaders".

Therefore, Active Turnaround is fundamentally the attribute of leadership, continuously providing the needed actions to ensure business continuity, good resilience capacity, and growth, developing and implementing visionary strategies. Leadership's strategic capacity plays a pivotal role in Turnaround. As Sikich (2003) remarked: "*Strategy sets the tone for the organization*". It is that which sets up the initiatives driving the organization, establishing its culture, and determining its success. In conclusion, without strategy as a component of business continuity, devolving to the most robust functional configuration would be extremely disruptive.

Conclusions

The most direct conclusion of this analysis is: "Do a turnaround to avoid restructuring". Restructuring entails a formal, judicial approach, triggered by an imminent state of the company's insolvency. This happens when the "debtor", having the creditors' agreement (stand still), is in difficulty and should step into a short-term process of financial and operational restructuring.

Turnaround is fundamentally a leadership process that tries to ensure the company's business continuity, growth, and increased resilience capacity. Through this process, the distress, and the insolvency are avoided.

Active Turnaround is a key prerequisite in providing "Preventive Leadership" and consecrating the new concept and practice entitled "the 4As leadership" model, based on four imperative traits and capacities: Alertness, Agility, Anticipation, and Adaptability. Based on his extensive practical experience in turnaround projects, the author considers that without this approach, it is difficult, if not impossible, to cope with all these intricacies.

Analyzing the congruence points of these two paradigms, it can be concluded that there might be similarities between the processes of Turnaround and Restructuring. In some cases, there is a thin borderline between them. However, the two concepts delineate different processes and emphasize the clear superiority of the Turnaround process for any company. Turnaround asks for the "4As Leadership" model to ensure effective leadership of the company in turbulent times.

Active Turnaround, as a key guarantee, in providing Business Continuity and Resilence, represents an imperative for companies. It requires embracing the "4 As Leadership" traits in the governance process.

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