Part I

BAD MANAGEMENT OR BAD BUSINESS?

INTRODUCTION

Credit executives and business writers often loosely opine that 80 percent or so of business failures are due to "bad management." Why the business is failing doesn't matter: These guys (*i.e.*, existing management) are in charge. It happened on their watch. Get rid of them. In our opinion, not only is this view wrong, it is counterproductive and damaging. It hinders the ability to address the real business problems that exist.

In contrast to assuming that management is to blame, three key issues guide our approach and form the foundation upon which our opinions, advice, and recommendations have been constructed. In Part I of this book, we examine these three issues, before taking up in subsequent parts of the book the nuts-and-bolts of crisis management and troubled business evaluations and diagnoses.

These three key issues are:

Business Viability: What constitutes a viable business and why a rapid but comprehensive reassessment of fundamental issues of viability and direction should precede any reactive responses to pressures of the day.

The Nature of Problems: What defines the key categories of problems, based on our two and a half decades of experience with dozens of troubled companies, and how these definitions are critical both to formulating remediation actions and to assessing risk.

The Challenge of Management: What role management plays in business success or failure, the tasks and processes that constitute good management, and the pitfalls and flaws that constitute bad management.

Each of these issues is applicable to understanding and evaluating the underlying risk and opportunity in any troubled company situation.

Chapter 1

THE AUTHORS' PERSPECTIVE:
Our Experiences and Biases

A typical project for turnaround management consultants like us starts with a telephone call to our offices: an anxious voice describes a financial crisis. Either loan agreement covenant defaults are about to trigger a severe penalty or "We can't meet Friday's payroll" or some other liquidity crisis looms. How the problem is described to us and what solution the caller assumes is necessary tends to vary significantly, depending on the relationship of the caller to the problem:

Lenders: Angry about the surprise they have received, lenders usually attack the credibility of management. To their minds, the solution is some good, healthy cost-cutting and maybe a change of management.

Equity Sponsors: Angry at both management, which got them into the mess, and lenders that don't understand the situation and don't want to work with them after years of a profitable relationship, the equity sponsors believe the solution is additional credit and time to change management.

Management: Saying they've been dealt a really bad hand but nonetheless have everything under control, management just wants everyone to get off their back and give them some support (*i.e.*, time and money), and a rosy future will be assured. Management's solution is for creditors to restructure the debt to reduce debt service.

Our assignment, if we choose to accept it (and as often as possible we do), is to help these universally dissatisfied and often contentious parties to jointly come to grips with their problems.

The Financially Troubled Business

"Troubled Businesses," as they exist in our experience, are businesses under financial stress. This usually means they are overleveraged and unable to meet debt service commitments. They recognized this overleverage when they failed to meet cash flow expectations. Such shortfalls may result either from opera-