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To Save the Company --  
Change the Leadership Style***

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By John M. Collard

***Commercial Law Bulletin***

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## **All Leaders Are Not Created Equal**

**To Save the Company - Change the Leadership Style**

By John M. Collard

Who can handle the crisis management role? This is a predicament. Clear thinking must prevail and a special set of skills must be applied.

If there is a qualified leader within the company, then delegate the job of turnaround to that person - and provide proper support. If there is not a qualified leader in the company, and there usually isn't, don't hesitate to go outside to locate a professional at this type of work.

But what guides the decision?

Let's put this leadership role into proper perspective. Leadership requirements differ between those for healthy, growing companies and for those in a troubled situation. The CEO that managed the company while it got into trouble probably doesn't have the skills to doctor it back to health. Compare the differences in our chart.

## Contrasting Leadership Styles

<b>Skill</b>	<b>Stable, Healthy or Growth Scenario</b>	<b>Troubled or Turnaround Situation</b>
Focus	On Objectives	Survival, action, problem-solving
Decision making	Deliberate	Decisive, Immediate
Authority	Delegate	Direct Involvement
People	Develop	Recruit talent Communications
Respected for:	Management reputation	Financial credibility
Known for:	Consistency	Ability to shift gears

Differences in style are a key to success, in either situation. In the stable or growth scenario, team building and coaching are buzzwords. But in the initial crisis and subsequent turnaround situation, time is an enemy. Decisive action is required.

The focus is dramatically different. This is one reason why the troubled environment is so foreign to

many managers, and hence, the difficulty finding qualified talent from within the company. The stable environment allows for mistakes and longer lead cycles to achieve goals. Troubled companies have primarily one goal - to survive and get well. If the symptoms persist with no cure, the patient can die.

Just as with a critical patient, the immediate focus at a troubled company should be on action - make something happen. The first goal in an absolute crisis is to stabilize and buy time. After calming the waters, take a reading on where things stand - which is normally still. Look for changes in ratios and trends to determine what is, or more importantly, what is not going on in the business.

Following this diagnostic stage, the transition can begin towards a turnaround. Most importantly, the leader needs to get things moving again. Movement must occur in two areas - On the Volume In (revenue/sales) side, look at where and how revenue is generated. Is it from existing customers and contracts or new business? Most importantly, keep it coming in. On the Volume Out (throughput/production) side, look at getting the product or service 'out the door'. How else can you bill for it?

Companies often get into trouble because management procrastinates when it comes to making decisions. If the decision is to be made by default, it is akin to making no decision at all. Much of that early, and overall, survival also depends upon being immediate - upon making decisions in a timely manner. Even a wrong decision means movement and direction. If a decision turns out to be wrong, change it, but keep things moving.

Time is also an important dimension when it comes to authority. In a stable company, there is time to delegate and nurture the growth of the management team; time to work on long term issues and projects. In the troubled situation delegating takes on a different role. Managers must be held accountable not only for performance, but for timely results.

In a troubled situation, the decision maker must get directly involved. It is hard to worry about the long-term future when there may not be one. The leader is pressed closer to the immediacy of day-to-day operations. If you want action, request a decision . . . or make one.

In a stable situation there is time to develop talent. But when in trouble, you must exploit the talents of those employees that remain who can perform and bring them to new levels, then recruit talent that is lacking. It means building permanent management teams that can bring the company back to health - and add value to the company.

Communication is critical - with everyone who has a stake in the company's success. Talk to employees, but more importantly; listen to what they have to say. Be assured, they know when and where problems exist.

What message are you sending? Remember, what is not said is often more destructive than what is. Unnatural actions or behavior, such as 'closed door meetings,' will most certainly set off the rumor mill. People need to know or they are left to their own imaginations - and that is always worse.

Equally important, level with people - then get the stay versus go decision. To address the issues in a forthright manner is no guarantee that you will keep everyone, or that everyone will believe what has been said. But to not communicate what is going on is a lack of leadership; so don't be surprised when employees don't do what you want them to.

Turnaround leaders didn't start out as such - they were often managers that worked their way up the corporate ladder through hard work and (hopefully) fair play to build a solid management reputation. They have also developed a set of skills to handle problem solving, getting results with minimal resources, (tight) cash flow management, negotiating and dealing with bankers, investors and creditors. The stakeholders will usually work with a turnaround leader - if he or she is credible.

A key initial element to a successful turnaround is to establish a good relationship with your bank. Capital is always required in tough times, while its nice to have in good times as well. If the leaders who were in power while the company's position was allowed to deteriorate are still there, why should the lender believe that they would now be instrumental in correcting the situation? With all the suspicion that can surround a troubled company, it is important that trust is re established with the bank. Credibility with the lender(s) is mandatory to success - and most likely to keeping that cash flow at the bank. And with the bank holding the trump card, the institution must feel comfortable working with the turnaround leader. It means laying everything out on the table to keep the situation honest - and honoring commitments made to the lender.

Where consistency is important in a stable environment the name of the game in a turnaround situation is uncertainty. You can absolutely, positively count on surprises. "When it rains, it pours" may be cliché, but when applied to a troubled company, one can be sure that 'Murphy is shaking the clouds.'

The ability to deal with change at a rapid pace is essential. This is why a seasoned practitioner can be the answer to a successful turnaround plan. The existing leadership is often 'out of its element' as it enters this untrodden ground of trouble. And when people haven't had to manage in this environment before, the odds are that they will at the very least, have a difficult time.

One alternative is to work with consultants. They can't be leaders because they can't make decisions for the company. They can make recommendations, but often to the same leader(s) who failed to make a decision in the first place.

The turnaround practitioner, by contrast, is a hands-on decision maker who actually takes control of the company - often as CEO - for a period of time. He is in control of the company's destiny. He must know how to be decisive, know how to isolate the problems and find solutions. A good practitioner has three goals; 1) get control, stabilize the situation, jump-start the turnaround, 2) develop a sound plan, and 3) hire their permanent replacement.

Affecting a turnaround takes an array of skills. When in crisis there is no time for a warm up. Just as with that patient in intensive care, the longer a company is on the critical list, the harder it is to nurse it back to

health. To affect rehabilitation, the right leader will know how to make the quick and proper decisions, put a plan into action and keep a talented team moving towards a healthy and more valuable end.

## About the Author

John M. Collard, a Certified Turnaround Professional, is Chairman of Annapolis, Maryland-based Strategic Management Partners, Inc. (410-263-9100, [www.strategist.ws](http://www.strategist.ws)), a nationally recognized turnaround management firm specializing in interim executive leadership, corporate renewal, and post acquisition support for the private equity community. He is Past Chairman of the Turnaround Management Association, serves on public and private boards of directors, is a frequent author, speaker, and advisor to companies, institutional and private equity investors, and governments.

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**Strategic Management Partners** has substantial experience advising corporations and individuals on the strategic and mechanical issues of corporate development and governance, operating management and turnarounds for asset recovery. Our principal has over 30 years experience in P/L Management, Strategic Planning and Repositioning, M&A for Strategic Advantage, Finance, Investing, Raising Funds, Sales/Business Development, Building Selling and Marketing Teams, and Operational Auditing = In Public & Private companies = In healthy and crisis situations.

We work with and support the equity capital community to provide assessment studies to determine the situation, planning and strategy development to direct the company, crisis management to oversee that assets are not squandered away, workout teams that recover assets, and board level oversight to keep the client headed in the right direction.

We seek strategic alliances with private equity funds.

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