I. Management

How important is management to the success of your business? Management is critical to the success of any business. Andrew Carnegie was once quoted as saying take away all my steel mills, take away all my money, leave me with my people, and in five years I'll have everything back.

Business experts have long supported the concept that management is critical to business success. In the popular book “Good to Great” the authors maintain that you get the right people on the bus and then figure out where to drive it. Great vision without great people is irrelevant.

The ultimate throttle on the growth of any good company is not the market, not the technology, nor the competition or products, but the ability to get and keep enough of the right people.

In over 35 years of looking at troubled companies, weak management has in my experience been the major reason for business failure. While no one wants to preside over the demise of what used to be a good businesses, too often by the time we get involved as restructuring professionals the damage has been done and it’s too late.

Management lies at the heart of the success or failure of almost every business, and I estimate that over 90% of business failures can be attributed to management.

When Michael Edwards talked about his attempt to rescue British Leyland in the United Kingdom in the mid-80s he stated “management has lost the will to manage, they blame the unions, real blame lay with management....management is not an automatic right, it has to be earned. It is a duty and if it isn't fulfilled it lets everybody down: employees, fellow managers, customers, suppliers, and the shareholder.”

I believe the success that we've had as a boutique financial advisory services practice set up only five years ago to be largely dependent on the people we have. I've always maintained that you hire the very best that you can, better than yourself. Don't surround yourself with yes men, don't surround yourself with people that will do what they are told, but rather hire people that question why we do things the way we do them, and always look for ways to improve things.

Whenever I talk to lenders about management, I tell them to conduct their annual review at the company's premises. Walk around the business, ask the dumb questions, and remember there are no dumb questions. Get the feel of the place and the people you're dealing with and most importantly talk to senior management

When we conduct business reviews we interview senior management without the owners being present. They are only too pleased to be provided with an opportunity to express their views. Employees want the company to succeed, and be part of that success. So why would it be a surprise to anyone that employees want the opportunity to express their views.

Assessing management means asking the right questions. Does the CEO know the numbers? Does the CFO know the business, or just the numbers? Meet and talk to the employees and get their feedback.

Years ago I sat down with the senior management team of a well-known Vancouver based family business in the music industry. It had been around for over eighty years. I was amazed at the open and honest feedback of the senior management team. All too often employees are ignored, and this is usually an indicator of the management style in operation at a company. The concern and helpful criticism that was expressed by each and every one of them about the future direction of the company took me by surprise.

The passing of the reins from one family member to another had resulted in a change in management direction and focus. We discovered a significant overvaluation of inventory, poor management information systems; weak financial management, one-man rule and an owner not open to advice.

Senior management was only too aware of the owner’s shortcomings and the impact on the business. Management’s honest and forthright views were instrumental in causing the Bank to take action which resulted in the successful sale of the business as a going concern as opposed to liquidation. This isn't always the case and all too often companies in financial difficulty end up being liquidated.

Some companies cannot be saved. But without a good understanding of the problems and the capabilities of the management team, and an honest assessment of their ability to fix things, nothing changes.

II. Management goals

From 1983 to 2001 Brian Pitman successfully led Lloyds Bank TSB in the United Kingdom. During that period he increased the market capitalization of the business 40 fold. He did it largely by shedding assets and narrowing the business focus. He also changed the culture of the organization and he changed it from the top.

Increasing shareholder value by this amount meant that every year for 18 years the shareholder return including reinvestment of dividends averaged 26% per annum. That's 26% per annum for 18 years in a row.

One of keys to Pitman's success was the use of a single measure of success. He claimed that without defining success in one simple measure the organization would muddle along, its efforts diluted by multiple goals. He concluded that generating greater value for shareholders should become the single overall objective.

When he started out to determine what the appropriate performance measure should be, he looked around and realized that organizations like Coca-Cola were doubling the value of the company every three years. He thought that this was a good goal and when he presented it to senior management team as a metric for determining their bonuses, their response was that he was off his head comparing them to a soft drinks company. Pittman pointed out the financial services industry was nowhere near as competitive as the soft drinks industry at the time.

By focusing on one single measure of success Pittman was able to determine which of the businesses were creating value and which were destroying it. He found that a small proportion of the company's operations were generating most of the value.

He decided to exit markets like California where an 8% return on equity didn’t cover its cost of capital. He focused the business more on UK financial services and levered off of the distribution advantage of the UK Banks branch network and customer relationship.

He discovered that much of the resistance to change from within his organization came as a reluctance to get rid of unprofitable products, unprofitable customers and unprofitable markets. Pouring resources into growth markets with no competitive advantage didn't make sense to him or his shareholders.

Part of any management assessment should be to find out what management’s goals are. Do they have any? Do you know how your company measures success?

III. Management assessment

How do you assess management? You look at control, attitude, culture and financial management. Do we have the right management for the situation? Remember the individual who is successful in starting up an organization may not necessarily have the tools to grow it from $5million to $20million. The marketing savvy that’s needed to generate revenue in a start up doesn't always come with the financial rigor needed to manage growth and working capital once the business has been established.

Control

What do we mean by management control? We mean effective monitoring systems and management reports, timely financial statements, reliable management information systems, cash controls, and working capital management.

Systems mirror the state of an organization.

In my own business there are a few critical things I focus on. I get a weekly report on accounts receivables, work in process, and chargeable hours. I get monthly financial statements five days after month end.

Attitude

What do we mean by management attitude? Is management driven by strategy, can it handle bad news, does it share information both good and bad, does it see the big picture? Are management made up of an eternal optimists? Do they prepare forecasts? Do the forecasts look like hockey sticks?

Some years ago I was asked by a very large integrated forestry company what did I believe was the biggest threat to their business. I started by replying the only thing that's certain about the future is its uncertainty. I then went on to suggest to them that they may want to start running business models where the Canadian dollar went from 64 cents to possibly 70 or 75cents.

Culture

What can you say about the integrity of management? I remember talking to a young newly qualified CA who was a controller in a company. He was being asked to do something that he was uncomfortable doing. He asked my opinion. I told him that you only lose your reputation once.

Does management do what they say they will do? When someone tells me they will do something I expect them to do it, and I hold them accountable. All too often management says they'll do something and they don't actually follow through.

Are they open to an honest discussion about the situation or do they fear the CEO?

When the board meets with the CEO does the CEO invite some of the senior management people to make presentations to the board? Is the CEO open to the views of management or does he or she carefully control the process. Can you describe management as participative?

Does management believe there are unlimited sources of funding? Are they resistant to change? Are they prepared to admit failure and are they prepared to take responsibility for their actions?

We conducted a business assessment of a wholesale distributor of flowers, grocery and seasonal goods that had been around for years. The Company imported goods from Asia and sold them on to retailers. I recall telling the Bank at the time that the story was very simple, “the market had moved on, the company hasn’t.”

A lot of its customers such as Rona had gone direct to Asia and cut out the middle man. Unfortunately the Company had failed to see the changes in the market place, had accumulated excessive levels of inventory which their management information systems had failed to properly track, and left them with increasing working capital that they had trouble financing.

Management failed to adapt to changing market conditions, even though the staff that we interviewed had noticed the writing on the wall for some time. Nobody at the senior management level was listening. The business was no longer viable and unfortunately had to be liquidated.

Management culture is often driven from the top. Is there accountability for your actions? Do you do what you say you will do? Do you have lots of meetings but fail to make any decisions? Is there a formal budget process? Does management come up with realistic forecasts? What do they do with the forecasts? Do they leave them in the top drawer once they’ve been sent off to the Bank, or do they review and revise them on a regular basis?

Is enterprise and initiative encouraged or discouraged? Is management open and approachable? How would you describe communications within the organization? How often does management meet? Do they meet? Does management expect to win or accept to lose?

Is management reactive and proactive? Do they manage their cash flow, or does their cash flow manage them? Do they control and manage working capital and do they know what their working capital needs are?

Financial management

Financial management is reporting on the right metrics at the right time using a consistent approach.

When we conducted a review of a very large agricultural business with operations in BC and the US it was evident that major business decisions were made based on very limited financial information. An expansion into the US was undertaken with limited planning, strategy, funding and budgeting. This major expansion into the US was based largely on the intuition of the owner, as a tactic to become less dependent on the extremely competitive BC market. Not only were capital assets acquired using the operating line of credit, plant facilities were subject to a variety of natural and manmade disasters that left the Bank questioning whether or not continuing to support the enterprise made any sense.

While operational management was strong, financial management was weak and ineffective. Fortunately the owner recognized his limitations and was prepared to bring in financial management. We were able to convince the Bank to continue to support the company while we looked for new management and supplemented existing management.

Today that company which had over $50 million in debt is now a thriving business both in the US and Canada. The Bank got refinanced, and didn't lose a penny.

IV. Crisis Management

When a company gets into financial difficulty its options can be limited. Cash flow may be tight, lenders may have lost confidence in management, and suppliers may have been stretched as far as possible and good employees maybe looking elsewhere or have already left.

At this stage you may need to manage the business differently. Often drastic measures are needed and there may be little time to act. You may have to hire someone experienced in managing in a crisis.

Crisis management involves a willingness to change, to be strategically flexible, and an ability to make things happen. While occasionally there is someone within the organization that can fit that bill, often you will need to go outside the organization. Industry background while helpful is not essential. This skill sets that are developed over the years from sifting through endless reports, determining what's important, developing a plan, getting buy in and then executing is often more important than industry knowledge. Single mindedness of purpose usually drives such a person.

Does the crisis manager have an entrepreneurial bent, are they intuitive and do they have hands-on operating experience? Do they have good listening skills? Are they able to make quick decisions often with incomplete information and uncertain circumstances?

A bias for action is essential. Good negotiating and interviewing skills are very important. You can learn an awful lot about an organization from the management team, especially if you are able to get them to open up. Senior management will provide feedback if they think things may change.

Experience has shown me that senior management can be incredibly supportive once you outline the vision and strategy needed to fix things. Often a change in management is seen as the first step in recognizing the problem. However, you need buy in by the management team to the change. They need to be part of the process. By getting them involved at the initial review stage you make them a very important part of the process. Not only do they have the knowledge, their support and commitment to any successful go forward plan is usually critical.

We were recently involved in restructuring a multi branch equipment dealership. Upon our appointment as interim manager we obtained the full support and loyalty of the remaining management team. Part of the process was a review of the business and an assessment of management. This involved interviews and frank discussion with most of the senior management team. The conclusion of the review was that there needed to be major changes at the top. Once these changes were made, the management team brought a renewed focus and effort to fixing things.

V. Leadership

Crisis managers are often natural leaders. Remember Winston Churchill and Lee Iacocca. Sometimes the crisis creates the leader; or rather the leader is made for the crisis.

When asked how to spot a leader, Peter Drucker said “the presence of willing followers”. You cannot force someone to follow you; they do so because they want to.

What are we looking for when we talk about corporate leadership traits? Is the individual decisive, credible, have a strong personality, courageous and do they have a clear vision?

Often corporate leaders fail because they lacked a simple message and were not focused. Good leaders tend to be strong communicators, charismatic, and are able to mobilize followers.

Management is doing things right, whereas leadership is doing the right things.

Start with the right measure of success. Remember Lloyds Bank TSB return on shareholder value. 28% annual return for 18 consecutive years.

Focus on where you can add value and have everyone focus on one goal.

Unfortunately today much of management consists of making it difficult for people to work.

In my experience successful managers tend to focus on two or three things and do them really well. They also focus on their strengths and surround themselves with good people, people who are loyal but not afraid to offer advice and sometimes criticism and definitely feedback.

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