Making Good Decisions About **Management**

Exceptional management or management by exception?

by Kenneth P. Walsleben

So, which are you? No doubt, like most of us, you consider yourself a charter member of the Exceptional Management Team. But, are you really?

'These managers don't plan, and then fail to achieve the status of exceptional management.'

Either type of manager can be a great leader, a visionary, a persuader, a salesman, a business builder, or a people person. In fact, I hope that to some degree you consider each of those traits descriptive of yourself.

What's an exceptional manager?

So, what separates the exceptional manager from the manager by exception? Two words, they are: "planning" and "experience." Without planning and experience, it's impossible to make the jump from management by exception to exceptional management.

Over the years, I've met very few exceptional managers. In fact, any of us would be lucky to work with, or for, more than one really great manager during our business careers.

Unlike my newly budding career as a financial columnist, my roots go long and deep in the field of business finance. As such, let me draw from that experience in this article.

Not a week goes by in my factoring business that I don't meet up with a long-faced manager by exception. These managers don't plan, and then fail to achieve the status of exceptional management.

These entrepreneurs have often built their recruiting or staffing business from the ground up. They're talented folks in so many ways, but when it came to finance, the pressures of the day were always resolved by the band-aid of the day.

Financial band-aids don't work!

Rarely was a long-term capitalization plan in place to answer long-term challenges. They lacked the first-hand experience to know that, without a plan, they were tempting fate. Eventually, their number just came up.

I'll share a recent real-world example. We had a factoring client who we brought on as a true startup. During their first three years of operation, they grew like crazy and factored with us all the way. Seeing eventual success and a newly lowered risk profile, their friendly neighborhood banker (with only the best of intentions) came along and enticed this client to "step up" to a traditional bank line of credit.

I was fine with our client's transition and more than a little proud of what this fledgling firm had accomplished over a few short years.

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Sufficient cash for growth?

Although it sounded self-serving at the time, I counseled our departing client to ensure that either: (a) their new line of credit was sufficient in size for at least the next two to three years of growth, or (b) find a way to share their pledged collateral to allow for both their banker and factor to co-exist.

This way, as our client continued to grow and eventually outstripped the bank's comfort level, they could continue to work with a factor for incremental growth needs and opportunities. Alas, due to inexperience our departing client chose not to plan for such an event.

Recently, this client came back to discuss his options. Due to continued growth, he'd maxed out his bank line in just 18 months. The bank was unable to grow his facility without another year's tax return to analyze.

Further, because accounts receivable was his primary collateral asset (banks don't normally consider A/R to be good, "hard" collateral), his banker was not willing to provide any accommodation.

Incremental funding source?

Because he had previously pledged all of his collateral to the bank, he had no way to attract incremental funding from a new source. Hence, his bank funding (and corporate growth) was basically on hold for the next six months.

Worse, he had a cash crisis due to a payroll event at week's end, and with three days to go, he called me to see what we could do. Because of the way his borrowing formula was structured, he owed the bank more than the factored value of his open invoices.

He was in serious trouble. A missed payroll would spell the death of his firm. He had put himself in a rather precarious position and the sharks were circling.

Looking for success!

Luckily, at the 12th hour, we were able to come to an agreement with his bank to save the day. Clearly, this otherwise talented guy didn't have the experience to recognize he had to plan for long-term success and financial challenges – and, he had to do so in a creative and thoughtful way.

Rather than diversify his funding sources, he viewed my earlier advice as self-serving and ran into the warm embrace of his new banker. Was my client a nice guy? Certainly. An exceptional manager? Maybe someday, but not yet.

When was the last time you sized up your long-term capitalization strategy? Have you considered diversification and negative-event planning? If the answer is no, I respectfully

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suggest that you are not yet exceptional. Part of wisdom is to learn from mistakes and to act upon that knowledge. However, it's always easier to learn from someone else's mistake if you can! Plan to be exceptional. Don't wait any longer.

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The Hamilton Group, where Walsleben is also co-founder, specializes in factoring accounts receivable for rapidly growing businesses and those with significant, up-front costs. Walsleben, an author of several business articles and a volunteer judge for the final rounds of the semi-annual Entrepreneurship & Emerging Enterprises' 457 Capstone Business Plan Competition at Syracuse University's Whitman School of Management, has been in the financing profession since 1974, and active in the factoring profession since 1982. Walsleben is a past director of the International Factoring Association factoring.org — based in Pismo Beach, California. Reprinted with permission from RSSM.

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