PREVENTING CRISIS

By Mark H. Fowler, CMC, CPA (Inactive)

Helping Clients in Spite of Themselves
Part II

GETTING PREPARED

In Part I, we discussed the imperative that many professional advisors have about helping clients maintain their well-being and achieve the success that they deserve. Also in Part I, we highlighted three universal influences that can create substantial challenges and often disaster, for many an organization. In Part II, we will expand our perspective on how crisis can manifest itself within any entity.

CRISIS INSIDE THE WALLS

The most obvious place to look for causes of crisis is right inside every aspect of business operations. The triggers for failure, dramatic challenges, disaster, or hard times can be hiding in plain sight every day. And they come in all shapes and sizes:

Failure to stay competitive. Management's ability to stay in the game is critical for continued success. Backing off, slowing down, thinking "we've arrived," or taking the foot off of the accelerator, so to speak, are common behaviors in business, yet they are poisonous to continued success. Being truly passionate about one's business is essential to continued accomplishment. Watching our clients drift from the helm can be a call for action.

While it is understandable that owners and managers might want to take a well-deserved break after years of hard work and long hours, slowing down just to slow down or because of lack of interest can be deadly. We can never really "arrive," unless we want to sell our business. In order to move forward, the passion and commitment must be there; otherwise the business dwindles into crisis and chaos.

Excessive "family" mindset. The family, real or acquired through marriage, friends, or business partnerships, can be a valuable asset to the business. However, family can also be the death of or the cause of chronic failure to many a business. I've come to think that it takes twice as much effort, if not more, to successfully run a family-owned business—or one that operates from a family-like mentality—as other kinds of businesses.

The most toxic threat is that the business is seen as existing primarily for the family's benefit, rather than the family being there for the benefit of the business. That attitude

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paves the way for hiring friends, associates, and others because of close personal ties rather than because of true talent and value: for focusing more on the actors than on the play. A business requires a custodial mindset that drives the senior team to always be anticipating and taking care of the business's needs.

Taking the focus off of the business opens the door to nepotism, skewed goals and objectives, a dwindling sense of mission and brand, infighting, and distraction. The last thing any business needs is unnecessary commotion. A normal business day has enough ups and downs—nothing more needs to be added to the soup. A family-owned or family-like business can be very successful, but it needs to be first and foremost a business. As advisors, accountants, and other influencers, we can be of great help in mitigating the risks of too many preferential or tainted choices in these types of businesses.

Inattention to growing skills while growing the business. As a company grows, it needs stronger and stronger individuals to support it. Management skills need to be constantly developed and expanded. Thinking that we are all too busy expanding the business to spend time asking others to develop can set a company up for disaster: it grows to a size that the team can't really handle, starts slipping, and then starts falling. Helping our clients understand the importance of finding and developing key individuals is essential to helping ensure that they don't find themselves first deficient and then empty of the right resources.

Ineffective communication. Ineffective communication can be found everywhere—within as well as outside the business. Staying interactive with all stakeholders and keeping everyone on the same page is a boon at any time, but communication is especially important in times of growth. Getting too busy to keep people informed becomes a slow road to disaster as the shared vision, buy-in, resources, contacts, and accountability that stakeholders bring to the table are gradually lost. In fact, the more aggressive the company's growth curve, the more critical communication becomes.

Thinking that team members will "figure it out" as they go, believing that customers or clients will "just know" that the company's actions are in their best interest, hoping that accountants, lawyers, and bankers will "be there" if the company slips up, or not keeping non-operating owners and family members in the loop because of "not wanting to worry them" all ultimately lead to toxic interfaces that devolve into drama and destruction.

PEOPLE NEED TO BE IN THE LOOP IN ORDER TO BE ABLE TO HELP. SO, AS ADVISORS WE NEED TO FOSTER THE IMPORTANCE OF GOOD COMMUNICATION, INCLUDING BEING MORE INTERACTIVE AND PROACTIVE WITH CLIENTS SO THAT THEY BEGIN TO UNDERSTAND HOW AND WHY GOOD COMMUNICATION WORKS AND BEGIN TO PRACTICE IT.

People need to be in the loop in order to be able to help. So, as advisors we need to foster the importance of good communication, including being more interactive and proactive with clients so that they begin to understand how and why good communication works and begin to practice it.

Inadequate or absent controls. The lack of controls in an organization can increase the potential for crisis. Internal and external controls are foundational in making sure that everything is in order and assuring that what we need to know is correct and is readily available. Controls need to be everywhere and may include checks and balances, segregation of duties, employee evaluations, recruitment and screening, outside audits, and reaching out to specialists to add value to current technology or to evaluate the current technology's true worth to the company.

There are many ways, conscious and unconscious, of avoiding controls. Some include the avoidance of assuring proper throughput, marginalizing a robust approach to benchmarking, or relying on intuition alone rather than using intuition as a jumping-off point and then integrating analytics to help arrive at decisions.

The lack of control boils down to a quotation variously attributed to Peter Drucker and others: "what gets measured, gets managed." So, whatever does not get measured is not managed—thus opening the door to chaos.

We often see internal controls as a systems necessity in such areas as accounting and technology. But they are more than that. Team building and engagement ("Do we have the right people on board?") are less tangible areas where controls and monitoring are important but often never addressed. Services and goods procurement ("Do we have the correct credit facility, or did we just take what we thought was the best deal and move on?") are also key places where controls, like benchmarking, can alert businesses to problems before they blow up into crises.

Communication can be an essential control, and one that is available to us every moment, whether it's a simple, "How are things going?" or a formal meeting. The control point is making sure everyone is on the same page. A good example is a concept devised by an associate that we've come to call, for the lack of a better term, the "war room meeting." It can be used by companies at any time—whether in trouble, reasonably successful, or highly successful.

Here is how it works: the management team, including key supervisors, meets initially 4 to 5 days a week, for 25 minutes or less. Top management sets the tone that this is to be an informational, collaborative endeavor. Each team member gets two minutes or so to talk about what is on his or her horizon, items accomplished since the last meeting, things that will affect others, how everyone can help each other, help that the team member may need, and help that the team member can offer others.

This is not a time for dialogue or conversation—it is about sharing information. The leader might ask occasional questions to keep things on track, but mostly the team members should huddle after the meeting to pull together what they learned and plan what needs to be done to be most successful. As time goes on, the number of meeting days normally decreases to 2 or 3 times per week as people get more and more effective about reaching out to one another on their own.

Over-dependence on specific customers or revenue sources. Falling in love with the customer or becoming dependent upon certain highly valued revenue sources can be the beginning of the end for a company. Customer dependence is a double-edged sword—there may be great revenue and a very profitable relationship, but at the same time, there is a dangerous risk of that relationship becoming too controlling. A company may spend so much time pleasing and appeasing special customers or clients that it misses opportunities to reach out to new customers, expand services to other current clients, and otherwise build the business in ways that would break the dependency and bring much-needed balance and security to the operation.

Such dependency can be insidious, developing slowly over time, and may not even be noticed until it's too late. One interesting thing about companies in crisis is that the year before the downturn is often the company's most profitable and exciting year in as long as a decade. The company's efforts to hold on to one or more major clients can backfire if those clients leave en masse or if the clients' businesses change for any number of reasons: succession, merger, loss of key people, or the erosion of quality service. But client dependency can blind companies to these risks because the short-term rewards are so high. These relationships can also foster a false sense of stability and even complacency ("Where would this customer be without us? We know them better than they know themselves—they need us."). If any of these outcomes happens, last year's successes can quickly erode into this year's oblivion.

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Owner denial is often a big stumbling block in dependency situations—which is why paying attention to analytics is one of the more effective ways to turn this situation around. Analytics can help clients drill down on where the client's business actually comes from: who referred the customer, what makes the customer stay, and how much really good profit exists in working with this customer. Maybe the company spends too much time servicing customers in general, including creating too many concessions to entice them to stay. It is only by drilling down on the analytics that companies can find the data to break their reliance on special-but-dangerous customers.

Erosion of competitive edge. Companies can often slip into a place where creativity and technological superiority wane, and they lose their edge, passion, and purpose. Sometimes, companies spend too much time on the current year and next year and the profitability for both. In doing so, they can forget that they need to invest in the future, not just in short-term profits and big bonuses. It is amazingly easy for companies to fall under the spell of believing they have the newest and the greatest, when in fact they have not looked lately to see who the real competition is and what it is advancing. When they finally do, they may have to scramble to catch up before it is too late.

Like customer dependence, technological erosion can easily be missed or ignored. Once again, it is drilling down for the analytics, especially in the form of internal or management audits, that can help stem the insidious erosion of assets. Reaching out to clients with additional information is something we as advisors may be in a position to accomplish, and all of this critical information can be found in the analytics.

We mentioned in Part 1 that our book *Revolutionary Conversations®* discusses several major interactive conventions that can increase effectiveness and engagement. One important principle that might at first seem counterintuitive is not to focus on being right. We wrote of the importance of "understanding that what makes us successful is not what we know but what we need to know." In advisory work, this simple reminder can make a world of difference and can often help navigate the bridge between failure and success. Coming in with the attitude and expectation that we have the answers or gathering data in order to prove that we are "right" can marginalize true success for all. All of this information can help direct us, but consulting is most importantly a guiding process—it is about working with clients to explore and learn together about the situations that matter most.

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In Part 3, we will address how to use what you know about crisis and its causes to help your clients become part of the solution as opposed to being a big part of their own problems.

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