# Effective Leadership for Software Turnarounds - Part I of II


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## INTRODUCTION

Corporate turnarounds are complex and often intimidating to navigate, particularly for the uninitiated. To be successful, any attempt must start with having the right leaders in place. Indeed, prior studies reveal business failures are caused by poor leadership nearly 9 out of 10 times.[1] As executive recruiters, we understand this reality and advise corporate boards, executive teams, and strategy consultants on change management.

Given the high stakes and peculiarities of managing a troubled company, we wish to share an executive recruiter's perspective on effective leadership in a turnaround. While this paper addresses some commonalities across industries, we concentrate on the skill set of successful leaders at troubled software companies. The reach of the software industry is now immense -- $450-500B in annual revenues globally[2] -- yet the complexities involved are fairly unique. These realities, along with a scarcity of prior literature on effective software turnaround leadership, ignited our interest in exploring the topic in a two-part series. Part I (below) examines the skills of the leaders themselves, while Part II will explore the different types of software turnarounds and the specific teams required to execute each.

## WHAT IS UNIQUE ABOUT SOFTWARE?

Industry dynamics make for a complex environment when leading a software company out of danger. They will often reinforce one another when a company is performing well, and doubly so when things start going awry. These dynamics include:

☑ **Shelf-Life**. The lifecycle of a typical software company can be short. A common phrase is that these companies generally age in dog years -- about seven times faster than counterparts in more traditional sectors of the economy. While this means a software business can grow quickly, their market can also fade at a meteoric rate.

☑ **Competitive Landscape**. Software can more often than not be a winner-takes-all (or winner-takes-most) market. The macro push for reconcilable technology, expensive switching costs, and increasing returns to scale merge together and ensure that in many segments only a limited number of software players survive in the long run. This phenomenon often favors the bold. Even in certain segments where no clear winners have emerged, overly complacent companies can easily find themselves disrupted by new upstarts -- see Zoom and Slack's public debuts in 2019 as two mainstream examples of this phenomenon recently.

☑ **Business Valuation**. Software valuations are often tied to the cyclical nature of IT demand and the intangible nature of its assets (employees, customers, and technologies). The importance of these intangibles is amplified by scalability and the winner-takes-all dynamic of the software industry. Investors generally rely on revenue growth and earnings as proxies for value. Software companies benefit when their performance is rising. However, in a decline, the valuation is hit for both their actual performance and for what it signifies about the underlying value of the company's assets.

[1] A groundbreaking study (1978) by turnaround expert and top-selling author Donald Bibeault first noted that 91% of business failures can be traced to influences that management could control. A more recent study (2014) by the Turnaround Management Society highlighted that top management was responsible for a crisis situation 88% of the time.

[2] Per the following reference points: Gartner; Statista; and Research and Markets.

- ☑ **Employee Incentives**. For many software companies, equity incentives form a meaningful part of employee pay. Once a particular company hits a rough patch, attrition can spiral as equity allocations lose appeal. A sad reality is that often the most valuable employees leave first, diluting a software company's intangible-asset base at the time of greatest vulnerability.

- ☑ **R&D Considerations**. In the fast-moving software space, often new concepts can develop where those who act first can corner a market. This can lead to heavy investment in R&D across experimental technologies that are tangentially related to a company's core product. This elevates risk at the hopes of incubating a unicorn, and means higher spend towards what could end up being propositions with zero or limited revenue. Despite the seductive nature of the potential market capture, the limited foresight into new fields can misguide a company's vision.

## LEADERS IN SOFTWARE TURNAROUNDS

In selecting leadership for a troubled software company, it is tempting to quickly 'hire and fire'. The reality is that, before anything else, one needs to start by first conducting basic discovery into a few key areas.

- **How Bad Is It?** Having a general feel for the current state of affairs -- and how rapidly the situation is deteriorating -- is vital. Scenarios differ widely so understanding what 'ground zero' looks like at a particular company will drive the desired timeline in selecting specific leaders for the turnaround.

- **Where Do We Go?** Having a clear plan of action for the turnaround is critical for hiring towards that end goal. Potential pathways forward can include product shifts, strategic pivots, sales reorganizations, new market entry, retreating from non-core markets, and cost reduction. We will discuss these and other software turnaround profiles in detail in Part II, but delineating what 'type' of turnaround strategies will be prioritized is always important.

- **Who Do We Need?** One size does not fit all in software turnarounds. All companies have idiosyncrasies in terms of their operating history, organizational structure, and cultural values. A diversified multinational with comprehensive solutions for ten markets is a different animal than a niche SaaS provider with a regional focus. Also, a tech visionary can be ill-suited for a company in need of a financial overhaul or an SMB expert will likely flounder in a large enterprise setting. While seemingly obvious, these types of distinctions are significant when securing leaders for the turnaround.

In the end, irrespective of any dissimilarities, what ultimately binds software turnaround executives together is an objective to not only survive but prosper. Of course, for the software investor there can be another main objective: avoid writing off the investment and getting their money back. Regardless, this all requires leaders with a set of skills honed for dealing with distress and change in an industry that moves at light speed compared to others.

### A. Industry Depth

Above all else, a distressed software company must assemble a leadership team with enough industry know-how to execute the turnaround plan successfully. To this point, having at least one 'wise soul' advising or leading the core turnaround team is essential. Software companies devoid of this expertise often face too steep of a learning curve or misread a market's evolution. A lack of industry depth can also result in leaders making unrealistic promises that go unmet. The result is a debilitating loss of faith from key backers, employees, and/or customers. Moreover, leadership teams emanating extensively from outside the industry often lack a relevant network of talent to pull from -- which is essential in the early phases of a turnaround.

**Hiring Fix-It Experts? Buyer Beware**. Hiring a branded 'turnaround guru' requires careful qualification on the amount of expertise they too bring to specific situations. These individuals can dilute a software company's executional clarity when they lack depth in a particular segment. Moreover, they may push a 'playbook' that is repeatable in terms of short-term results but much less predictable for a company's culture, reputation, or innovation. Software companies must assess the risk of losing key pillars of their business in the long term, for the limited success of a quick gain.

### B. Rigor

During the hyper growth phase, a landgrab mindset often takes hold that steers software companies to new geographies, solutions, channels, or customers. However, when conditions change -- from strategic miscues, shifting product demands, or technological innovation -- many companies that grew indiscriminately find themselves riddled with inflated costs, poor strategic focus, or ill-conceived products. These considerations necessitate that a software business has turnaround leadership adept at figuring out what does / does not need repair and at realigning the company's resources to execute on the new direction forward.

There are scenarios where struggling software companies brought on well-regarded executives who championed a transformation agenda with only a superficial grasp as to what the real problems actually were -- and what resources the company had to correct them. The end result was needless broken glass and generally a failed effort. On the other hand, the best turnaround leaders are skilled at examining a troubled company with thoroughness and objectivity. They recognize that problems are often not always what past executives indicated, and their success hinges on assessing key issues as well as developing market differentiators that others previously missed. Some outstanding software leaders prefer to examine a troubled company two levels below the executive level to co-develop a plan and determine which layers should stay or leave, i.e., who is part of the problem and who can be part of the solution. While it seems meticulous on the front end, this can shave valuable months (or years) off a turnaround effort because solutions are jointly generated and buy-in is integrated into the process.

Finally, rigor within the leadership ranks of a struggling company means verifying everything with customers. Poor leaders tend to insulate themselves and can over-index in crafting a business strategy at a distance. On the other hand, great turnaround leaders exhibit a passion 'to hear it straight from the horse's mouth'. They seek market feedback and are savvy at leveraging key customers to help shape the company's redirection. Loyalty here can also provide a crucial base of customers who become references for new business. Such endorsements are particularly important in end-user software, as it is largely a 'UX-based' product.

### C. Short-Term Prioritization

Once a new course is charted, decisiveness and prioritization become paramount. This requires excellent short-term planning skills from leadership to focus the company out of the gates. While crafting short-term plans can be more art than science, effective software turnaround leaders develop these plans (often labeled '100-day plans') to simplify key goals, achieve stabilization, and avoid further time decay. The plans are often action-oriented and exhibit a sense of accountability, detailing important assignments, milestones, and inter-division dependencies. The best leaders also bring an ability to re-adjust their short-term priorities, for example, by placing deeper emphasis on what is happening day-to-day as a particular situation requires.

### D. Cash Management

Leaders in any troubled software company must ensure they have the resources needed to execute a turnaround. This necessitates expertise in cash management -- deciphering how a company spends and what investments generate positive ROI; as one seasoned turnaround executive put it, this is "juggling knives while watching the fuel gauge." Regardless of the company's pricing model and software solutions, its leadership team must be adept at forecasting short-term cash flow. They need to identify avenues that free up internal sources of cash via working capital reductions and, if possible, asset realizations. The focus here is on establishing liquidity and buying enough time for oncoming fixes -- whether that will come from pursuing adjacent opportunities, creating recurring as-a-service revenue streams, or revamping the sales coverage.

A sober reality is that heavy investment in winning solutions are often paid for with cuts elsewhere. Thus, turnaround software leaders must be able to rectify misguided spending, for example, by pruning low-margin products from the company's portfolio and investing into more profitable offerings or innovation (via re-focused R&D or a forward-thinking acquisition). Some turnaround leaders we know have taken a hard line on this point, measuring spend by the potential to achieve millions of dollars in revenue. Those investments that could not achieve this aspirational bar were scrutinized and mostly eliminated. A software company that fails to make these types of difficult decisions will face a difficult path to redemption.

### E. Talent Assessment & Recruitment

Software leaders often realize the legacy organization lacks the holistic skills required for a turnaround. Thus, talent identification and optimization are vital for success. This includes identifying key talent from within and recruiting aggressively where talent gaps exist. Third party firms can certainly be leveraged to assist, however it is ultimately on a company's leadership to determine which individuals will be counted on to execute their turnaround agenda. The major questions for talent assessment across silos are: What skills are needed? Who has these skills at the company today? Are they aligned with the transformation or will they inhibit it? Are the current employees in the correct role? Who will need to be recruited in? Is there team compatibility across key initiatives?

Aligning key talent in a turnaround requires a compelling and transparent articulation of the company's re-focused strategy. 'Pitches' to talent should be centered on what matters the most to the individual - whether it's explaining big changes already in process, stressing quick decision-making and a shift in culture, offering a chance to take on broader responsibilities, or outlining the economic upside if successful. The best leaders inspire prospective team members towards a remarkable, yet achievable goal.

On a related point, leaders in a software turnaround must recognize when to deviate from a pre-existing structure. For instance, they should understand how to fix imbalances across the company, e.g., by de-emphasizing one function to empower another during the turnaround or by advancing somebody within a function who brings B-grade talent but A-grade attitude. 'Favorite son' mentalities must be abandoned, and objectivity must be utilized in assessing what is useful for the successful turnaround. If significant layoffs are required, leaders at the company should be thoughtful administering the process correctly and with sensitivity.

### F. Communication

Turnaround leaders must clearly dictate the philosophy and mission plan of how the company will be run to achieve results. Stakeholders will often have concerns and feel out of the loop – the employees still there are uneasy about keeping their jobs, customers may be considering defection, and creditors are worried about being made whole. Those in charge must therefore be skilled at conveying the importance of their plan and reinforcing critical messages about the transformation to obtain buy-in. This can take the form of a ‘charter’ of values, weekly updates, press conferences, or face-to-face meetings.

During the turnaround, it is also important to establish clear channels of communication between employees and management. This means company leaders ought to be skilled and comfortable sharing regular updates on what is working, hearing the ground level facts from team members, and clearly explaining priorities. The new way of doing things must be well-defined, and useless comparisons to the old way of doing things should be avoided.

Additionally, leadership must ensure finger-pointing between functions is removed, for example sales may have blamed engineering for a poor product, while engineering blamed sales for its inability to close deep-pocketed customers. Avoiding this ‘quicksand’ is necessary so cross-functional teams can push in tandem on cross-cutting initiatives, such as organization redesign, role clarification, simplification, and the implementation of new company policies. The common language and logic created here will build organizational strength that prospers well after the completion of the turnaround.

## PARTING THOUGHTS

In moments of self-reflection, several great software executives have told us that they are more successful in leading a turnaround after learning from past errors. For them, the battle scars and lessons learned from prior situations are invaluable. A takeaway here is that mistakes will usually be made in every turnaround. Limiting those mistakes in terms of size and frequency however is absolutely crucial. That ultimately starts and ends by having the right team in place.

Effective leadership at the helm of turnarounds remains more the exception than the rule in the software industry. This is perhaps understandable as the dynamics of the market can prove difficult to overcome when a company’s future looks dim. However, having a leadership team with the right skillset is the foundation stone for successful turnarounds.

## ABOUT ROAR GROUP

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Arturo is a Partner & Co-Founder at Roar. He most recently served as the global Head of Talent at a $1B private investment fund focused on growing disruptive technology companies serving different vertical markets.

Before this, Arturo managed senior-level executive searches for private investment funds and their portfolio companies at a leading executive search boutique. His practice has generally covered the following hires: fund professionals, CEO, CFO, heads of product, data science, engineering, sales, marketing, and human resources. Arturo has completed searches across a broad range of industries, including: technology (software, AI, internet, IoT, hardware); business services; consumer goods/retail; financial services; and industrial.

Prior to executive search, Arturo was a practicing attorney at a global law firm devoted to labor and employment law. His areas of specialization included employment litigation and collective bargaining negotiations. Earlier on in his career, Arturo also advised clients as an investment banker specializing in the financial services industry.

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Jon is a Partner & Co-Founder at Roar. Prior to this, he worked at several executive recruiting firms, as well as within a Venture Capital fund, where he assisted several startups in the portfolio and negotiated complex cross-fund contracts.

Jon brings experience recruiting across venture, private equity, and public companies including software, fin-tech, telecom, CPG, professional services, as well as fund-internal roles. He has particularly strong functional experience with CEO, CFO, Head of Sales/CRO, and CTO roles.

Jon believes that successful placements are rooted in grasping the needs of the business, as well as the desires of the hiring team. He focuses on understanding the organizational structure, industry expertise and culture a company has through the course of each search.  This leads to a list of candidates tailor made for the needs of that particular client.

Prior to recruiting, Jon ran a privately-held business in the New Orleans metro area.

He is a graduate of the University of Florida as well as Harvard Law School. He is licensed to practice law in Louisiana.