Where’s the Leader?

by James R. Sargeant

F orty-three years of working with more than 100 companies gives a consultant a good opportunity to identify commonalities within troubled companies. It comes down to 10 problems that pop up over and over again:

1. Where’s the leader?
2. Dueling partners.
3. Cut out the cancer.
4. Incompetent president.
5. Managing by committee.
6. Crooks and liars.
7. Can’t see the strengths for the weaknesses.
8. Personal piggy bank.
10. Frozen management.

This isn’t rocket science, is it? Yet it’s uncanny that you can examine any troubled company and probably not find a problem that isn’t part of the 10 just listed. Bankers wanting to do the right thing for their troubled clients often rush in to fix whatever they first identify rather than identifying all problems and then jumping on the most critical. Imagine a dike with nine cracks and one gusher. By the time we plug all the cracks, the gusher has destroyed the dike and the village is history. So it takes some real detective work and a good understanding of each problem and its solutions.

Let’s address the first problem here. We all understand that any organization needs a leader. Our government has a president, the military has generals, schools have principals, and businesses have chief executive officers. But time and again there are business situations where there is no leader. This lack of leadership could result from different causes but the effect is always the same: timely, clear-cut decisions are not made. Here are just a few examples.

The Air Freight Company

I was called in by the bank of The Air Freight Company.

© 2003 by RMA. For the past 25 years, James Sargeant has been exclusively devoted to providing management consulting services to business start-ups, expansions, and turnarounds. The majority of his clients have been small to medium-sized, closely held companies. One of his turnarounds was national runner-up in INC. Magazine’s Turnaround Entrepreneur of the Year.
because the company was experiencing declining sales and revenues and the bank didn’t want to call the loan. The co-owners of the business—three brothers—were very eager to learn if there was a way to save the business. The Air Freight Company was in the air transport business, which, since deregulation by the government, had become very, very competitive. This 80-year-old company had been formed by the brothers’ grandfather, taken over by the brothers’ uncle and father, and turned over to them some five years earlier. The brothers took over management of the company almost at the same time that deregulation hit, and since that time it had been in a steady decline.

When I visited the company, I was escorted to a conference room and seated at the table opposite the three brothers. I always start my assessment of a company by reviewing financial information in the form of financial statements.

“So,” I said to the three brothers, “do you have last month’s financial statements?” The three brothers all looked at each other, then at me, and said in unison, “No.”

I next asked, “Well, do you have last year’s financial statements?” The three brothers again looked at each other, shrugged their shoulders, and gave me a unison “No.”

I then asked, “Do you have a current budget? Do you have a current cash flow statement? Can you tell me how much money is in the bank?” And believe it or not, all three brothers looked at each other, shrugged their shoulders, and replied “No.”

I then moved on to how work was scheduled and controlled. After each question, I received the same response—glances, a brief discussion, and mixed answers, with each brother answering a different part of the question.

I then asked how they sell their services and products. Same response. It was like dealing with Larry, Curly, and Moe. The critical problem was immediately clear in The Air Freight Company: no leader.

I knew that my role was first to determine whether Air Freight could be a viable business if properly managed. In addition, I would need to assess the management abilities of the three brothers to see if the company could be organized in a more effective manner.

Over the next several weeks I spent one-on-one time with each brother. I discovered that a fourth brother, Dave, who had functioned as president of the company, left the business approximately one year earlier. Since that time, the company had been functioning without a formal president. “Larry” had the title of president but simply continued with the administrative duties that he had held prior to Dave’s leaving. “Curly” was in charge of scheduling and controlling operations, and “Moe” handled sales. I discovered that Larry had a formal education, good administrative skills, and good people skills. He seemed to be the most promising of the three to function as president. I also learned that Curly, in operations, and Moe, in sales, had great experience and enthusiasm in their respective areas and could perform well. After spending approximately two weeks assessing the business, the
individuals, and the potential, I determined that the business could be very successful. I met once again with all three brothers and laid out a plan whereby Larry would fully develop into the president’s position. Curly would concentrate on operations, and Moe would focus on marketing and sales. Once we agreed to the respective roles, then I could get on with the more traditional turnaround tasks of increasing sales and cutting expenses.

Over the course of the next two years, the following milestones were accomplished.

1. Larry became a competent president. He stretched his talents into the financial area so he could direct the activities of the company, deal with outside banks and creditors, and develop budgets to guide the company in its turnaround efforts.

2. Curly developed better scheduling and control methods, reducing labor costs more than 15%.

3. The three brothers were buying the business from their father and uncle. The buyout was over a five-year period. This meant that yearly payments were very, very high. We renegotiated the buyout terms, stretching the payments over 20 years, thereby providing much-needed cash to fund the growth of the business.

4. We renegotiated the working capital loan with the brothers’ primary banker based on achieving certain financial goals. This renegotiation saved more than $80,000 a year in interest payments to the bank.

The Air Freight Company turned around over a two-year period, from losing $500,000 per year on $3 million in sales, to a profit of $350,000 a year on $3.2 million in sales. Since the turnaround, the company has increased profits by a steady 15% per year.

The Solo Company

The Solo Company was a 40-year-old manufacturer of consumer products. The company had been handed down through the same family and was presently owned by two brothers. Barry, the oldest, functioned as president and ran the business. Barry was a huge guy, and if he couldn’t convince you with his logic, he could with his size. Mike, his younger sibling, was also tall, but rather slender and submissive. Barry gave big titles to others to give the illusion that he had a management organization present, but he still made all of the decisions. For example, Barry would tell his purchasing manager, “Give me your purchasing plan for the next three months” and then proceed to tell him exactly what to order day by day for the next week. Mike had observed Barry’s management style for 20 years and felt he was a lousy manager because he did not delegate responsibility to the other managers in the business.

Barry decided he wanted out of the business and that the most likely buyer was Mike. With his lawyers, Barry prepared a buyout plan whereby he would be paid with money borrowed from a bank.

The buyout plan detailed the supporting organization that existed in the company and claimed that the business had been developed to the point where it almost ran itself. Nothing could have been further from the truth! After Barry left the business, there was a critical leadership vacuum. Mike moved into the president’s office, but his skills were still back in customer service. He had no manufacturing experience, very little marketing experience, and zero finance experience. The company almost immediately went into a tailspin. After about a year and a half of this mismanagement, the bank that funded the buyout decided a turnaround situation might be in order.

I’ll never forget my first meeting with Mike. He escorted me into his office, which was adjacent to the company conference room. He and I began to talk about the seriousness of the situation, the lack of cash, the poor earnings, the seriousness of the suppliers not shipping—an altogether dismal picture. After about a half hour of this discussion, I asked, “Well, where is your plant manager, your sales manager, and your controller?”

Mike pointed to the conference room next door and said, “Those three guys sit in that room every day for two or three hours trying to decide what to do, and they’re incapable.” He continued by saying that they all should be fired because things “are going to hell around here.”

Is this situation obvious? Where is the leader? Why is Mike sitting in his office rather than guiding and directing the activi-
ties of the manufacturing, marketing, and finance people? I told Mike he had to get more involved in the day-to-day aspects of the business and provide direction to the key managers so that the business can be turned around.

Mike replied that he wouldn’t do that. If those people couldn’t perform their duties and make the company successful, he wasn’t going to do it for them.

So here we have an organization that had been micromanaged by Barry, who had not delegated any duties to others, now being under-managed by Mike, who over-delegated. An organization can’t make a transition from one management style to another without a transition period to allow the principal managers to develop in their own functions. An effective president develops the three Cs in an organization:

1. Communications—establishing open and frequent communications in the company from the president down to the newest employee.
2. Cooperation—instilling a feeling of cooperation between the functions of manufacturing, finance, and sales to promote a willingness to cooperate with others throughout the organization.
3. Coordination—once communications are opened up and cooperation is encouraged, operations, sales, and finance can be effectively coordinated.

Mike and I agreed on a plan to try and get the company turned around. My role would be to temporarily function as president of the company and develop the management team so they could function effectively. I also would work one-on-one with Mike to determine if he was presidential material.

To my surprise, over the months, Mike did become an effective president! We worked together with the various managers of the business on problems that had developed in product quality, efficiencies in the manufacturing operations, and effectiveness of the financial system to track and control the cash of the business. The key to the successful turnaround in The Solo Company was temporarily providing direction to the organization so that problems could be resolved while the managers and president developed into their respective roles.

No company can be turned around if there is a lack of leadership. Once this is corrected, it is possible to undertake the technical business issues of increasing sales, cutting costs, and increasing profits.

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