



Can we talk? Five tips for communicating in turnarounds

In tough times, investors scrutinize every detail. Here's how to manage the discussion.

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Few challenges are as daunting for investor relations as communicating with investors in the middle of a restructuring. Managers of public companies need to reckon with heightened scrutiny of reporting and regulatory disclosures. Those in private equity-owned companies face rigorous performance dialogues about management. And while doing so, managers in a turnaround must simultaneously convey a sense of humility about what went wrong and confidence that they know how to correct it.

Whether the turnaround takes the form of a formal restructuring or a strategic redirection, investors will cast a gimlet eye on the slightest nuances of every statement, report,

public appearance, and performance metric for signs of strength or weakness. Competitors will cast any hesitation and ambiguity in the most ominous terms, the better to win over customers, suppliers, and key employees. And, of course, all these challenges come at once, just when managing the core business is most difficult.

As with most complex situations, there is no one-size-fits-all approach to communicating during turnarounds. But our work suggests that some general rules of thumb for investor communications can be refined for these particularly difficult discussions. By adopting an investor's point of view, monitoring shifts in

the shareholder base, targeting specific future milestones, working to rebuild credibility, and branding the turnaround, management can better maintain focus and shore up critical investor support.

1. Communicate from an investor's point of view

A successful turnaround requires input and collaboration with a wide range of stakeholders, such as owners (investors), the board of directors, employees (including unions and work councils where relevant), customers, suppliers, government bodies, and communities. Communicating early and often is crucial to create a consistent narrative and convince stakeholders that the turnaround is a winning proposition for all involved.

But investors hold the purse strings. If they recognize a company's progress and reward it with a higher share price, employees may well be encouraged to double down on their efforts. Conversely, if the investors' view of a company remains glum for too long, it can dampen morale, lead to defections, and ultimately undermine the viability of the entire turnaround. Weak performance can also lead to a decline in share price that can open the door to an attack by activists or a takeover bid at far less than the intrinsic value of a business. In that environment, no news is usually considered bad news. Lack of communication can accelerate this process and its risks.

Moreover, communications with investors should set the tone for discussion with all audiences. It can be tempting to tailor messaging heavily for different stakeholders. But in our experience, this only adds complexity, conflicting narratives, and risks. We've seen some cases end quite

badly when the company mixed up what it told to whom, when messages for internal management leaked to investors or other stakeholders (such as unions), or when messages intended for external audiences confused employees about company priorities.

2. Watch for shifts among core shareholders

Even in the best of times, prudent managers devote energy to understanding how their most important shareholders view and value a company. These "intrinsic" investors base their decisions on a deep understanding of a company's strategy, its performance, and its potential to create long-term value. Because they are focused on a company's long-term intrinsic value, they are more likely than shorter-term investors to support management through a turnaround¹—and most likely to move the company's stock price as it evolves.² In our experience, shifts in this base of investors nonetheless can occur more dramatically in turnaround situations than when companies are struggling, which can be a harbinger of the likely difficulty of the turnaround ahead.

Thorough analysis of such investors can help managers assess the likely impact of various improvements. Interviews by external agents, such as communications or public-relations firms, can be particularly helpful to tease out pain points. It is then management's task to address those points head on and not try to hide the real issues behind platitudes and pleasing statements. One natural-resources company's shareholders, for example, acknowledged and complimented management's efforts to address specific hot-button issues that had come up during interactions among managers, the board of directors, and top shareholders.

Managers should make a point of being as candid as possible from the start. It's a well-established principle of politics, but it's just as applicable to companies in a turnaround.

3. Express a specific vision for the future

A company undergoing a turnaround must paint a detailed and compelling strategic vision of its plans to address the root cause of underperformance or distress. For one electricity and gas utility, this meant recognizing shortcomings in its capital discipline and committing not only to improve return on investment but also to deliver short-term results. For a payments company, it meant reducing fragmentation in the core business by properly integrating ten prior acquisitions that had tripled the size of the company, rationalizing facilities and SKUs, and building a new and more efficient central support structure.

The vision should also include high-level financial goals, with an outline of how they will be met. Companies should be candid about the trade-offs they're making, for example, between capturing savings to improve the bottom line in the short term and reinvesting in the business to sustain performance after the turnaround effort is complete. In our experience, investors understand that reinvestment is an important part of long-term value creation—and they are supportive, as long as they understand the investments managers are making and when they expect returns.

While getting too specific on timing can backfire, investors typically value, and in some cases demand, some sort of concrete guidepost. For example, one high-tech company set a mid-

term goal of growth in earnings margin of between 17 and 19 percent, and it regularly referred to progress toward that goal in reports and during earnings calls. One company in a cyclical industrial business, which had been earning returns below its cost of capital for five years, set a bold goal of return on invested capital at or above the cost of capital, even at the low point of the cycle—and it gave rough magnitudes of the cost and margin improvements it expected from its largest divisions to get there.

4. Rebuild credibility

Until managers of underperforming companies earn back credibility with investors, their valuations are unlikely to reflect more than a heavily discounted version of the improvements management is claiming. Regaining trust—both to demonstrate open and honest transparency and, frankly, to inspire confidence that managers know what they're doing—requires a change in tack from usual communications on a number of fronts.

Break all the bad news at once. As a general rule, managers should make a point of being as candid as possible from the very start. It's a well-established principle of politics, but it's just as applicable to companies in a turnaround. A new management team has a great opportunity to acknowledge all past mistakes and start with a fresh slate. For example, one industrial com-

pany's stock actually rose the day it announced a write-off of more than \$1 billion, since investors viewed this as a signal that the new management team would make a decisive break from the mistakes of the past and would make hard decisions to exit dead-end investments that were still absorbing capital and management time. For an existing management team, the task is even more daunting. It takes strong leadership to criticize one's own actions, sometimes at the risk of being replaced. Investors may be more patient at the outset of a turnaround while they await evidence that the turnaround is working. But the patience of even the most committed intrinsic investor will wear thin if bad news just keeps dribbling out.

Build a track record of delivery. Communicate only the goals you know you can achieve—using metrics and milestones you revisit regularly—and then prove you can achieve them. Credibility is at a premium in a turnaround—and nothing erodes it like making a promise and falling short. Metrics do not need to be purely financial. For example, one mining company that had consistently missed its financial and output targets focused its turnaround goals on progress against operational metrics, such as overall equipment

effectiveness, to demonstrate tangible performance improvement. While such operational metrics were not directly linked to top-line performance, they offered investors a way to track managers' performance and hold them accountable for improvements.

Tie incentives to targets. Talk is cheap, and sophisticated investors gravitate to management teams that put their money where their mouth is. Structuring compensation packages to directly tie them to turnaround targets, as well as having executives and board members buy meaningful amounts of stock in a company, signals a commitment and confidence to follow through and deliver on a management team's promises. One company unveiled a new turnaround incentive plan that aligned incentives for management and frontline employees using similar performance metrics. Investors reacted positively, citing this as an example of the company's focus and commitment to turning a new page and a reason for holding on to their current position.

Increase transparency. Just as breaking bad news all at once can improve credibility in a turnaround, candor can help not only at the level of overall financial guidelines but also of specific projects.



We've seen two different basic-materials companies make a practice of detailing, during earnings calls and investor gatherings, 10 to 20 projects for improving operational efficiency and their impact on cash generation and workforce behavior. Investors noted that they appreciated the more vivid picture of the type of transformation the companies were undergoing and added that the observed margin improvements had come from more promising and sustainable sources than shortsighted cost reduction.

Be confident—and humble. Managers must exude confidence at their ability to withstand challenging times from markets and competitors, as well as project the success of the company's planned turnaround. But they also need to show humility in the face of distress, whether it's due to past underperformance or external factors. Shareholders will examine word choice and tone for signs of the kind of arrogance and overconfidence that come from denying past missteps.


5. Brand the turnaround

To many executives, branding a turnaround may seem to be mere marketing, but it can be an effective way to crystallize a focal point and amplify the narrative for the outside world—making the rebuilding effort more credible. One mining company, for example, gave a pithy name to its transformation effort and mentioned

it in every external communication. Soon after, investors and media alike were citing the project by name as shorthand for the company's promising turnaround, rendering internal and external communication more coherent and giving employees' internal efforts some external recognition.

A brand can also convey a sense of new beginning. Attaching a campaign name to write-offs, exits from failed ventures, and even mundane PowerPoint templates for earnings-call slides can reinforce a consistent and compelling change story and build critical momentum.



Ultimately, communication is not a substitute for performance. Nothing drives a stock price like beating expectations and punishing short sellers quarter after quarter. But a thoughtful approach to communicating to investors and other stakeholders can help managers build the momentum they need to bring a struggling company into a new era of value creation. 

¹ Robert N. Palter, Werner Rehm, and Jonathan Shih, "Communicating with the right investors," *McKinsey Quarterly*, April 2008, mckinsey.com.

² Sell-side analysts should not be disregarded, but more often than not we see CFOs overinvest time and energy with analysts relative to intrinsic investors.