

Stay Strong: How Smart CEOs Are Learning to Detect Early Operational Warning Signs of a Troubled Company

It's simple in theory. You want to remedy any deficiencies in your business before it's too late, before it requires a massive transformation to turn things around. But how do you know you've got a problem in your business that, if left unattended, will put the health and future of the entire organization at risk?

I often say that there's no magic fairy dust to running a company. Success in business comes down to executing well on the fundamentals, just like in sports. For example, in football, blocking well enables the offense so many options to run the ball, to pass for short yardage, or to go with play-action and throw the ball deep. An inability to block will translate into stuffed runs, defensive backs sitting on short routes, and no time to let a receiver release down the field. In business, the fundamentals include having a sound strategy that's made clear, an organization that is aligned with the strategy to serve customers, a staff that's empowered and accountable, well-defined processes, along with clear goals and metrics.

To help you detect early signs of a troubled company from an operational perspective, we'll look more into these 5 critical areas. The good news is, if you can identify them, then you can take action to address them.

1. Communications

Effective communications are one of the main keys to success in business. In fact, you can view communications as the umbrella that covers all the other factors, as it starts at the top and extends all the way to the front lines of the business. An *Inc.* magazine article describes the overarching importance of communications by stating that "Strategy has evolved from a corporate process to a series of ongoing conversations and decisions." First, the executive team is accountable to set the vision and make it plain so that the rest of the organization can run with it. A great vision and strategy does nothing if it can't be communicated throughout the organization in a way that is meaningful to everyone. People want to know how they fit in, how things impact them, and their role in a situation. The "what's-in-it-for-me" mentality is true of employees and customers. It's just human nature, and a good communicator knows you have to address this mentality to get others to listen before there is any chance that you achieve true consensus or buy-in.

- How well does everyone in the organization understand the company vision and their role in helping to achieve it?
- Are staff members clear on how and who makes what decisions?
- How well are changes to policies, processes, pricing, and other company decisions communicated to customers?
- How empowered are front-line employees to make immediate customer service decisions?
- Do they know the strategy and the goals they need to meet?

2. Customers

The vibrancy of your customer base is one of the primary means of measuring the health of your business for the long-term, after all, this is where revenue is generated. Customers are one of the first groups to recognize when things are taking a turn for the worse. This is the group that most often experiences the outcome of new management policies, staffing decisions, system changes, and the like.

In fact, leadership and marketing guru Simon Sinek states in his book, *Leaders Eat Last*, that “Customers will never love a company until the employees love it first”. So here are some questions to help you understand your position with your customer base, especially if you’re not actively tracking customer satisfaction ratings or administering Voice of the Customer surveys.

- Are your existing customers satisfied with the quality of service you offer? How do you know?
- Are they pleased enough to recommend your company to others?
- Do customers complain about the same issues over and over?
- Are customers starting to complain about new problems?
- Are the only customers you attract and retain the ones that pay the lowest rates, drag their payments out, and complain the most?
- Are you experiencing an increased rate of customer attrition?

3. Team

Let’s revisit the quote from Simon Sinek here that “Customers will never love a company until the employees love it first”. Although culture is the term that comes to mind when most people read this phrase, I advise you to avoid focusing on culture, as a vibrant organizational culture must be nurtured authentically over time, not manufactured. Instead focus on the value that each member of the team brings to the organization and to the clients served. It’s important to remember that people want to be part of something special...a community where each member is valued and understands the purpose of those around them. **Your employees are your company** because they are the ones that need to deliver on the goals you have outlined. If you don’t engage them and make them accountable for achieving objectives, they will follow your lead and simply clock in, do the minimum required, clock out, and not care one iota what happens as long as they get a paycheck. But if you engage them and empower them and make them accountable, they will respond with passion, commitment, and excellence that will be evident to your customers.

- What’s it like to work for your company?
- Do all employees feel like valuable community members?
- Are current employees recommending others they know?
- Are quality people leaving to work somewhere else?
- Do vendors or partners enjoy or dread interacting with employees at your company?

4. Process

The success of a company can often be tied to how mature and refined its business processes are. As small companies expand and mid-market companies seek to reach the next level of growth, the fly-by-the-seat-of-your-pants approach simply doesn’t cut it anymore. It was great when there weren’t enough customers and you could quickly react and respond to different situations. But with growth, the leadership team no longer has the bandwidth to put out all of these fires, so standards, policies, and processes must be established so that those who have been delegated this authority understand how to make appropriate decisions that benefit all parties. Bringing this level of maturity and discipline to the organization is important to stay on focus with your goals.

- Do you have rigorous, repeatable processes and systems in place to assess your external environment (competitors, customers, etc.)?

- Do you have methods to holistically measure your health, strengths, and weaknesses of your processes?
- Are your employees equipped with a playbook so they know how to conduct their work?
- Can customers count on you to do things the same way over and over again?
- Are you enabling the people who work for you to be quality-focused, efficient and productive?

5. Execution

Having sound processes in place is great, but if they aren't followed or the team isn't committed to ensuring they are carried out with excellence, execution will be poor. Poor quality and customer dissatisfaction are the obvious outcomes. Think about your business like an orchestra. You can have music that is a masterpiece, but if the players don't follow the script, don't come in at precisely the time the conductor calls on them, the result is discordant. However, when the players follow the script and the lead of the conductor, the harmony produced is amazing. In business, the outcomes often occur at different times, so flaws aren't as simple to identify as in the orchestra. This is where business metrics and performance benchmarks come into play. One of the business mantras that has stuck with me and always proven true is "inspect what you expect".

- Have you identified key processes related to execution in your business?
- Do these processes align with inputs or outputs that are important to your customers?
- Are you consistently measuring and benchmarking performance for these processes?
- Are employees incentivized (culturally and/or monetarily) to continually improve performance in these areas?

Poor performance in any or all of these areas will eventually lead to underwhelming financial results. But if you're waiting to see the impact in the numbers, you've waited too long. However, if you take care of the fundamentals and spend the time to evaluate these 5 areas, you can ensure the vitality of your business. Putting together and delivering an executable strategy is key. From there, it takes relentless focus, energy, team work, experience, and a sense of urgency. But as the principal of the business, those are traits you possess inherently.