

# Getting Help

## When Your Small Business is in Crisis

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Danger Opportunity

*“The Chinese use two brush strokes to write the word ‘crisis.’ One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger – but recognize the opportunity.”*

John F. Kennedy



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## GETTING HELP WHEN YOUR COMPANY IS IN CRISIS

by Michael D. Hardesty and Janet L. Newcomb

Small business owners faced with the potential of pending disaster often experience five stages of grief (Kubler-Ross, 2005):

- Denial
- Anger
- Bargaining
- Depression
- Acceptance

This process can be very slow – too slow, especially when the need for strategic, financial and operational remedies is urgent. Competent outside intervention can assist small business owners in moving quickly to "acceptance" in order to turn the fortunes of their company around. It's not important whether the reasons for the company's troubles are external or internal. What is important is that it's the owner's responsibility to take the most immediate and effective action possible. Sooner – rather than later.

By the time a company owner moves through the first two stages of grief:

- Denial (something magical will happen to make things right) or
- Anger (frequently at a CPA, banker, or creditors),

it is often too late for remedial action to be effective. When small business owners are faced with this degree of stress, they have numerous reasons for not seeking help. Do any of these sound like what you have been thinking?

***Reason #1 – "I am the owner of this company. It's my responsibility to manage the company through good times and bad."***

True – but the best leaders are those who do not attempt to be all things to all people. Great presidents let their military advisors run the military. Great Fortune 500 CEOs depend upon specialized advice, often not available within their companies. They bring in as many good advisors as possible and they listen to them. We have found that small business owners who believe they should possess all the answers are limiting their companies unnecessarily. A single mind is too limited to have all the answers. Great leaders utilize as many good minds as possible. These leaders possess humility about their strengths and their weaknesses. They capitalize on their areas of strength and seek advice and assistance in other areas.

***Reason #2 – "I can hire the best lawyers and accountants money can buy to get me through this crisis."***

Many small business owners turn to their attorneys or CPA's for leadership in a financial crisis. Although attorneys and accountants are valuable resources, we consistently find that most are not fully skilled in the specialized craft of turnaround restructure or operational and strategic breakthrough savings. These efforts require dynamic, timely, and highly creative approaches tailored specifically to your unique circumstances.

Outside crisis management professionals are less encumbered by what is and more concerned with what can be. It helps to have an objective assessment by someone who is not invested in the current way of operating. There is also a certain "street sense" present in an experienced professional who has studied many problems in many industries. An outside turnaround professional is trained to look beyond the normal cost structure to strategic alliances, operating processes, project management, compensation technology, consolidation of operations, financing, etc.

Also creditors are normally more comfortable with outside restructure professionals because they view them as more experienced. Many accountants and attorneys are perceived by creditors as being too allied with owners and management. Even when not correct, these perceptions can interfere with successful negotiations. The goal is to seek "win-win" consensus, assistance and understanding from all of the financial constituencies. Restructure professionals are knowledgeable about how lending institutions or credit officers may react to certain solutions. And it is important that the outside restructure professional keep everyone calm, while collectively executing the turnaround or restructure plan.

***Reason #3 – "I've heard too many stories about 'slash and burn' consultants. We don't need that kind of help. We can cut costs on our own."***

Although a turnaround often requires cost reductions, good solutions go much deeper and are more holistic. Often, no matter how deeply the cost reduction effort is, the company still will not generate sufficient cash. In that case, the company must develop strategic breakthroughs and/or breakthrough savings that may be outside the capability of the company's management team. An experienced turnaround consultant can provide new ways to view the company's strategies, operations and manner of doing things. A skilled consultant is concerned with leadership, stability, strategy, fairness, best practices, operational excellence, marketing and sales, financial structure, etc. No competent turnaround professional is a "slash and burn" cost cutter only.

***Reason #4 – " Our cash flow today isn't good and besides, we're too busy right now. We can't afford the time or money to work with consultants."***

Management in financial, operational or strategic crisis often works harder rather than smarter. This is actually the best time to seek professional assistance. The experienced crisis professional is there, in part, to calm and focus management. Experienced crisis consultants facilitate the creation of a more efficient, more effective working environment where people have time to calmly execute an agreed upon plan. We create time and space to help you plan and execute properly. We mitigate stress and provide opportunities for strategic breakthrough thinking.

If a company is in a negative cash flow position, the small business owner cannot afford to postpone definitive action. Turnaround and restructure professionals usually create a return on investment 10 times their direct cost to the company. These savings are derived from strategic and operational breakthroughs more impactful than the obvious cost reductions. The cost of never coming to a consensus for a restructuring plan is finite and more expensive than hiring a restructure professional. What is saving your company worth?

***Reason #5 – "All I need is more capital to get through this crisis. And more sales would solve our problems."***

Most sources of capital utilize sophisticated ROI analytical tools to analyze an investment opportunity. An objective opinion is critical to give a small business owner a view of what might need remedial action to avoid burning through all of the company's capital sources. Experience has shown us that the company's lenders, clients, suppliers and shareholders (already in place) often provide the best capital opportunities; but normally it takes a third party professional to broker a consensus driven restructure.

Additionally, when a company is in financial stress, it is rare that it can sell its way out of the problem. Employees experiencing fear are not in a good place to execute a vigorous sales effort. Unless the owner demonstrates that he/she is attacking the turnaround head on, the sales staff is usually reluctant to make promises to customers that they worry the company may not be able to keep.

***Reason #6 – "You don't know my business."***

The turnaround or restructure consultant is not limited by how things are done in your company or industry. It is this lack of encumbered thinking that allows us to provide clients with critical benefits – breakthrough savings and other operational and strategic breakthroughs that will save your company.

Experienced turnaround professionals work in collaboration with management. The owner knows their business. We know how to create a business model that creates profits, cash flow and revenue growth for any business. Collaboration is the key!

***Reason #7 – "I'm afraid of what I might hear and whether a turnaround consultant would respect my leadership."***

In business, and in most endeavors, the truth is the truth and there's no escape. Darwin's "Law of Natural Selection" is alive and well in small businesses. The strong survive and thrive; the weak get eaten. It is better for the small business owner to seek outside help to fix the problems so that accolades accrue to the sitting owner and not to a new owner.

The message you fear may be that the strategy, the business plan, or the tactical plans are flawed. Perhaps certain players are weak. We believe it is better to receive such a message sooner rather than later. A second opinion is always of value.

The turnaround or restructure consultant that challenges the owner's leadership position quickly learns that the company engagement will be short lived. If he knows what he is doing, he or she becomes a trusted advisor to the owner. Lack of respect for an owner's leadership position is a very poor method of ensuring future engagements through word-of-mouth recommendations.

***Reason #8 – "My people won't respond well."***

When a company is experiencing financial, operational, or strategic stress, employees begin concentrating on their own welfare. They're worried about feeding their families, paying the rent, etc. Unless the owner demonstrates that he/she is attacking the turnaround issues head on, it is likely that the best employees will spend their time looking for new jobs. Bringing in a turnaround professional is a good sign that the owner is focused on success. Such a move can enhance employee engagement and commitment. We have never seen a case where employees were not enthusiastic about a turnaround expert entering the scene!

## **Conclusions**

Large companies are famous for seeking outside specialized professional advice and counsel when it's time to restructure or reinvent themselves. Conversely, small business owners are infamous for trying to "go it alone."

In other areas of their life, reluctance to seek outside help is not a concern. With medical problems, it is normal to seek doctors with specialized skills. When legal problems occur, it is understood that a lawyer with specialized skills may be necessary. When a company has IT or Human Resource problems, it makes sense to seek IT or HR consultants with specialized knowledge. Yet, when small business owners experience financial, operational or strategic problems, they believe they are not doing their job unless they perform the turnaround or restructure themselves. Many believe to do otherwise would be considered failing their duties.

At a time of crisis, asking people within the company to execute the necessary turnaround plan and implementation is like asking your family doctor to perform open heart surgery. The family doctor may be a wonderful general practice physician but the probability of success is low unless an experienced heart surgeon performs the procedure. A medical crisis is not the time for on the job training. The same is true when a company is in crisis. An experienced, "street-wise" turnaround professional can save you time and money – and ultimately help you save your company.

Hardesty Hackett & Partners, LLLP, has helped over 800 small businesses in financial, operational or strategic trouble. How do you plan to survive the current recession?

For more information on Hardesty Hackett & Partners, LLLP, and how we can help your small business in a crisis, please call our office anytime at 770-594-1200, or visit our Web site at [www.hardestyhackett.com](http://www.hardestyhackett.com).