All Leaders Are Not Created Equal:

To Save the Company — Change the Leadership Style

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Abstract

What makes a good leader in a healthy company? What about a company in crisis? The two styles are different in terms of their 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.

Clear Thinking

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

If there is a qualified leader in 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 find a professional for this job. The answer is often found in the form of a turnaround specialist.

Different Needs

What guides the choice of a leader at this juncture? Different companies have different needs. The CEO who managed the company into trouble clearly lacks the skills to doctor it back to health, so why risk allowing the same person to try again? Conversely, the CEO who can bring a troubled company from the brink of failure may not have the skills to manage long-term, day-to-day operations once it regains its health. 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 crisis is over.

A troubled company is like a patient in critical condition: decisive steps must be taken quickly. The first goal in a crisis is to stabilize and buy time. After steadying the vital signs, then a reading on where things stand can reveal changes in ratios and trends that will determine what is–or, more important—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.

* In a healthy company with a 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 teambuilding. 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 will not usually do lasting harm.

* In a turnaround situation, with the initial crisis and subsequent turnaround situation, time is an enemy, so 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, management must act quickly and decisively, focusing on short-term survival. A manager in a troubled company must also be able to shift gears readily to deal with many daily crises that inevitably occur. Troubled companies have primarily one goal: to survive and get well.

Compare the differences.

Contrasting Leadership Styles

Compare the skills needed in the "healthy scenario versus those needed in the turnaround situation:

Focus: On Objectives (healthy) vs. on Survival and problem-solving (troubled)

Decision-making => Deliberate [Healthy] vs. Decisive and immediate [troubled]

Authority: Delegation (healthy) vs. Direct involvement (troubled) People => Development (Healthy) vs. Communication and recruitment of talent (troubled)

Respected for: Management reputation (healthy) vs. Financial credibility (troubled)

Known for: Consistency (healthy) vs. Ability to shift gears (troubled)

Shortcomings

The focus on long-term planning in a healthy company vs. that on short-term decisionmaking is one reason that the troubled environment is so foreign to many managers and that it is often difficult to find qualified talent for a turnaround. Another problem that arises when a company is slipping into trouble is that existing management often goes through a "denial" phase in which they tend to blame their situation on external factors, such as a lender's refusal to advance additional funds, rather than examining how 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.

The Turnaround Specialist

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

There are countless cases in which existing management agreed to work with a turnaround consultant only because of the board's insistance. There is no substitute for qualified leaders with decision-making authority.

When hiring a turnaround specialist, a company should:

• Check the person's references

• Review proposals in light of what can realistically be accomplished

• Require engagement agreements

• Hire an individual, not a firm; personal chemistry with the managers is critical.

The Process

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

• Is the business viable?

• What is the purpose of the business?

• Should it be saved? Why?

• Is there a core business that can be the source for an emerging business?

• Are there sufficient cash resources to fuel the recovery?

• Which current managers are capable of leading parts of the company?

Remember, not all companies are salvageable. The fact-finding process must proceed as quickly as possible so a realistic assessment of the current state of the company can be prepared.

The specialist's first priority is to manage cash flow in order 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 that outlines and suggests possible courses of action–or even cures—should be prepared.

Following this diagnostic stage, the transition can begin toward a turnaround. Once a course of action is identified and chosen, implementation and monitoring take place. 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.

Keep the Business Moving

The turnaround specialist needs to get things moving again 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 the business volume coming in. Volume out (throughput/ production). Look at how the product or service gets "out the door" and look for new ways to bill for it.

Companies often get into trouble because management procrastinates when it comes to making decisions. Decisions are made by default are akin to making no decision at all. Survival for a troubled company depends on making decisions quickly—even a wrong decision leads to movement and direction. If a decision turns out to be wrong, change it, but keep things moving.

Authority and Talent

Time is a consequential dimension of a company in transition. In a stable company, there is time to delegate and nurture the growth of the management team and plenty of time to work on long-term issues and projects. In a troubled situation, delegation is used only if it speeds up decision-making, and managers are held accountable not only for performance, but also for timely results.

Remember that the best managers may have deserted the ship long ago, leaving behind the second string (although this is not always the case). A good leader will know how to exploit the talents of the remaining employees and to bring them up to a new level to save the company.

In a troubled situation, the decision-maker must get directly involved. There is little point in worrying about the long term if the company doesn't have one. The leader is pressed closer to the immediacy of the day-to-day operations and either asks for decisions or makes them himself or herself.

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

Communication

Communication is critical with everyone who has a stake in the company's success. The leader must talk to employees, but more important, listen to what they have to say. They know when and what problems exist, and they also often know how to resolve them.

What message is the leader sending? What is not said is often more destructive than what is. Unnatural actions or behavior, such as "closed door meetings," will certainly set off the rumor mill. People need to know what is happening, or they will be left to their own imaginations, which is always worse.

Equally vital, the leader should level with people as to whether they will be staying or going. Addressing issues in a forthright manner is no guarantee that everyone will be retained or even that everyone will believe what has been said, but failing to communicate what is going on constitutes a lack of leadership.

Financial Support

A key element to a successful turnaround is to establish a good relationship with the company's bank. The capital that is nice in good times is essential in tough times.

If the leaders who were in power while the company's position deteriorated are still there, the lender may not believe that they are able to correct the situation. Management's viewing the lender as an enemy instead of a key part of the turnaround equation will only make matters worse. With all the suspicion that can surround a troubled company, it is important that trust be re-established with the bank because credibility with lenders is mandatory to keeping the required cash flow at the bank. Since the bank holds the trump card, the bank must feel comfortable working with the turnaround leader. That means that the new leader must lay everything out on the table and honor commitments made to the lender.

Conclusion

Where consistency is important in a stable environment, the name of the game in a turnaround situation is uncertainty. There will absolutely, positively be surprises. "When it rains, it pours" may be a cliché, but in a troubled company, one can be sure that "Murphy is shaking the clouds" and that anything that can go wrong will go wrong. Thus, the ability to deal with change at a rapid pace is essential, and this is why a seasoned practitioner can be the answer to a successful turnaround plan: they've "been there, done that." The existing leadership will often be out of its element when it faces trouble, and people who haven't had to manage in this environment before will, at the very least, have a difficult time.

Turnaround leaders didn't start out as such; they are often managers who worked their way up the corporate ladder through hard work and (hopefully) fair play to build a solid management reputation. Along the way, they have also developed a set of skills to handle problems, get results with minimal resources, manage (tight) cash flow, and negotiate and deal with bankers, investors, and creditors.

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

The turnaround professional must be financially credible and honor commitments. The company, the bank, and other stakeholders should be able to rely on the specialist to protect their interests while providing then with the accurate information they need on a timely basis. To affect rehabilitation, the right leader will know how to make decisions quickly, devise and put a plan into action, and develop a talented team to move toward a healthy and more valuable end.

Finally, a good turnaround specialist will develop a permanent management team in the company to preserve value instead of hiring a large team of outsiders who, when they leave, take that value with them. To be most effective, the specialist works himself or herself out of a job and leaves the company with the ability to grow and prosper as a stand-alone, going concern.

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