Does the Size of the Turnaround Entity Matter?

Each turnaround is different and each possesses unique characteristics. And yet, they all also share certain commonalities. These shared characteristics are in turn driven by size as determined by the level of annual sales.

We have found that companies of the same size — small, mid-sized or larger entities — exhibit many common traits within the risk analysis framework of a turnaround engagement.

Granted, this proclamation may be very broad, but for the purposes of this article allow the author the liberty of standardizing these generic characteristics based upon scores of turnaround engagements.

To ensure that all readers understand the same fundamentals going forward, here are a few very elementary classifications regarding turnarounds and the companies involved:

- **Turnaround Candidate** - A company that is struggling, generally as a result of poor financial performance, as evident by its balance sheet and earning potential / results.
- **Small Company** - A company whose revenue at the onset of a turnaround is less than $50 million.
- **Mid-Sized Company** - A company whose revenue at the onset of a turnaround is between $50 and $299 million.
- **Large Company** - A company whose revenue at the onset of a turnaround is between $300 million and $1 billion.
- **Mega Company** - A company whose revenue at the onset of a turnaround is at least $1 billion (for purposes of this article this classification is not explored).

Albeit, all three sizes (small, mid-sized and large companies) can require a turnaround, the characteristics and the solutions are often very different. In summary, the key differences can be, but are not limited to, the following:

- Ability to Change
- Ability to Pay for Services
- Bench Strength
- Cushion for Error
- Degree of "Hands-On"
- Litigious Solution
- Markets – Single Thread
- Options – Financial
- Processes
- Rapid Resolution
- Timing
- Turnaround Team
- Growth Opportunities

Each one of the aforementioned "characteristics" can play a role in both the problem and its solution. These subjective ratings are summarized below along with some rationale as to why.

Ability to Change: Of all the subjective topics listed above, this is the most difficult to generalize and quantify. Smaller entities have the most difficulty in changing management because they:

- Only know one way;
- Believe that the prior ways have worked in the past and will work again; and
- Extremely risk averse to change.

Size	Small	Mid-Sized	Large
Risks	High	Moderate	Low

Ability to Pay for Services: On average, the risk associated with the ability to pay for the services is negatively correlated to the size of the entity. The smaller turnaround organizations may need the services of a proven turnaround professional, but are often not able to afford it. Or even more importantly, they may not be willing to pay for these services even if they can afford it. The smaller, less sophisticated organizations often do not recognize the tangible added value of the process in the way that larger entities might.

Size	Small	Mid-Sized	Large
Risks	High	Low	Low

Bench Strength: One would expect that the smaller entities do not have the human resources to address the challenges associated with a turnaround. However, with the mid-sized and larger entities, too often they believe that they have the bench strength to do it themselves when, in reality, they do not. This false perception makes larger entities riskier than the smaller organizations in this regard. Even if the larger entities have the resources, they have to ask themselves – are they the right resources? Do they have proven turnaround experience, the ability to work quickly, are they empowered to make it happen, and can they impact the root cause of the problem? Even more importantly, with the "internal bench players," are they independent of the internal politics or were they considered part of the initial problem. As Peter Drucker, the father of modern business has stated, "do not take your 'A' players of proven businesses and toss them to the dysfunctional businesses."

Size	Small	Mid-Sized	Large
Risks	High	Moderate	Moderate

Cushion for Error: If company with less than $50 million in revenue has a material decrease in revenue, say 20%, despite the fact that the total revenue may be less than a larger organization; the ability to recovery is relatively more challenging. This assertion is based on the number of clients, product offerings, ability to market to refill the lost revenue, and the amount of fixed costs built into the equation. For a smaller entity – a speed bump may be all it takes to "turn over the apple cart."

Size	Small	Mid-Sized	Large
Risks	High	Low	Moderate

Degree of Hands-On: This prognostication that the smaller the entity, the more hands-on work needed, is a safe statement. Therein lies the matter – smaller entities require more "hand holding," cannot afford to pay as much as the larger entities, and have a more limited set of professional resources (attorneys, accountants, directors, etc.) at their disposal.

Size	Small	Mid-Sized	Large
Risks	Very High	Moderate	Moderate

Litigious Solution: As one would expect, the more people you are dealing with, the more likely you are to make someone unhappy. The same principal goes with turnarounds, the larger the entity, the more players involved, and the probability of litigation increases geometrically with the increase in the size of the engagement.

Size	Small	Mid-Sized	Large
Risks	Low	Moderate	High

Markets – Single Thread: As a generic statement, smaller entities will usually have very few product offerings or service lines. This generates a host of issues if the overall industry is not performing consistent with the economy, and the smaller entity essentially has "all their eggs in a single basket." This alone generates a higher degree of risks, and leads to the logical conclusion of the more products a company has in the mix, the more opportunity they have for salvation.

Size	Small	Mid-Sized	Large
Risks	High	Low	Low

Options – Financial: As the reader can appreciate, a larger entity generally has a host of financial options available – equity, preferred equity, and an array of debt options. Granted, the financing is more complex, but the options do exist. Smaller challenged entities can be limited to distressed debt financing since traditional financing is very difficult to obtain in their situation.

Size	Small	Mid-Sized	Large
Risks	Very High	Moderate	Low

Processes: Good companies have good processes. This is a business fundamental. As a general rule, larger entities have in place more segregation of duties, better technology, changes in key positions, multi-disciplined executives, a board of directors (independent of management), and core processes that are appreciated by the employees. Many of those may not even be financially available to smaller entities.

Size	Small	Mid-Sized	Large
Risks	Very High	Moderate	Moderate

Rapid Resolution: The risk associated with this characteristic appears to be positively correlated to the size of the entity. If a turnaround is successful, a smaller organization can reap the benefits much quicker than a larger organization can. This is due to fewer layers of management involved with the process and their ability to focus on the specific issue(s). Smaller entities generally have less time to take corrective action, but are more willing to work with the turnaround team.

Size	Small	Mid-Sized	Large
Risks	Low	Moderate	High

Timing: All three sizes are equally challenged here in that they wait too long for assistance – no one really wants to admit they have a problem they cannot solve themselves. Challenged entities are not like "fine wine" – they do not get better with time. Entrepreneurs, by their very nature, are optimistic. The belief that next month, next quarter or next year will be better; in reality though, without proper assistance and a "fresh set of eyes," that is often not the case.

Size	Small	Mid-Sized	Large
Risks	High	High	High

Turnaround Team: Larger entities may have a full team of professionals at their disposal to aggressively address the distressed functions within their entity. This includes, but is not limited to, attorneys, accountants, and a proven turnaround specialist. A smaller entity often does not have the resources to have those professionals in-house, which means that if they do need those services they have to pay a much higher rate for them.

Size	Small	Mid-Sized	Large
Risks	High	Moderate	Low

Growth Opportunities: In my opinion, the advantage belongs to mid-sized entities with regard to their ability to quickly use growth as a viable option to improve their challenged entity. Basically, my experience has shown that a mid-sized entity has the wherewithal to move fast without the necessary bureaucracy and overhead. Furthermore, the mid-sized entity has a number of product offerings, generally they are closer to their customers, and they can move faster to market. Of course, this set of generic assumptions precludes issues with quality, capacity, or any other customer / quality limiting issue.

Size	Small	Mid-Sized	Large
Risks	High	Low	Moderate

Summary: Based upon our experience in the turnaround field, if one was to score the characteristics – the smaller organizations are a higher risk for turnaround success, with the mid-sized and large organizations at a virtual dead heat.