LEARNING THE LESSONS OF THE CRISIS

More governance within more agile companies

Many companies were badly affected by the crisis for want of governance, in other words the ability to detect early signals compounded by a lack of agility, i.e. a difficulty in adapting and focusing on performance rather than internal processes. We shall refer to this as the “Titanic effect”, that is the failure to see the iceberg coming and an inability to steer clear of it.

Pierre CHOMETON and Michel BALDELLON***

Needless to say, it would be impossible to find a miracle solution for economic recovery that would work in all sectors of activity, regardless of the type of company involved and its history. Anyone seeking to concoct such a universal solution for the victorious emergence from the crisis would be need to be clever indeed and probably very unrealistic and foolhardy. As company managers, consultants and teachers we will confine ourselves to sharing our own experience while drawing on the theories we teach. These are, after all, the only two resources at our disposal when it comes to giving added value to our readers.

Pierre Chometon

Understanding and defining

The first question that springs to mind concerns the establishment of a clear understanding of the nature of a crisis and, therefore, the attempt to define the phenomenon. In the first and more theoretical section of this article, we will briefly attempt to define the crisis and the reactions it has triggered. The second point for consideration concerns the very theme of this issue, i.e. recovering from the crisis. The term “recovery” implies the emergence of a new spirit, a new dynamic that can only be found by applying real levers. We will therefore identify the levers that company directors can apply to achieve a rapid and effective recovery. This part of the article is based on our observations of corporate clients who have suffered from the crisis and on an analysis of the causes of their difficulties. Ultimately, the idea is also to ensure that the next crisis does not take us by surprise again. The contraction of economic cycles appears to be a given and, in the absence of genuine global change, the emergence from any crisis is bound to be the prelude to yet another crisis which will find its own solution in turn. In the third part of the article, we will examine the questions surrounding the ideal model for a company that is equipped to face the crisis and is, therefore, fit and ready for long-term survival.

Can crises be predicted?

According to scientific theory, every organised system that is left without external intervention tends towards its own disintegration (the law of entropy). In trivial terms this means that if you allow your company to operate this year in the same way as it operated last year, i.e. with exactly the same clients, staff, order book and so forth, your net margin is certain to decline.

Furthermore, the theory of economic cycles tells us that every system advances towards its own decline and that the resolution of faults merely delays the inevitable. Again, in trivial terms, this means that activities designed to optimise the working of your company are essential, but not enough in themselves; one day the very basis on which the company or organisation concerned operates will have to be reviewed. Micro-crises are, therefore, a permanent phenomenon. Companies cease operation, families break up and ripe fruit rots every day.

In short, crisis, or, in other words, decline, is an essential part of development; death is part of life and the reconstruction of systems at the end of a cycle is inevitable. Taking this reasoning to its logical conclusion, at any moment the sound management of relevant indicators should, therefore, enable us to anticipate crises. Is the ability to anticipate and forecast not the first and most important quality of any company director? As the old French saying goes *“governer c’est prévoir”*, to govern is to anticipate.

Our reactions

How we respond: it is particularly amusing and instructive to observe – with the help of sampling techniques – the response of culturally and socially homogenous groups to major change. These groups can always be assigned to one of three categories: those who totally reject change (between five and ten percent), those who adapt to change but wait for it to happen before taking the necessary measures (the vast majority) and those who anticipate or facilitate change and are ready, therefore, to occupy a prominent position in the new order established after the crisis (between five and ten percent).

The first indicator that we will be able to observe is our own attitude in the face of the crisis (the psychological attitude of managers and cultural attitude of companies). It should be kept in mind that changing corporate culture is a far more complex and lengthy process than changing organisational processes, for example.

The lights will be green if we are able to rethink our operational methods and, perhaps, the very foundations of our business before the crisis obliges us to do so. The lights will be amber if, carried along by the crisis, we adjust and review our ways of doing things. However, the lights will be red if we defy the evidence and reject the message of the crisis and the necessary accompanying review of our activities and behaviours.

You will note that we deliberately use the terms "crisis" and "change" almost interchangeably with the simple aim of making the crisis less dramatic and turning it into a straightforward process of, albeit radical change. Interestingly, the Chinese already have a different perception of change; their ideogram for this concept includes the notion of crisis (visible) and opportunity (underlying). These different perceptions of the crisis among managers are clearly reflected in various corporate cultures.

Undesirable reactions

Turbulence, media and emotional frenzy: every crisis narrows the range of target markets for a particular company, reduces margins, brings a loss of purchasing power etc. This is entirely rational while phenomena are magnified through their emotional perception and the communication surrounding them. A second crisis phenomenon, in this case virtual in nature, is therefore created and generates overreaction, fear and panic. This also enables the crisis to be used as a pretext for all kinds of decisions on the part of authorities and/or companies.

The temptation to abandon ethical standards: competitive combat intensifies significantly because the market has shrunk and some protagonists have no hesitation in cheating to convince others of the value of their products and/or services.

The temptation to retrench: systemic analysis states that only those systems that are open on to the outside world can survive permanently. Conversely, retrenching, through budget cuts in the case of companies, the rejection of partnerships and hostility to innovation are all factors that are conducive to decline.

First conclusion

Crisis is foreseeable. The only real question, therefore, is how we choose to deal with it. That depends on our ability to manage the related phenomena and our own attitude. Denial and retrenchment are fatal, while anticipation enables the adoption of advantageous competitive positions. In reality, however, only a minority of companies are capable of doing this. Many organisations are content to adjust as best they can to the new market conditions. In all cases, in-depth analysis is essential and its challenges are strategic, organisational, technological, cultural and human in nature.

Identifying the levers that will enable a more effective recovery means first and foremost analysing the reasons behind the difficulties encountered during the crisis.

Having observed managers at a quasi-operational level in recent months, we have endeavoured to understand the reasons underlying their difficulties and, based on this, propose the following typology for the classification of these difficulties: strategy, culture, organisation, management. Thus, having completed my initial theoretical exploration, I now propose to enter the real world!

The greater the distance between the company and its end customers, the worse the turmoil

The ferocity of the crisis in some sectors was rivalled only by the speed with which it occurred. In fewer than three months, motor manufacturers saw their order books plummet by 10 percent. Due to what is known as the bullwhip or Forrester effect, primary sub-contractors experienced a 40 percent collapse in their orders while their secondary counterparts lost as much as 70 percent of theirs.

Michel Baldellon

Consequences aggravated by the lack of a crisis scenario

Company managers and directors failed to anticipate the potential risks and, as a result, they had to improvise their responses. Drawing up risk management and emergency plans does not yet appear to be an inherent element of the culture in many companies. Incidentally, these same managers and directors have still not prepared an H1N1 influenza plan. This clearly shows the highly – and perhaps excessively operational – orientation of some managing directors and the difficulty they have in standing back from events.

Clearly-defined strategies that are difficult to implement

A constant that can be observed in many companies is the difficulty faced by managers and directors in obtaining reliable figures. The data available within businesses is often obtained from the central information system and is generally based on ERP. Such data often only provides a retrospective view of the situation and conceals a great deal of the information which forms an essential part of business intelligence. What then of the expenditure commitment procedure, the selection of suppliers, the integration with the customer's information system, the procedure for compiling the budget and amending it? All of these processes are very often external to the central information system and, as a result, decision-makers do not have the necessary tools to monitor these highly strategic issues.

Culture

Rigidity vis-à-vis customers: the people who have resisted change and prioritised the safeguarding of their margins have lost customers to the benefit of others who have been able to make temporary adaptations and explain them as such.
Human resources that lack flexibility in terms of number and qualifications: the lack of multi-tasking among human resources and prevalence of immutable job descriptions are indicative of the increased rigidity of companies. This makes it more difficult to trim the sails and re-deploy resources to critical sectors.
A culture that does not focus on performance and production of value for the company's business: for example, we are constantly astonished by certain software developments which are not put into production until all of their functions have been developed. As a result, some of these developments are rendered obsolete by changes in the activity of the company itself.
Excessive overheads: we will take the risk of classifying this point under the heading of culture, as high overheads are very often the outcome of a cultural reluctance to outsource. When companies go below break-even point, operating margins decline far more quickly than turnover. For example, in the hotel trade, where fixed costs are very high, a ten percent decline in sales has led to a 76 percent drop in the profits of some operators. We have seen companies making exclusive use of internal resources to cover activities, e.g. information systems, which are far removed from their core business. Flexibility in all areas enables the reduction of the break-even point.

Organisation and process

- Inadequate cash flow management: both structural, due to the failure to focus on the contractual payment dates of both customers and suppliers, and more practical due to the difficulty in obtaining real figures and indicators. For example, companies often lack a structured and phased system of referrals between their accounts and sales departments in the event of late payment by the customer.
- Inadequate stock management: while it is easy to reduce stock levels, doing so without creating any hiatus in deliveries or extending lead-times is a far more delicate proposition. Companies that do not know how to control their flows, procure

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Jérôme Delépine, Don Quichotte en campagne, *oil on canvas, 73 x 100 cm.*

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supplies and produce small quantities at controlled costs have suffered heavily.

– Complicated procedures that are not focused on the value generated: the agility of procedures in a company could be measured by applying Pareto's Law: 20 percent of the procedures cover 80 percent of the cases that arise on a daily basis. The remaining 20 percent of cases should be adapted to enable their incorporation into the procedures. Instead of that what do we find? Other complex procedures are created to cover these – highly exceptional – cases. The result of this is, of course, corporate rigidity which, in turn, generates the necessity for cumbersome training procedures and difficulties in the development of multiple resources.
– Non-existent "purchasing departments" or non-existent or badly drafted contracts with suppliers: many companies with which we are in contact have unequal relationships with their suppliers because, for various reasons, they do not have any formal contracts with those suppliers. As a result, the supplier's conditions apply rather than the customer's. Astronomical withdrawal penalties, highly unrealistic default deadlines, prohibitive modification clauses etc.

Management

The crisis has, of course, prompted the development of all kinds of positive behaviour on the part of managers and directors who have had to contend with many different obstacles. These behaviours include, for example, becoming involved with the business again, the clear setting of priorities, teamwork, a focus on operational risks, the reviewing of expenditure etc. One question arises here, however: Was it really necessary to wait for the crisis before taking action?

Second conclusion

Perhaps you were expecting us to highlight some "absurdity", thus enabling us to point our finger at the dunces who suffered from the crisis because they committed unpardonable errors – which, of course, we ourselves would never have committed. This is not, however, the case. We encountered companies in every sector that had suffered the "Titanic effect, in other words they hit the iceberg for three main reasons: they failed to see the iceberg due to a lack of

anticipation; they were unable to steer away from it due to a lack of flexibility; and they simply did not know where to turn due to a lack of relevant indicators.

The question we are all asking now is this: How can we put in place good practice, management tools and measuring tools that will enable us to bounce back and anticipate the next inevitable crisis or change on the horizon?

A process of real strategic reflection

In the light of the above remarks, every manager or director will need to engage in a process of real strategic reflection.

– Risk anticipation policy must be strengthened.
– The resources necessary for monitoring the implementation of his or her strategy will have to be put in place, i.e. governance indicators enabling him or her to correctly anticipate and take the right decisions (greater governance).
– Companies will have to be made leaner and more flexible and agile; this will become a matter of priority. As we all know, agility is defined as the ability to anticipate, decide and implement multiplied by the energy/mass to be moved.

Hence, managers and directors finds themselves in the position of having to manage things that may appear paradoxical at first sight: i.e. implementing simultaneously greater governance based on sound indicators and the capacity to monitor these indicators (internal control), and introducing greater agility into their businesses, i.e. more multi-tasking, greater freedom and flexibility and the fostering of a culture of urgency and performance.

Operational excellence, an essential requirement

How can processes that generate anomalies be governed? How can cumbersome processes be rendered agile? Operational excellence is the essential requirement to liberating the chief executive from having to deal with issues that are not his responsibility and to implementing the above-defined policy.

There is a world of a difference between crisis management, which can only be a short-term approach, and what we refer to as operational excellence, which is a long-term proposition. It is not a matter of setting out a list of best practice in the meeting room. Take the case of a purchasing manager, for example. The purchasing manager must at the very least question his or her own role. But defining his or her key indicators is another matter altogether: for example, the percentage of direct and indirect purchases under control, the percentage improvement in unit cost of purchases N versus N-1, the number of formal calls for tender, the level of satisfaction of his or her customers, the quality of the suppliers' facilities. This exercise is not so easy for many companies. In very concrete terms the objectives must be set out in the plan, the existing situation analysed and plans for action formulated. The purchasing manager to whom we refer must show great perseverance because he or she will depend on the Information Systems Department which, equipped with a central ERP or other system, will not have the information necessary for sourcing and will postpone the development of a specific suitable add-on for six months. But it is precisely this element of a purchasing manager's trade that lies at the root of 80 percent of the value created. So what is to be done?

Putting good practice into action on a daily basis

Operational excellence means implementing good practice as a matter of daily

routine until it becomes an integral part of a company's culture. It is an exercise of an entirely different magnitude. Have your standards been formulated in writing? Do you apply them? Do you measure variations from the standard? Do you systematically flag all problems experienced? Do you take counter-measures to remedy them? Do you follow your action plans? Do you list the associated risks? Do you have a division of labour (between the person who requests a product or service and the person who purchases it, for example) to avoid the risk of fraud? Do you have sound internal control?
If your answer to all these questions is "yes", that is most remarkable! However, excellence can be taken even further: Do you know that minor corrections to many administrative files (e.g. a supplier's invoice) take up as much as 70 percent of a department's energy? Do you know that the value added phase (of a file, project, manufacturing process) represents less than five percent of the total process? And that it is therefore possible – theoretically – to cut costs by 3 and divide by 10 or 20 the time needed to respond to an internal or external client?
There can be no miracle solution: putting all this in place will take time and energy. It is not possible to "buy" this performance by writing out a big cheque here and now. Just ask those who have tried to copy Toyota. Our experience shows that, even if the parties concerned believe that they have understood what is involved in just six months, the adjustment takes 18 months to become effective.

Some ideas for further reflection

Develop multi-tasking. We had the opportunity to observe two contrasting patterns of behaviour on the part of two well-known industrial concerns: when business declined dramatically, the first cut its production rates, arranged for its staff to do cleaning and painting work and then laid them off. The second used the available time to teach its teams multi-tasking; it trained operators to perform first level maintenance of their machines, set up working sessions designed to find ways of reducing tool changing times (gains of 1 to 10) and tested original ideas. The financial cost was zero: the trainers were internal. But the gains in terms of skills and flexibility were substantial.
The implementation of quality procedures, the redesigning of processes and training (to enhance expertise or multi-tasking) are time-consuming activities which are often postponed until a later date. The crisis can encourage us to develop additional capacities in our companies. This is a real opportunity to train, test and detect talent. We were surprised to see how some staff members revealed an unsuspected – and hitherto unused – talent as leaders, problem solvers, designers and salespersons! Scarce resources indeed in any business.

Identify critical profiles

Focus resources on your core business activity. Once operational excellence has been put into practice, the redesign and ongoing improvement of processes, the implementation of quality procedures and multitasking are all approaches that will free up your staff. Unfortunately, there is little likelihood that the people liberated by such measures will be the ones you really need. For example, the management of the Auchan retail group is planning to cut 1,400 jobs in its information systems, deliveries and warehouse administration services etc. and to create another 2,500 in its "engines of growth": Auchan Drive, Auchan Direct etc.
Given that the personnel who have become more available are already steeped in your corporate culture, you will want to identify those whose profile may be critical to your business (e.g. as a salesperson), persuade them to move and replace them at their existing post by another person. Another option is to enrich each post by adding some invaluable expertise, for example develop the sales administration section from a department focused on the mere "taking of orders" to a proactive "sales department".
In any case, the best managers we encountered often repatriated their finest staff members, who had previously been scattered between ancillary activities, to the company's core business and fields of expertise.

Reducing the break-even point

Increase your flexibility and outsource to reduce your break-even point. Many managers and directors are very attracted to the idea of centralising or outsourcing corporate functions. The internal services most likely to be affected by the such projects for the pooling of resources are commercial call centres, client support centres (hotlines), internal IT support centres and perhaps even supplier accounts.
The desirability of achieving such rationalisation is self-evident and we will take this opportunity to remind the reader of the reasons most frequently presented in support of such processes. The sharing of the capacities of dispersed resources is often the primary motivation here. A company with ten persons (one per site) responsible for supplier accounts and employed for 70 percent of their time could reduce this number to seven by centralising its staff. The materialisation of productivity gains is another direct benefit. A 10 percent gain in productivity by an isolated individual is not immediately perceptible. However, a 10 percent gain in productivity by a group of ten persons enables one post to be freed up immediately. Last but not least, the professionalisation of teams is far easier to achieve through the cross-monitoring and pooling of best practice.

The conditions necessary for good outsourcing

Some people describe outsourcing as a "triptych of anti-crisis benefits that achieves 20 percent savings, yields 80 percent greater cost flexibility, secures 100 percent operating function, and, as a result, brings about a genuine focus on essentials." Our experience of the creation of "shared service centres" or the outsourcing of computer services has shown that the road to its implementation is an arduous one. You can only outsource things well, over which you have complete control: trying to deal efficiently at a distance with problems that you cannot resolve locally is an unrealistic proposition.
That is where all the above-described internal work on quality, simplification and rationalisation comes into its own. In the light of our comments, a good outsourcing project must be prepared for at least one year. Even if the savings are lower than the aforementioned 20 percent (due to productivity gains), in our view, the "variabilisation" of fixed costs is the main justification for any such operation.

"From agility to performance"

The operational experience gained in recent months has strengthened our belief in one

simple fact: it would have been much easier to deal with the problems encountered if we had shown less rigidity and slowness at every level.
When you have to wait for at least one week to obtain reliable information; when you have unused resources and no right to transfer them to another location where there is a shortage of staff to enhance customer loyalty; when you are told that one year is required to look into changes in the organisation of production; when you cannot adopt flexible working hours even though the business activity is highly seasonal; when you lack cash and suppliers are filling up your warehouses; when IT asks you for seven months to implement a solution that only requires five days (externally) and is of critical importance in a crisis situation … happy are those who, like us, do not succumb to despair and welcome all these opportunities to bring about improvements.

Time to market

It is obvious that when the crisis is upon us it is to a large extent too late to develop corporate agility. However, all of the actions you can take right now will help you to make a better recovery and anticipate the next bout of turbulence. Imagine a world in which you can put in place a strategic project in just one month because you have been able to obtain the budget without delay in view of what is at stake, because the people are there and know what to do, because the IT service is able to deliver 80 percent of all functions in a fortnight and because the suppliers know how to deliver. After all, if some companies can introduce new garment collections to the market in fifteen days (Zara) while others take fifteen months (La Redoute), it is because their managers are convinced that simplicity and agility are key factors for success that will enable them to grasp opportunities for which they are searching on the markets. Time to market is one of the most critical of their strategic indicators.
Let us not forget that one of the key principles of agility is rapid delivery, i.e. time to market.

Third conclusion

The means to recover from the crisis and, perhaps more crucially, to anticipate the next one already exist. They start with raising awareness and continue with the implementation of fundamental measures in the business itself to create security through better governance and flexibility through greater agility. Of course, permanent effort will be essential and the stakes are high because the ultimate aim must be to assure the very survival of our companies.

General conclusion

One single fact seems beyond dispute in our view: further crises will follow in the near future. For those who have not yet done so, accepting this fact is, perhaps, the most important step to be taken towards recovery from the crisis. Based on this different awareness, which prioritises movement rather than stability and convictions rather than certainties, we can rethink our companies on the basis of different parameters. Phenomena such as change, excellence and performance, the permanent development of multi-tasking and, therefore, of human resources, and ongoing strategies of cooperation between competitors that prompt a blurring of corporate frontiers will probably constitute the fundamental values of tomorrow. The crisis may yet prove to be a source of great inspiration as it will encourage us to rebuild! ■

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Jérôme Delépine, Harlequin, *2008, oil on canvas, 50 x 61 cm.*