

# Avoiding the Red Tide

## Escaping Financial Crisis in a Business



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**i**magine for a moment that you are involved in a motor accident. Luckily, you survive. You are not even injured. Beside you, another passenger lies on the road in agony, a gleaming white shaft of shattered bone shimmering with the reflected light of blood. Blood that trickles in an endless stream, quietly draining the life out of the person in front of your eyes.

You know that the broken leg is going to need splinting, and crutches will have to be bought to help the man walk while his leg heals. And that is NOT where you place your attention. The immediate issue is to stop the bleeding, because if you don't then any discussion of splints, or casts, or crutches will be merely academic.

And that is the nature of crisis. The normal rules get suspended, and all energy and attention must become focused on the immediate situation. Because, only when the immediate situation is addressed do you have the luxury or opportunity to deal with some of the other, perhaps more fundamental, issues.

### Who Cares About the Cause?

A crisis can be caused by either external factors, or internal ones. For instance, if you are driving on a wet road and suddenly go into a spin then the cause is internal – you hit the corner just a little too fast. In the case of something like the terrorist attacks on September 11, 2001, the immediate cause of the crisis was external. Somebody flew airplanes into a building.

In a business, the sudden discovery that you don't have enough cash to cover payroll is a crisis, and it is one that could be either internally or externally created. For example, it could be that, because of something like SARS, your sales have suddenly stopped but your costs have continued. Or, it could be that you haven't been tracking your cash flow situation, and didn't take appropriate action early enough.

The question about the cause of a crisis is actually academic – at least until you are over the crisis itself. If you spin your car on a wet road, it doesn't matter if it was caused by oil on the road surface or you speeding, the immediate priority is to regain control of your car before you become meat paste.

In New York after 9-11, the priority was to save as many people as possible, and get the city back on its feet as soon as possible. The identity of the terrorists, and preventative measures for dealing with future attacks, were not of immediate concern. Of even less concern was the design of the buildings that would replace the World Trade Center Towers.

Understanding the cause of a crisis is, of course, important. This can help in preventing future crises of the same nature. Creating new, long term solutions, is also important. The trick is to put discussion about such things on hold long enough to respond to the immediate situation.

In Chinese there is a word for crisis – \*\* - it means "danger" and "opportunity". The "opportunity" part refers to all that you can



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learn, and the fundamental changes that you can make, to get even better. The “danger” part refers to the fact that something is going on, right now, that needs your immediate attention.

### Focus Your Attention! The Steps to deal with a Crisis

Personal experience can be a great place to explore the best way to deal with more complex situations. So, in thinking about how to deal with crisis, I encourage you to think about some personal crisis situation that you have been in. Since I have been in a few close calls in cars traveling at a speed high enough to kill me, I like to think of those situations.

In one situation, a friend learning to drive froze while coming down a hill towards a left-hand bend. All she needed to do was turn the wheel but, for some reason, she couldn't. And so we headed towards a 1000-foot drop. We were in crisis. Immediate danger. It was clear that I had to take action, so I grabbed the steering wheel and made the left turn. Unfortunately, I had hesitated and she hit the break at the same time. We slid towards the drop. And, luck was on our side. We had a few inches to spare, and lived to tell the tale.

A great example given to me by a friend is of a group of soldiers suddenly caught in an ambush where they are surrounded by the enemy on all sides. The only hope for survival is to break out. Even one second of hesitation will mean death. To do this, they must all focus on ONE point, and then break through at that one point. Only when this has been achieved do they have the “luxury” to decide

what to do next.

As you think about crisis situations that you have been in and have survived, you will become aware of the steps that you went through to survive. I summarize the main ones here, as a point of reference and comparison.

### Size up the situation

The first thing that you must do in any crisis is to size up the situation. What is going on, how serious is it, and how much time do you have? The answers to these questions focus your mind on what to do next.

In the examples above it is relatively easy to know that you are in BIG trouble. In a business situation it can be more difficult to realize that a crisis has arrived. If someone has suddenly stolen your best customers, or where your market has suddenly disappeared, it is fairly obvious. But a subtle shift in the cash flow balance that has not yet showed up in the books can be more difficult to spot. Finding that the bank won't support you any more, of course, is a big signal.

Some crises may give you a little more time than others to understand, but by their very nature crises don't give you the luxury of time. You have very little time left, and you must use that to understand the underlying “trends”, project forward to the likely end point, and decide just how bad the outcome will be if you continue along that path.

The biggest mistake that can be made at this stage is to underestimate the consequences of the crisis. Underestimation can lead to action that is too little, too late. And nobody likes post mortems. So, rapid sizing up of



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the seriousness of the situation is a critical step to take.

## Decide What Action to Take

Immediately upon knowing that you have a crisis, you must decide what outcome you want. If you're ambushed, the decision is a simple one – dig in and fight, or break through. Driving down a hill towards a cliff also provides a simple choice – turn or break. In a case of serious injury where someone is bleeding, there is no choice. STOP THE BLEEDING. The only question you need to answer is, how are you going to do that.

## ACT

Once you have decided on the action to take, you do it. No hesitation. No questions. Act.

## Feedback, Review, Change

Once you have acted you need to check whether the action achieved your desired outcome or not. If it didn't, you're still in crisis and need to reevaluate before taking further action.

That's it. Quite simple when you think about it. So what makes it so difficult? The group effect tends to complicate things. I address this in the next section.

## Crisis in a Group Situation

In the above examples I have looked at crises that can, in many cases, be responded to by a single individual. However, many of the crises that we face involve groups of people.

Getting groups of people to act effectively is difficult at any time. A crisis can make cooperation even more difficult.

With any crisis that involves a group of people, be it a team, a family, a company or a whole country, the most important rule is: COMMUNICATE. COMMUNICATE. COMMUNICATE. There is a critical need for information throughout the organization to address any crisis effectively. And, to be most effective, that information needs to be channeled in the right way.

## What to Communicate?

While you should communicate more rather than less, you also need to understand what should be communicated. To be most effective, the following four ideas can be used to guide your actions - What; So What; What Next; and Who Does What?

## What

It may seem strange, but it's important to articulate what is happening to an organization. There are two very important, but opposite, reasons for this. The first reason is that people in an organization are frequently very aware of the crisis that the organization faces. They see the crisis reflected in the problems they face on a daily basis, and in the decisions that they see being taken (or not taken) by senior management.

In their mind, the biggest problem is that senior management doesn't understand that there is a crisis. This leads to cynicism, and a sense of helplessness that gets translated into a lack of action and a lack of initiative.



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At other times, people in the organization have no idea at all that there is a problem, so don't feel motivated to do anything. They somehow believe that the organization will look after them for life and that there could never be a problem large enough to kill the company.

By openly acknowledging the situation, you address both groups of people. Those who already know there is a problem feel that their leaders are in control. Those who had no idea get given a very strong wake up call for action.

### So What?

To be effective in a crisis, however, a leader often needs to go beyond simply stating the situation. For instance, saying that "we have a cash flow crisis" is probably not going to motivate many people working in the lower levels of a company.

On many occasions, while providing customer service training to companies, I have asked "who pays your salary?" Invariably the answer is "the company", or "the boss", or "the accounts department". Only on very rare occasions do workers understand that they get paid because of ongoing business, happy customers, and a healthy cash flow.

So, using the cash flow crisis as an example, it would be wise for senior management to point out to everyone the very real personal consequences that everyone will face if the problem isn't solved. The company might be bought, and managed in a way that no-one likes. Worse still, it could be forced to close down which would mean that nobody has a job.

Communicating the consequences also addresses the two groups of people mentioned in the previous section. Those who know there is a problem generally know the consequences, and like to see that senior management does too. Those who had no idea need to be connected to the reality of the situation.

### What Next?

Once the attention of the organization is focused on the crisis, it is up to senior leadership to answer the question "what next?" People need to know what they have to do, and they are looking to senior leadership to provide overall guidance. This means that senior leadership has to state, very clearly, the ONE major crisis goal that has to be achieved. "Stop the bleeding", "block the competition in Market A", or whatever the imperative is.

### Who Does What?

Taking the big message, department heads are then responsible for translating that big message into the messages specific to their departments, ensuring that regular progress reports go to the senior leader(s) to ensure coordination across the organization.

This is the chain of command that is used on a submarine when dealing with a crisis at sea. Every seaman on board the ship has an assigned task, and team leaders assign tasks based on the overall goal set by the commander of the bridge.



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## Beyond the Crisis

Once a crisis is resolved in the short term it can be a fatal mistake to assume that the problem is solved. Often, the process of solving the crisis creates the conditions for even greater problems in future. It is up to senior leadership to use as crisis as a starting point for a deep analysis of the fundamentals of the business, and to explore changes that might be necessary to prevent a similar situation happening in the future.

## In Conclusion

When faced with decisiveness, action, and effective communication most crises can be overcome. This requires courage and commitment from the leadership, but the payback is very often worth the effort. Beyond the immediate crisis, however, it is very much up to senior management to explore the more fundamental reasons for the crisis having occurred in the first place, and to begin the process of changing the organization to avoid any such future situations. ●

