All Leaders Are Not Created Equal: To Save the Company - Change the Leadership Style

All Leaders Are Not Created Equal, To Save the Company --

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All Leaders Are Not Created Equal, To Save the Company -- Change the Leadership Style by John M. Collard, Strategic Management Partners, Inc., published by Director's Monthly

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SECTIONS:

Sections **Index**

All Leaders Are Not Created Equal:
To Save the Company - Change the Leadership Style

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Crisis and transition demand change - the first true step toward recovery.

DIRECTOR SUMMARY
What makes a good leader in a healthy company? What about a company in crisis? The two styles are different in focus, decision making, authority, and people. Understanding and managing these differences can help directors recruit the right talent to lead a company through good times and bad.

In a time of crisis and transition, who can handle the crisis management role within the company? This is a predicament. At such a turning point, clear thinking must prevail and a special set of skills must be applied.

If there is a qualified leader within the company, then delegate the job of turnaround to that person, and provide proper support. If there is not a qualified leader in the company - and there usually isn't - don't hesitate to go outside the company to locate a professional for this job. The answer is often found in the form of a turnaround specialist.

Sections ***Index***

Different Needs

What guides the decision of choosing a leader at this juncture? Different companies have different needs. The CEO that managed the company into trouble clearly is lacking the skills to doctor it back to health. Why risk allowing the same person to try again? Conversely, the CEO that can bring a troubled company from the brink of failure may not have the skills to become the "Marquis" to manage long-term, day-to-day operations.

This suggests a two-part strategy, an interim executive to manage the transition period, followed by a well-qualified permanent leader to step in when the time comes.

A troubled company is like a patient in critical condition, decisive steps must be taken to make something happen. The first goal in an absolute crisis is to stabilize and buy time. After steadying the vital signs, take a reading on where things stand - which is normally still. Look for changes in ratios and trends to determine what is - or more important - what is not going on in the business.

Let's put the leadership roles into perspective. Requirements differ between those for healthy, growing companies and those for firms in troubled or transition situations. Compare the differences in our chart to follow.

- ***Healthy company.*** In the stable or growth scenario, there is time for structured growth and building the organization. In a healthy company, management focuses on long-term objectives, coaching, and team building. A manager in a stable environment should be known among shareholders and employees for consistency in decision-making. With the luxury of time, the occasional mistake generally will not do lasting harm.

- ***Turnaround situation.*** In the initial crisis and subsequent turnaround situation, time is an enemy. The focus is different. In a financially distressed company, the lack of time requires action. As the company's problems compound and cash flow evaporates, it becomes critical for management to act quickly and decisively. Management must focus on short-term survival. A manager in a troubled company must be able to shift gears to deal with daily crises that inevitably occur. Troubled companies have primarily one goal - to survive and get well. If the symptoms persist with no cure, the patient can die.

Shortcomings

The difference between long-term planning and short-term decision-making is one reason why the troubled environment is so foreign to many managers. This often explains the difficulty in finding qualified talent for a turnaround within the company. Another problem faced when the company is slipping into trouble is that existing management often goes through a "denial" phase. They tend to blame their situation on external factors, such as the lender's refusal to advance additional funds, rather than examining the way they are managing the company.

When a company is faced with these types of shortcomings in its internal talent pool, it is time to look to a specialist to orchestrate the change needed to save the company.

Sections ***Index***

CONTRASTING LEADERSHIP STYLES

Attribute	Healthy Company	Turnaround Situation
Focus	Objectives	Survival, action, problem-solving
Decision making	Deliberateness	Speed, decisiveness
Authority	Delegation	Direct involvement
People	Skills (develop)	Talent (recruit)
Respected for:	Management reputation	Financial credibility
Known for:	Consistency	Ability to shift gears

Sections ***Index***

The Turnaround Specialist

Turnaround specialists generally are either interim managers or consultants. Interim managers will replace the CEO, take the decision-making reins, and guide the company through troubled waters, hopefully to safety. Consultants advise management, possibly the same management that got the company into trouble in the first place. Whether a consultant is effective depends upon management's willingness to listen and implement the specialist's recommendations.

Be assured there are countless cases where existing management agreed to work with a turnaround consultant only to placate the board. There is no substitute for qualified leaders with decision-making authority.

When hiring a turnaround specialist:

- check the person's references
- review proposals versus what can realistically be accomplished
- require engagement agreements, and
- hire an individual, not the firm - personal chemistry with the managers is critical.

Sections Index

The Process

Along with specific skills and an understanding of troubled situations, the specialist offers a new perspective from which to independently evaluate the company's circumstances. The process will focus on several issues:

- Is the business viable?
- What is the purpose of the business?
- Should it be saved? Why? Are those reasons valid?
- Is there a core business that can be the source for the emerging business?
- Are there sufficient cash resources to fuel the recovery?
- Which existing managers are capable of leading parts of the company?

Remember, not all companies are salvageable.

The fact-finding must proceed as quickly as possible so that a realistic assessment of the current state of the company can be prepared. The specialist's first priority will be to manage cash flow - to stop the hemorrhage. Analysis of sales and profit centers, and asset utilization should indicate where the real problems - not the symptoms - are located. Next, a business plan outlining and suggesting possible courses of action - or cures - will be prepared.

Following this diagnostic stage, the transition can begin towards a turnaround. Once the course of action is chosen, implementation and monitoring can occur. The specialist should remain involved at least until the business is stabilized, and preferably until the transformation is complete and a new leader is found.

Sections Index

Keep Business Moving

The turnaround specialist needs to get things moving again. Movement must occur in two areas.

> ***Volume in (revenue/sales).*** Look at where and how revenue is generated. Is it from existing customers and contracts or new business? Most important, keep it coming in.

Volume out (throughput/production). Look at getting the product or service "out the door." How else can you bill for it?

Companies often get into trouble because management procrastinates when it comes to making decisions. If the decision is made by default, it is akin to making no decision at all. Survival for the troubled company depends on being immediate - on making decisions in a timely manner. Even a wrong decision allows movement and direction. If a decision turns out to be wrong, change it, but keep things moving.

Authority and Talent

Time is also a consequential dimension when it comes to authority. In a stable company, there is time to delegate and nurture the growth of the management team and time to work on long-term issues and projects. In the troubled situation, delegating takes on a different role. Managers must be held accountable not only for performance, but also for timely results.

Remember that the good managers may have deserted the ship long ago, leaving behind the second string. The good leader will know how to exploit the talents of these employees and bring them up to a new level to save the company.

In a troubled situation, the decision-maker must get directly involved. It is hard to worry about the long-term future when there may not be one. The leader is pressed closer to the immediacy of the day-to-day operations. If you want action, request a decision or make one.

In a stable situation there is time to develop talent. But at a troubled firm, you must exploit the talents of those who can perform and recruit the talent that is lacking. It means building a permanent management team that can bring the company back to health - and adds value to the company.

Communication

Communication is critical with everyone who has a stake in the company's success. Talk to employees, but more significantly, listen to what they have to say. Be assured they know when problems exist. They also often know how to resolve them.

What message are you sending? Remember, what is not said is often more destructive than what is. Unnatural actions or behavior, such as "closed door meetings," will most certainly set off the rumor mill. People need to know or they're left to their own imaginations - and that is always worse.

Equally vital, level with people - then get the stay versus go decision. To address the issues in a forthright manner is no guarantee that you will keep everyone, or that everyone will believe what has been said. But to not communicate what is going on is a lack of leadership, so don't be surprised when employees don't do what you want them to.

Financial Support

A key element to a successful turnaround is to establish a good relationship with your bank. Capital is always required in tough times, not to mention that it's nice in good times as well.

If the leaders who were in power while the company's position was allowed to deteriorate are still there, why should the lender believe that they would now be instrumental in correcting the situation?

To make matters worse, in the eyes of management, the lender can be viewed as an enemy instead of a key part of the turnaround equation. With all the suspicion that can surround a troubled company, it is important that trust be re-established with the bank. Credibility with lenders is mandatory to success - and to keeping that cash flow at the bank. Since the bank holds the trump card, the institution must feel comfortable working with the turnaround leader. It means laying everything out on the table to keep the situation honest - and honoring commitments made to the lender.

Sections ***Index***

Conclusion

Where consistency is important in a stable environment, the name of the game in a turnaround situation is uncertainty. You can absolutely, positively count on surprises. "When it rains, it pours" may be cliched, but when applied to a troubled company, one can be sure that "Murphy is shaking the clouds."

The ability to deal with change at a rapid pace is essential. This is why a seasoned practitioner can be the answer to a successful turnaround plan, they've "been there, done that." The existing leadership is often "out of its element" as it enters this untrodden ground of trouble. And when people haven't had to manage in this environment before, the odds are that they will at the very least, have a difficult time.

Turnaround leaders didn't start out as such - they were often managers that worked their way up the corporate ladder through hard work and (hopefully] fair play to build a solid management reputation. They have also developed a set of skills to handle problem solving, getting results with minimal resources, (tight) cash flow management, and negotiating and dealing with bankers, investors, and creditors. The stakeholders will usually work with a turnaround leader - if he or she is credible.

The turnaround specialist must possess the skills to deal with a financially troubled company and have the ability to make the tough decisions needed during a recovery. Specialists are hired for their management ability - the ability to bring order out of chaos, marshal resources, and maximize value from those diverse resources. If the company requires special expertise, then the specialist will attract that expertise. Remember, experience in dealing with crises and change may be more important than industry experience.

Specialists are hired for their management ability, the ability to bring order out of chaos, the ability to marshal resources and maximize value from those diverse resources.

The turnaround professional must be financially credible and honor commitments. The company, bank, and other interested parties should be able to rely on the specialist to protect their interests while providing then with accurate information they need on a timely basis. The earlier trouble is detected, the more probability of turnaround success. Affecting a turnaround takes an array of skills. To affect rehabilitation, the right leader will know how to make decisions, put a plan into action, and create a talented team to move towards a healthy and more valuable end.

Finally, a good turnaround specialist will develop a permanent management team within the company to preserve value, instead of hiring a large team of outsiders who, when they leave, take that value with them. The specialist should work themselves out of a job to be most effective, while leaving the company with the ability to grow and prosper as a stand-alone going concern.

Sections ***Index***

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Sections ***Index***

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There is more to Strategic Management Partner's ***Return to Home Page***

Al

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Index

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Top ***Index*** ***Sections*** ***Contact*** ***PDF Version***
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