



Leadership In Crisis

What do you do when the unexpected happens?

Imagine running your business with 50 per cent less revenue or that you are in a major dispute with your business partner. Imagine that your biggest customer suddenly stopped using your services or you lost one of your key staff to a major competitor.

Coming off the back of over a decade of strong growth in the Australian economy, most business owners have enjoyed (I use this term loosely) hiring staff and handing out rewards or pay rises. In most cases with the skills shortage, they were continuously on the back foot – needing to give staff what they wanted in order to retain. It also meant that the phone rang non-stop so it didn't matter if you lost a customer or two – who cares, you will still be making a profit.....right? When the other shoe dropped and it came time for business owners to ask staff to give something back or eating humble pie to re-engage with customers you lost, some rose to the challenge (and sadly others did not).

“A crisis can be anything or happen anytime. Each of the scenarios above has happened to at least one of our clients in the last 12 months. Without strong leadership to respond to the crisis, businesses (and the people in them) are usually left flailing”.

What are the lessons learned from the most successful businesses? What are they doing differently to survive in the current Australian market?

What were some of the common traps we saw?

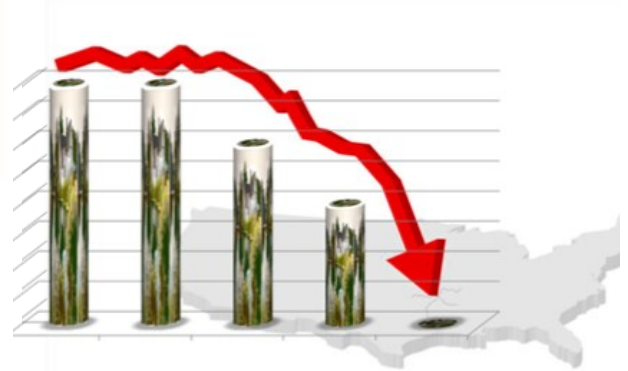
Whilst every business is different, those that have struggled had one or a combination of the following that restricted their ability to ride through unscathed during the downturn.

The most common traps we saw included:

Wasted Resources. Too many businesses took too long to see that their reality was changing and then took too long to see the necessary changes that needed to be made and act on them. It was like they were afraid to act because of the potential consequences to their customers, employees and suppliers.

Figure 1. Traps and Tips for Leaders in Crisis
Here are the lessons learned from what the most successful businesses are doing differently to survive in the current market..





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For one business owner, they knew they needed to cut labour costs but delayed the decision by three months. The difference between what they spent on additional wages and what could have been saved was a profit instead of a loss at the end of the financial year. That profit could have gone to improving the sales and marketing in order to generate more sales. (Note, they did not lose one key staff during that change).

Lack of Strategy. Too many businesses have all of their eggs in the one basket. There seems to be this infallibility amongst entrepreneurs that "it will never happen to me". In most cases, every business we work with has one key risk that if that risk happens, there are dire consequences for the business. For example, what if something unexpected happened to the business owner who is the heart and soul of your business? Or, what if a key customer folds and you have revenue tied up that you will never see? Lack of contingency planning and looking beyond the next 12 months can leave you in continuous fire fighting mode.

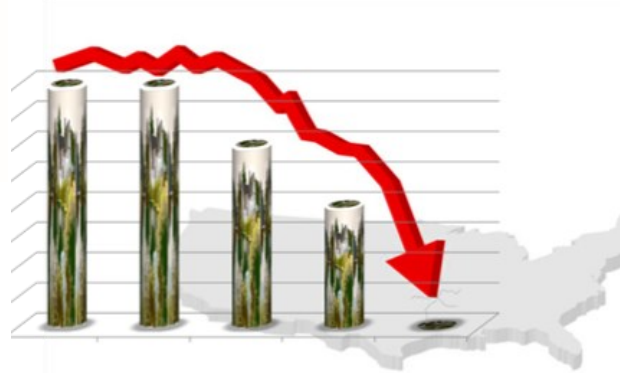
Poor or untimely decisions. Shooting from the hip only gets you so far in business. For example, every decision you make in your business has a financial implication. Therefore, it is not good enough for business owners to delegate or defer their financial responsibilities to their accountant nor is it good practice to review your financial statement once a year to work out whether you have made a profit. As some of our businesses owners are finding out there is no point finding that you have run out of cash after the fact, you are better to be in the driver seat so you can change your course before you hit a wall. Similarly, we have seen business owners who have delayed or avoided implementing the decisions because either they were hoping that things would change or they feared the consequences of changing.

Didn't learn from failure. The definition of insanity is doing the same thing and expecting a different result (I think Albert Einstein is known for this quote). No one gets right every decision or action the first time, every time. However, we saw leaders doing the same thing despite getting feedback that it wasn't working. Or worse still, using failure as a reason not to get up, dust themselves off and try again. I do understand that every person (and therefore every business) has a formula that they have built over time that has led them to their success today. Unfortunately, that may not be what is required to be successful in the future.

What can we learn from those who have successfully managed their crisis/event?

Successful leaders in a crisis take charge. Why take the road less travelled when there are proven strategies that are working right now? Here are our tried and true strategies for navigating through crisis:

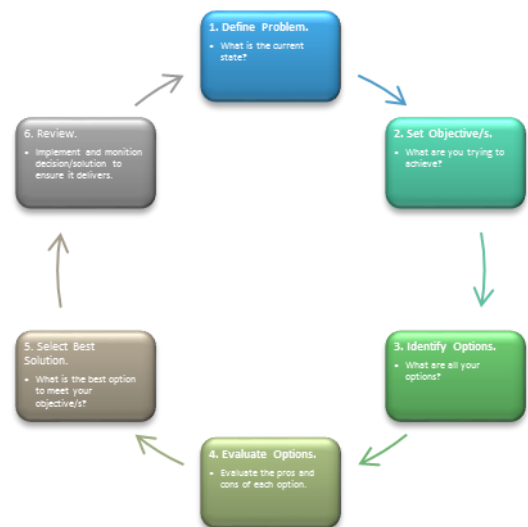
Build Strong Balance Sheet. We have a saying that revenue is vanity, profit is sanity and cash is reality. A strong balance sheet will ensure that you will have the levers to pull and the necessary resources to deal with any unexpected events or hiccups along the way. I know of one law firm that has been around for 120 years. Part of their strategy is to have a "war chest" for such economic times. Rather than reducing staff they are investing in training so that they are poised for the next surge in the economy.



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Dynamic Business Plan. Every business model includes assumptions of how it is going to make a profit. A dynamic business plan continues to review those assumptions and keeps front of mind for the business owner, what's working, what's changing and what do I need to do differently? What your customers needed from your products and services in the boom time may be very different in a downturn. Strategy is more than just a business plan on a page. For larger businesses, having a 3-way forecast financial model that is underpinned by your business assumptions. This enables you to understand the financial implications of any event or crisis on your profit, cash flow and balance sheet position.

Effective Decision-Making. There are two parts to making an effective decision. Information and process. Your first priority is getting the numbers right. Make sure you have timely and accurate management reporting so you can monitor your situation regularly. There is nothing like finding out 9 months into the financial year that you are making a loss. Second priority is to make sure that you follow a robust decision making process. Process is critical to ensuring that you are not repeating history and a great way to include your team to ensure that you have covered all angles or possibilities. Here is a simple process that I take my clients through:



I know of at least one leader that jumps from step 1 to step 5 without considering 2, 3, 4 and then wonders why his decisions seem short-sighted and reactionary. I have used this process, both formally and informally, and it gets results. Sometimes the obvious solution becomes a hybrid of options that individuals put forward.

Culture of Learning. Businesses who embrace a culture of learning are not afraid to have a go, they learn from their success (and mistakes) and continuously update their systems, processes and procedures to ensure that the learnings are accessible to everyone (today and in the future). *"The Fifth Discipline Fieldbook"* has a great checklist (of sorts):

- A. Do you continuously test your experiences? Are you willing to challenge your sacred cows? (Sacred cows are either people or things in your business that are deemed untouchable).
- B. Are you producing knowledge? Are you doing something better than your competitors?
- C. If so, is the knowledge shared?

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The difference between those leaders who have successfully come out the other side of the crisis and those that are still dealing with the effects is simple. Action. Yes, that's right. You may not know what it will look like at the end, however, procrastinating, denying or avoiding the reality of the situation will only have a compounding effect.

The last reflection is that no business is an island. Consistently, successful business owners talk about surrounding yourself with people who can help you (and this is not a sales pitch for us business advisors). Rather than learning the hard way, those who surrounded themselves with experts were able to gain insight into what worked and fast track changes by learning from others mistakes.

Get yourself out of the fire-fighting mode! Plan for it and manage it. Don't fight it. Our world, our customers and our business will and need to continue to change.