On the Brink of Collapse, Failure was not an Option

Interview with Norbert A. Gregor of Taskforce Partner on Challenges and Solutions in a High-Risk Mandate in a Family Business Facing Insolvency

Norbert, in an exceptionally long mandate at a medium-sized engineering and plant construction company, you assumed the role of interim CEO and CRO. What was the initial situation?

Norbert Gregor: This is a somewhat lengthy but exciting story. The mandate arose from a highly toxic mix of acute and structural problems. The second-generation family-owned company, with an annual turnover of around 40 million and 230 employees, was in a severe liquidity crisis and on the verge of bankruptcy. The sudden loss of three key accounts caused nearly half of the total revenue to disappear almost overnight, and one-third of the production space was idle. For two of these accounts, significant seven-figure investments had been made without securing binding cooperation agreements. To make matters worse, the implementation of S4 HANA had gone completely off the rails. For an implementation rate of about 25%, around 90% of a large multi-million budget had already been spent.

That sounds challenging. What were the causes of the crisis and how was the market situation?

The company was in an extremely attractive market, but the customer, product, and revenue structure had become dangerous. It's always tricky to attribute organizational problems to individuals, but here it quickly became clear that the transition to the second generation of owners had been unfortunate. However, the company was originally so healthy that the decline stretched over 15 years without effective countermeasures being taken. When I came on board, it was almost too late.

The owner was apparently quite resistant to advice...

Quite the opposite – he was highly, perhaps overly, oriented towards consultants. The problem lay in insufficient strategic leadership and the inappropriate recommendations of consultants. The company was not strategically developed because strategies were not consistently implemented. I was the first interim manager in the company's history.

What role did the internal management play?

The frequently changing external management did not take any significant responsibility and, to the owner's dismay, did not show passionate identification with the company, its products, and the market, which was simply not enough. Frankly, the owner was often left alone and did not trust the right key people. There was simply a lack of leadership that provided a clear direction and managed all stakeholders. In the end, everyone, including the vital banks, were disappointed and in some cases extremely angry. The CFO, the right-hand man in the company, recklessly worsened the situation by concealing the precarious liquidity by blocking urgently needed CAPEX projects and selling off remaining "family silver." Funds to keep the business healthy in the future were missing. In the end, production was running on wear and tear, and the once excellent credit rating was gone. When the short-term credit lines of the two house banks were exhausted and they lost trust, the once renowned company was on the brink of collapse.

How did the mandate come about?

The owner played his last card and dismissed the CEO. Since there was no time for lengthy selection processes, I was appointed as the interim CEO and CRO, knowledgeable about the industry and specialized in transformation. Strikingly, the client was not fully aware of the highly critical situation and had obviously ignored all the relevant signals, which is understandable in such a situation due to the lack of adequate reporting. Consequently, the briefing of the mandate was in stark contrast to the reality found. This meant that I entered the mandate based on incomplete facts, which would have had fatal liability risks for me personally in the event of insolvency. Failure was therefore not an option for me – the mandate had to be successful in my own interest.

How did you manage to achieve the turnaround despite the disastrous initial situation?

Initially, new problems kept emerging, and I defined measures based on this situation. It was partly impossible to rely on the in-house management. The actors were too divided, the predominantly analog processes too antiquated. There wasn't even a liquidity plan, nor CRM or controlling. The decision backlog created by blockades in the finance department and the negative company performance led to frustration and internal resignation among the workforces. This was also evident in the unusually high short-term illness rate and the "tired" work atmosphere – simply no "esprit."

And it got worse. The highly respected development director in the industry, to whom the company owed all its central successes after the change of ownership, died five months after the mandate began, leaving no digital documentation of his expertise and projects. Less surprisingly, several production lines failed due to years of blocked maintenance and reinvestments. This was followed by rising complaint rates, failure to meet key quality targets of major customers, overly long delivery times, no active sales, and, to top it all off, no inbound communication to the internal service – the phone accessibility was cut off for cost reasons, asking callers to leave their address to be contacted by email. This was not the customer orientation I lived.

This sounds like a worst-case scenario that business administration professors might think up for their exams.

As an optimist, I still found many positives in the situation because the company was the leading niche provider in a highly lucrative oligopolistic premium market, as mentioned earlier. This alone explains why the company had survived at all. Additionally, there was a wealth of product developments not yet commercialized, which had no competition in the market – essentially rough diamonds that lacked the liquidity for new production lines and customer acquisition. Furthermore, I knew the market and competition and was the first external manager since the change of ownership who even came from the region, which socio-culturally facilitated access to the disappointed employees. Also, the areas of customer retention, new customers, and reactivation of former customers, as well as export, were not professionally managed at all, so we could only do everything better here. In short, the company still had significant potential, and that motivated the turnaround.

What did you do to save the company?

I set the most important goals of the mandate myself due to my personal risks, as fortunately the owner gave me his full trust and relied on me. First, the deeply unsettled workforce needed to be awakened and re-motivated. Trust had to be built among the employees, the works council, as well as banks, suppliers, and especially the customers. The leadership level had to be reorganized and communicated with respectfully and at eye level. Urgently required was also the extension of the expired credit lines, for which we prepared a restructuring report according to IDW S 6 for the banks and had to persuade the owner to increase the capital.

How did you proceed strategically?

We developed a two-phase strategy in parallel. The first phase, planned over 18 months, focused on restructuring and turnaround, with the goal of achieving a black zero in operating profit and a positive operational cash flow. Among the key measures was the immediate halt of the derailed SAP project to avoid burning more millions after those already lost. Also critical to success was a new finance and HR management and the transformation from passive to active sales. The owner always stood behind me, which was simply important, and even voluntarily left the operational business so that all stakeholders could focus 100% on me as CRO.

The introduction of flat hierarchies and modern work organization, the use of contemporary digital tools, and the targeted development of young talents meant a cultural change that brought new hope to the workforce, the works council, and the external partners. A visible sign of the change was the abolition of the "director's floor" in the administrative building. Every department head now sat directly with their people. Equally symbolic was the replacement of the massive wooden doors of the individual offices from the 70s with transparent glass. I wanted the teams to always see their managers and thus create a new sense of community. Particularly important for building trust was the permanent communication with the works council and the workforce, always using the "we" form. Every second day, I made my gemba walks through the production halls at 6:00 AM for the morning shift and at 10:00 PM for the late shift, talking to all foremen and employees. This also built trust.

In the previously passive sales department, the internal and external sales teams were completely reorganized under my leadership. The goal was the fastest possible compensation for the lost three key accounts. After active engagement, the new team managed to win back one of the three and even acquire a major customer for cleanrooms in semiconductor technology in Taiwan.

To utilize our idle lines again, we successfully made contacts in my industry network, i.e., with important competitors, to produce OEM products for them as an extended workbench. Additionally, through personal visits to all A and B accounts, we were able to strengthen relationships and conclude new cooperation agreements.

Particularly challenging was finally the resolution of the maintenance and investment backlog in production to regain competitive delivery times and quality standards. On this basis, thanks to the last capital increase from the owner, we started the series production of already developed prototypes and marketed them domestically and abroad, as well as concluded sales alliances with selected partners. In the end, we were able to successfully complete the first phase even two months earlier than planned.

And the second phase?

After stabilizing the company, the one-year second phase focused on strategic realignment, with significant CAPEX for new production lines, digitalization, and aligning the company with ESG standards to ensure long-term competitiveness and, on the other hand, repositioning as a true niche market leader in new markets.

... sounds promising, but were you really capable of that after such a restructuring?

... honestly, the answer is no, because we simply lacked capital. Since the owner could no longer provide the necessary eight-figure capital increase and the banks, despite the positive S6 report, were unwilling to provide long-term funds, we needed a venture capital partner or a complete sale of the company.

What were the major hurdles for a sale?

Our company, despite the turnaround, did not have a high market value. However, I believed in the future after the restructuring and the successes with the team, and especially with the multitude of innovations not yet commercialized. I even considered an MBO myself, but it was too slow, so I used my relationships with competitors in the USA and Germany, who were unanimously convinced that it was a company with high future value. As a basis for the valuation multiple, we used a self-developed future strategy with which the revenue was expected to triple in five years with a major investment. After ten months, the signing took place with the competitor I favored and – due to unnecessarily bureaucratic requirements from the Federal Cartel Office – the closing only happened three months later. This then laid the foundation for a new future for the owner, the company, and the loyal workforce. The success was reflected not only in the recognition for me and my teams but also in the fact that the corporate buyer committed me to carry out the post-merger integration for 18 months and to set a blueprint for a new high-tech production of our premium products in the region instead of in the East! The owner is now said to have given up his affinity for consultants in favor of hiring interim managers...

Congratulations on that, Norbert, and thank you very much for these insights into this exciting mandate.