On the Same Page

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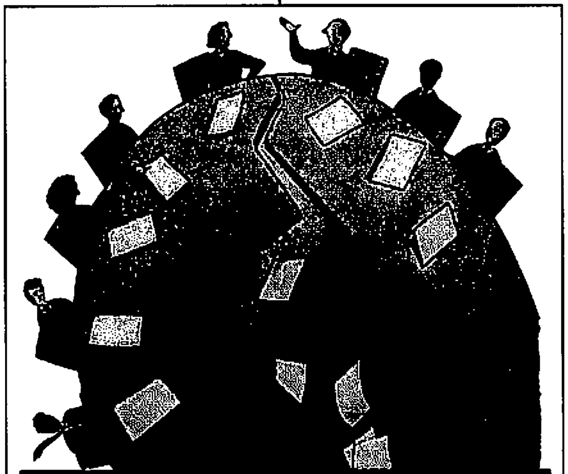
Business failure can occur when two or more stakeholders—who must work together because of operational or financial arrangements—view a situation differently. Call it "philosophical discontinuity." Disagreements and undercurrents of dissension can chip away at a company's foundation for years until one day management discovers that the business has been irrevocably altered.

When families, friends and associates decide to build a business together they often focus only on the positive. They agree on everything from the company's long-term vision to its operational basics, and quickly sweep away any philosophical disagreements. They grant concessions to make the new enterprise work. By doing so, however, they are really setting up the business for difficulties and possible failure.



Philosophical Clashes Can Spell Disaster for Your Company

Once operations begin, the parties form their own ideas about the company's direction. The singular vision, once held by everyone, diverges into two, three or even more mind-sets.

Sometimes team members discuss their ideas and reach consensus. Often they don't. But even if they communicate on smaller issues, they frequently fail to confront the major questions of how to run the company.

It's easy to agree on what the company should manufacture or what services it should provide. But how this is done is the important question and an area in which differences in style, experience, education, culture and mind-set quickly emerge.

You see this in professional firms. Their purpose is to support and service clients—basically, make clients happy. However, one partner might do this by giving great advice, but not adequately charging for it, while another partner is focused on the value of advice and is not afraid to bill for it.

This philosophical gap can lead to arguments about billings and collections, profitability, staffing and partner distributions. If it continues, crisis rules.

Such a philosophical misalignment can lead to poor staff relations, high turnover, low productivity and a culture riddled with growth and profitability challenges. The net result could range from the firm splitting to it failing.

SYMPTOMS OF PHILOSOPHICAL DISCONTINUITY

Companies that are struggling philosophically often experience the following:

- Projects don't get done, promises aren't kept and issues aren't resolved. When people feel forced into something, they often won't give their best effort or worse. What's worse, there may be times when they find ways to undermine the efforts of others and ensure that projects fail.
- No new products or services are forthcoming. When people are unclear about corporate direction, creativity diminishes.
- Employee turnover is high. Employees sense the underlying struggles at the managerial level and are confused about goals and priorities. The work environment is usually under-productive, stressful and employees are seeking new horizons.

Here are some real-life examples of when philosophical discontinuity sets in—and the resulting consequences.

PARENT COMPANY VS. DIVISION

A 75-year-old manufacturing company with $15 million in annual sales merges with a regional distributor that sold its products. From an operational standpoint, the transition went well. Offices were combined and redundancies in services and costs were eliminated. A new management team and a corporate plan were assembled, with the parent company's senior executives overseeing the distributorship.

Before long, the new managers had their own ideas about the company's direction. Instead of restricting their product lines to those of the manufacturer, they wanted to sell other related products. Although senior management agreed with the diversification plan, they were still deeply committed to their main product lines.

Everyone at both companies liked each other and worked well together, but the end result was a constant, low-level struggle that prevented the distributor from succeeding. It soon started to lose money and market share.

Product lines eroded and the manufacturer saw profits diminish because it directed too much energy to the distributorship and not enough to product development.

Finally, the distributorship was sold and the manufacturer built a new product line.

The struggles lasted for four years, and the manufacturer spent more than $1 million in personnel recruitment, legal and professional costs to establish the new company.

All this effort put its market development several years behind.

OWNERS VS. MANAGERS

In another case, a personal service firm with $3 million in annual sales, was stagnating. Owned by two entrepreneurs, the firm had two managers who had been with the business for about four years.

This 15-year-old firm with 17 employees and three locations had a strong reputation and nearly a market monopoly.

In one year, sales dropped from $3 million to $2.25 million. While attempting to develop new niches to replace its maturing market dominance, two philosophies emerged.

The singular vision, once held by everyone, diverges into two, three or even more mind-sets.

Second-tier managers wanted to reach new markets and expand firm capabilities. The owners wanted to focus on the existing customer base, believing that by resolving the challenges of existing customers they would develop new niches.

For two or three years, these approaches operated concurrently and the company went nowhere. Sales dropped to $1.7 million and prospects for the future were dismal. Something had to happen.

During a management retreat, both approaches were discussed and team members decided to proceed with the owners' philosophy—develop new products for existing customers.

Historically, this had been the firm's success area and appeared to be the most appropriate decision. Still, one manager left the firm. The other stayed and agreed to commit to the new direction. Within two years, sales grew to $3.5 million.

PARTNERS GO THEIR SEPARATE WAYS

A 20-year-old CPA firm with annual fees of $1.7 million and two offices wanted to expand its client base. However, the firm's partners were unclear about what services were required and on which industries they needed to focus. The firm's marketing approach was clouded and the partners disagreed about how to effectively maintain two offices.

The firm's partners were constantly at odds and never developed an expansion program. After struggling for five years, they finally split the offices and divided the client base. None of the newly created firms became particularly successful. The partners spent so much energy on the struggle that they didn't have adequate resources or focus for their new endeavors.

AVOIDING CRISIS

To keep philosophical discontinuity at a minimum, all of the players in a business—CPAs, attorneys, bankers, board members and strategic advisers—need to be vigilant.

Key points to remember include:

• Philosophical continuity increases a business' chance for success. When philosophical discontinuity emerges, management must seek solutions. While the most desirable solution is to address areas of conflict and maintain a focused vision, sometimes businesses must resort to selling divisions, merging, retiring senior management or other major shake-ups.

• Major philosophical issues cannot be negotiated away or smoothed over. Unlike normal daily challenges, which are settled fairly easily, philosophical issues impact a company's very underpinnings. Differences must be fully analyzed and resolved or they will continue to undermine the business' success. Painful changes, such as terminations and partner buyouts, are sometimes required to settle differences. For that reason, people often ignore problems and sweep them under the rug. But refusal to deal with differences only prolongs the agony and results in even more painful changes later.

• To succeed, it is essential that a company define, discuss and use its philosophical leanings just like other assets. Too often, a company's philosophical tendencies are so hidden that management may not even know what they are.

• Philosophical issues must be documented to avoid verbal battles. Sometimes just writing down the different perceptions of an issue and discussing those differences helps crystallize the situation, as well as solutions.

• Perception rules over fact. Fundamental belief systems can alter anyone's perception of reality. Before any change can occur, everyone's belief system must be fully understood and appreciated.

Also, watch for these areas where disagreements and philosophical discontinuity can creep in:

• How to get work done—planning vs. waiting until the last minute;
• How to motivate employees—the carrot or the stick;
• Communication styles—telling vs. dialoguing and listening;
• Management style—delegation vs. "I have all the answers";
• Future vision for the business— growth vs. status quo; and
• Pricing—value vs. low ball.

You must discuss each of these areas and agree upon an approach to be successful. While your decisions can change, as every company must alter itself from time to time, you always must obtain consensus.

THE CPA'S ROLE

A CPA can help owners, managers and supervisors resolve philosophical discontinuity. CPAs normally know a great deal about their clients' habits, history and decision-making processes. This information is essential to helping clients recognize that belief systems are critical to the their well-being.

CPAs may encounter clients who simply write off challenges and managerial differences and fail to promote change. If you can help identify and inventory the company's different belief systems, you can help resolve the situation.

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