FINANCIER WORLDWIDE corporatefinanceintelligence

'Why' is not for dummies: a call to directors

BY DEBORAH HICKS MIDANEK

In over 25 years of working with troubled companies as director, turnaround manager, or adviser, I have heard the same lament from board members; :We should have acted sooner.: While hindsight can make this particularly clear, an examination of barriers to action, and some suggestions of possible remedies, might be useful to directors charged with sustaining the health of the corporations they serve.

Corporate crisis is often blamed on dramatic events that suddenly require various stakeholders to pay attention and act. The root of the problems, however, is generally fundamental and reflects corporate behaviour over a long period. The board's role in establishing a culture that recognises early warning signs and adapts to change is critical in avoiding the management paralysis, bad information, and reduced resources that characterise troubled companies.

The onset of trouble can be subtle and easily ignored; it may merely be ordinary hiccups of running a business, so preparing a board to handle change is critical. If the board focuses relentlessly on understanding and refining the purpose of the company and effectively allocating its human and financial resources, others will follow suit. Likewise, if the board sets an example of unflinchingly asking the difficult questions, facing tough decisions, and dealing with mistakes openly, so will the rest of the organisation. When an atmosphere of openness and respect for all its constituents is fostered, and steps are taken early to assess possible problems, the organisation will be more robust. If problems are minor, self-examination provides ever-greater knowledge. By responding openly and quickly, the board can often avert disaster and make adjustments when liquidity and capital are still available.

Given the benefits of early and active questioning, what inhibits directors' ability to intervene as warning signs mount? How can a board acknowledge mistakes, face issues and make decisions to move the organisation forward and exemplify that dealing with small mistakes routinely is better than denying difficulty until all flexibility is gone and the company is forced to act on the defensive?

Sometimes simple devices can help the most, and avoid great pain. Common sense suggests cultivating a few broadly known but easily forgotten habits

'Why' is not for dummies. Understand the company's fundamental reason to exist: to whom does it provide goods and services, and why are they valuable? Focus as much on defining and clarifying corporate goals as on reviewing measurements of progress. Work to define the 'right' goal, the 'why' and move unflinchingly toward it. In troubled companies, the 'why' is often forgotten as habits accrete, and goal oriented decisions stop as the need for expedient, incremental decisions dominate.

Don't buy your own press. Complacency can be a major obstacle to seeing new and ominous trends. A typical pattern, especially prevalent in public companies, involves a relentless thirst for growth. A thirst that drives the company beyond its core markets and strains its span of control. Diversification arguments can be healthy but also embody temptation, and often the tolerance of greater leverage. Inexorably, the company increases its vulnerability to sudden shifts in supply and demand patterns, labour issues, interest rate movements, and other normal business risks. While these diversifications are often executed well, they can also be indicative of a distracted management, distant from the company's fundamental purpose and not intimately involved in operating reality. Director vigilance is critical as no company is infallible. Beware corporate myths..

Stay the course. Don't quit. Change will happen, and the board's display of energy and courage, loyalty and care is critical to the organisation's belief in itself. Reduce fear as much as possible through relentless examination of facts, openness to ideas, avoiding defensive behaviour, and willingness to make, own, and fix mistakes. Remain flexible, expect change, and develop an organisation capable of handling it.

Foster free and open communication. Put issues that require examination squarely on the agenda and talk about them, helping management to focus on causes, solutions, and execution. Beware of 'pre-packaged' information. Board books should contain critical basic information needed for review, but encourage broad-based participation and opportunities for informal exchange. Be sure that management information systems provide information and not just data. Meet routinely without management. Be sure the information available matches the nature of the decisions required.

Treat your CEO like a human being. Facing difficulty, the CEO feels acute responsibility. The relative detachment of the board from execution may help the CEO to achieve badly needed perspective. Let him know that you understand he does not and cannot have all the answers, but you expect him to find ways to get them. Ask for outside help if needed to review the company's position and give the board perspective. If the CEO cannot do the job, move him out, and know that the organisation will likely breathe a sigh of relief.

Leadership is about inspiring people, not executing tasks. The board must ensure that the leader believes in the company's purpose and its ability to adapt and to execute the required manoeuvres, and can infuse the rest of the company with that belief. An effective leader can bring out the emotional drive and commitment that is at the heart of good work. Humility and willingness to listen are essential.

Active engaged boards are important in good times, and even more in bad. The board that fosters an environment that embraces change, expects mistakes to happen and be addressed may never face true emergency as the company it is there to protect moves steadily toward achieving well articulated corporate goals. ■

Deborah Hicks Midanek is the President of New York based turnaround firm Solon Group, Inc.