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Keys to Avoiding A Killer Storm

Learning to Read the Telltale Signs of a Troubled Company

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The CEO just finished assuring you that the company is progressing and the future is bright, yet you cannot get comfortable. You feel uneasy about the company's prospects. The economy is slowing and you wonder if the company can weather the storm.


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There are tell tale signs that a company is headed into turbulent times. The signs are sometimes obvious, some companies live from storm to storm, and some get caught in unexpected tornadoes. This article will take a look at some likely characteristics of companies that are headed for a storm or live from storm to storm. The following are warning signs that a storm is brewing:

- Employees are overburdened
- Constant fire drills take place
- Lack of communication
- There is no understanding of company's mission, goals and objectives
- There is no short and long term planning
- Good managers are few, if any
- No trust among employees
- Planning and monitoring systems are weak or do not exist
- Employees feel insecure
- Lack of perceived direction

This fact pattern reminds me of a recent client who had a building full of administrators collecting compensation and absorbing resources while adding little or no value. No one was held accountable, goals and objectives were non existent, daily fires were commonplace, and losses were heavy. In this case it was readily determined that the company was spending excess money on overhead and staffing. Those not essential to the manufacturing process were superfluous. Forty-five days after streamlining non-essential employees the company turned its first profit in two years via holding employees accountable, and setting goals and objectives.

Managers will typically complain that they have responsibility, but no authority. Employees may complain about the lack of direction or feedback from their managers. The company tends to promote good "doers" who lack a manager's tools and training. The promoted doers will be unable to coordinate the activities of others. Subordinates may complain that they do not know what they are supposed to accomplish. The CEO "Boss" continues to function in his vacuum with everyone singing hail to chief, at least at work that is.

The implementation of management systems is essential. Theses systems should include planning, organizational structure, management development and controls. If the entrepreneur has not installed the controls then it is up to the company's advisors to help the CEO in finding the appropriate resources to assist in this crucial area. The company needs to move forward as a unified force. The control system should also provide direction and motivation to employees in achieving organizational goals.

The Roles and Responsibilities of different management positions require definition. Lack of role definition will contribute to an unwillingness to accept responsibility.

Some of the control systems you should consider include:

Who is reviewing the CEO – Most CEO's talk a good game, but when it comes down to it they do not want to be judged, reviewed, or otherwise questioned. The development of a board of directors that includes outside professionals can assist in this review process and provide guidance for the company.

Planning – As an organization grows the need to plan is critical. A written plan that outlines the financial and non-financial goals, objectives, and targets of the organization is essential. Finding a company's core data will assist in providing daily operating reports.

Monitoring these plans during crisis is critical. It is not uncommon to monitor results daily or weekly with a focus on meeting monthly targets. This allows for quick reaction to trends. Use of activity-based methodology will provide a clearer picture of the business segments with profit potential.

Budgetary and Accounting Systems - An important component of a company's planning process is the preverbal annual budget. Strong budgeting and planning allows the CEO to react to unexpected changes in a planned systematic way. Management requires accurate timely information they can trust and "believe" for decision-making. Activity based financial reporting can provide a clearer picture of product line profitability and a better understanding of how costs relate to activities. This allows management to identify capacity issues, activities consuming resources, and opportunities to maximize profitability.

Goals vs. Directive Style – Building a company via goals and objectives while empowering employees creates a more sustainable business model than the directive style of old.

The company needs to create a model in which:

- The employee understands the company's mission / goals and their individual objectives.
- The employee needs to have "bought into" their individual goals and be held accountable.
- Establish a system to monitor the goals and objectives that provides timely feedback to the employees.

Recently I came across a situation where individual goals, objectives, and accountability were non-existent. The company had been trying to solve a customer service issue for years. It was interesting to note that after establishing goals, objectives, and accountability it only took 30 days to solve this issue. The most rewarding part was seeing the team pull together to solve the issues.

Performance appraisal - Very rarely in an entrepreneurial business do you find formal systems for evaluating progress in terms of meeting goals, for usually there is no goals to evaluate. Positive feedback and suggestions for improving performance are rarely given, reflecting a culture that stresses conflict avoidance. The CEO needs to coach his team to success. Without goals and objectives you cannot keep score. It is hard to coach someone to success when you cannot quantify his or her progress.

Decision-making – When a company is under financial stress managers at all levels must make quick and decisive decisions. Waiting to check the direction of the wind from the top can be detrimental to the health of the business.

When upper management makes all the decisions it decreases the participation of other organization members in the decision-making process. This usually contributes to the lack of responsibility / empowerment resulting in non-decisions. A directive top down management style may have been successful in the early stage of the company's economic life cycle. This same directive management style can and will stifle an organization later in its life cycle.

Instead of employees taking orders from above they must feel free to be self directed with agreed upon goals to meet:

- Deadlines
- Productivity goals
- Quality standards
- Defining priorities

Decisions must be made at every level. Employees must be empowered to make the tough call, and employees must be held responsible.

Managing for Success – During turbulent times you need managers who can add value to the organization. During crisis the entrepreneur sees through tainted glasses, keeping the most loyal yes people close to them.

In many entrepreneurial situations people are promoted for longevity and loyalty. These are not necessarily the characteristics of a good manager, problem solver, and motivator. It is difficult for a company to solve its problems with "yes" people. People should feel free to solve problems and be rewarded for their efforts. It is important that people are empowered to solve problems instead of hiding out for fear of loosing their jobs.

Conclusion

To operate an employee friendly company, motivating employees, and working with the community does not mean you are not professionally managed. The Boston Globe on August 12, 1997 ran an article outlining Lechmere's success that was professionally managed into the ground by Montgomery Ward. Not surprising Montgomery Ward filed for Chapter 11 protection at the end of 2000. Cohen, one of the founders, says business is more than a balance sheet. Someone said Lechmere lost its sole, but the wonder is that so many people believed Lechmere had a sole. "What happened, Says Gentgry, a Lechmere senior executive,… is that Montgomery Ward ripped the heart out of Lechmere… We were losing customers. The staff was becoming negative and quick with customers. Lechmere was a company without a future." Scala, a Lechmere senior executive, goes on to say that "they changed a lot of systems, made the environment difficult for employees…and trying to operate with less- than-quality management made it difficult."

We have all encountered unexpected storms. Markets shift, technology changes overnight, foreign competition affect price points, and other issues develop daily creating challenges for every company. It is unnecessary for these challenges to turn into storms. Professionally managing the business by:

- Focusing on goals and objectives,
- Good planning and monitoring systems and,
- Excellent reporting systems,

that empower line management will help avoid those unnecessary storms.

Being professionally managed does not mean that bigger is smarter, more professional, or profitable. The outcome of the change to a professionally managed firm is that profitability becomes the measure of managerial success.