Credit crunch: what next?

By Dr Catarina Figueira
Lecturer in Applied Economics

What impact has the credit crunch had on different sectors in the UK economy and what is the outlook for the year ahead? How can managers turn the challenges they face in the current business environment into opportunities?

It is just over one year since the financial markets started experiencing difficulties associated with the US mortgage market. These problems were responsible for the freezing of interbank lending and led the European Central Bank to inject money markets with liquidity (following a warning by the bank BNP Paribas that some of its funds would be closed). In the UK, the initial signs of problems in the sector came when HSBC warned of extensive write-downs on its exposure to US sub-prime mortgage lending. The tightening of the credit crunch culminated with the nationalisation of Northern Rock, as a result of the need for substantial liquidity support from the Bank of England.

Need for reforms in the financial sector

The challenges facing the financial sector provide evidence that growth financial models based on high and increasing leverage are not sustainable. In particular, they highlight the importance of liquidity in the management of banks and the need for improved regulation. Over the last few decades, there has been a strong belief that markets will correct towards equilibrium and therefore regulators will have played a marginal role. This has encouraged credit creation and has generated an environment where complex financial instruments have thrived. By abiding to the idea that banks should be able to self-regulate and create their own risk management systems, the authorities were not prepared to deal with problems when they started emerging.

The months ahead are not going to be easy for financial institutions, but sometimes crises are needed to give way to corrections to the system. We should expect more stringent capital and liquidity requirements and less tolerance towards high leverage and complex instruments. The Financial Services Authority is also examining compensation arrangements which have in certain cases, encouraged risk-taking with dire consequences for some financial institutions. Investors should also take more care when managing their investments and not rely solely on credit ratings from agencies that sometimes are
there are opportunities for business. By focusing on cash management and corporate risk mitigation, corporate bankers can minimise overall losses and, at best ensure continued revenue growth. There are also some more specialised business opportunities in finance such as leasing and trade finance.

Other companies that survive tough economic conditions are those that diversify their business to developing countries which continue to experience economic growth (eg China, India, Brazil and some of the Gulf countries). The increasing demand for products and services has produced investment opportunities for foreign firms which are able to take advantage of their know-how and the market scale to exploit these emerging markets.

The adaptable firm

Some firms are able to prosper during recessions, regardless of which sector they operate in. The adaptable organisation is one which is able to link its current operational and financial activities with longer-term changes required as a result of new challenges that have emerged in the business environment. So what makes a firm adaptable to an uncertain environment? First of all, it’s a strategy that enables managers to pursue initiatives which provide a balance between the firm’s short-term performance and the creation of options for the future, in terms of new products, processes, markets, etc. In essence, this firm’s leadership team has a strategy that encompasses look short and the longer-term, therefore reducing the risk of making the business vulnerable to unpredictable events.

A well-run firm is one that possesses and tracks a set of operational and organisational metrics, standard financial metrics and others that provide an indication of the company’s markets and the relationships with its external parties, including suppliers, competitors and regulators. Combined with the above, it is also important that metrics are generated which highlight the firm’s prospects for maintaining and improving growth and returns on capital over the next few years. Through metrics, managers and strategic leaders are able to identify areas which are worth exploiting and monitor threats. By keeping an eye on key performance indicators, top management can better assess how the firm is creating value. Promoting the mechanisms to enhance communication between employees and management is central to generating a culture of belonging across the different departments of the firm. Similarly, the management team needs to communicate effectively with other stakeholders and invest in building relationships with them.

It is important that top management identify and involve future generation of leaders in the development and strategy of the firm to encourage a wider perspective of the business and promote stronger linkages across boundaries. Better governance is also central to the success of the business. Board meetings provide a useful opportunity to review the firm’s resilience to market pressures.

Turning challenges into opportunities

How can managers successfully cope with the credit crunch and turn the challenges they face in the current business climate into opportunities? Your firm must place the customer at the heart of every decision. It should be guided by much more than just historic sales figures. It should work with the customers to find out what drives them. Staying close to customers helps to understand how to anticipate and stimulate demand, especially at a time when loyalty is a problem among customers.

You should also be able to continuously evaluate your firm’s competitive position, by taking the knowledge about your customers and tailoring your position in the market. This involves the continuous appraisal of initiatives and often just-time decision-making in order to align the internal pace and scale of change to the external business environment.

The firm needs to keep up with the industries and the in mind and this often means reviewing performance management processes and making decisions at a unit level. In the traditional structure of a firm where leaders concentrate on the big picture, success in one unit may be replicated by underperformance in another. As a consequence, ventures which may have delivered future growth may be compromised by a focus on short-term targets.

It is important that you keep a close eye on cashflow, however be cautious about cutting costs at the expense of generating low morale among employees and squeezing current suppliers who in the future may play a key role in your drive for growth. Instead, realign compensation with performance and contribution in order to retain and promote a higher performing workforce.

In fact, successful leaders often choose to trade lower short-term profitability for longer-term gains by refraining from reducing their business rather than concentrating on cutting spending. This involves developing an organisation that is prepared to consider innovation as a central element of its business; connecting people with right mindsets for innovation; establish performance management and tracking criteria; timing for reviews and the planning process to facilitate the workings of the network; and manage expectations effectively.

Be particularly careful about cutting marketing spend. There is a huge temptation to cut these costs when things get tough, but as you need to keep selling, you should carefully evaluate the areas where you are getting a return before embarking on a ‘cutting marketing costs’ approach.

Re-evaluate your investments in the face of current uncertainties. More important is building agility by reimagining the operating structure with any new investment initiatives to support future growth. Often companies embark on new investments but based on existing internal processes which are often path-dependent, i.e. underpinning a pattern of past decisions which may not serve well under the current circumstances.

Manage and communicate openly with key stakeholders and reduce risk by adapting hedging strategies to remove volatility and uncertainty. Finally, identify opportunities in underexplored assets by growing opportunistically where competitors are forced to dispose of assets at low prices.

Strategic vision in turbulent times

The most successful players use recessions to prepare themselves for better times and try to gain market share. They create collective leadership capability and deliver shared purpose to ensure the firm’s competitive vitality. They build business models that reflect their board’s attitude towards resources and assets. Therefore, you should seek to turn uncertainty into opportunity by improving and growing. Nevertheless, the causes of some economic challenges are out of your control. Inflation looks set to continue as a result of surging food and energy prices, triggered by a sharp increase in their demand from emerging economies. This adds support to the need for addressing the areas of business which you can control, namely by creating the case for visionary management teams which, by spotting new opportunities which position the business well in the future, generate credible propositions for future earnings.

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How does business integrate corporate responsibility? Top leadership in business has to believe in it and ‘walk the talk’. Staff and other stakeholders need to hear their leaders explain regularly what responsibility and sustainability means for their business and why it is important. It is surprising that even in companies committed to corporate responsibility how often staff say they have never heard their bosses talk about it. Probably this should be explicitly linked to the values of the business. Intelligent companies use their values as criteria in the recruitment of staff. They incorporate values into induction, ongoing staff training, appraisals and for determining compensation and promotions. The values are the criteria against which the business takes tough decisions.

Effective board governance
Corporate responsibility requires effective board governance. Some companies have a board committee for corporate responsibility and sustainability. Some have a lead non-executive director in charge. Some have a mixed committee of executives and non-executives. Whenever the precise structure, it is important that the company regularly addresses what the most significant responsibility and sustainability issues are, and discusses these at the most senior levels. A rising company will have very different priorities in terms of environmental and social impact compared to a bank or an IT company. Any business, large or small, needs a process for getting each part of the business to understand their significant environmental and social impacts. Many large businesses have corporate responsibility or sustainability departments. These should not be treated as the dumping ground for anything to do with ‘responsible business.’ Rather they should be treated as an internal consultancy advising and providing different parts of the business. Corporate responsibility has to be everybody’s business and not passed onto a ‘good works’ department!

In particular this means effectively engaging stakeholders, those people who are affected by or can affect the business.

Transparency and accountability
One really interesting development nowadays is when a business works with a community or voluntary organisation to develop new commercial products and services. Yet another growing aspect of responsible business is transparency and accountability – which means a business being able to measure and then report their environmental and social impacts in an increasingly varied range of different formats, from websites and blogs, to putting environmental or health information on packaging and leaflets for consumers.

Middle-management black-hole
The heightened expectations for business are not going to go away. Yet we are frequently told by operational managers: “what has corporate responsibility got to do with me? It’s the board and top management that deals with those things – it’s very little that I can do about it!”

On the other hand, conversations with corporate responsibility professionals and with CEOs and senior directors frequently touch on the perceived middle-management black-hole. When it comes to sustainability and corporate responsibility, increasingly top management ‘gets it’ because they have the overview of the multiple pressures now bearing down on business, and front-line staff are enthusiastic about making a positive difference on things like climate change or the inclusive society. But often, it is the hard-pressed middle-managers who feel the pressures of sales targets, lack of time, cost-control drives and they don’t see how to reconcile these with sustainability and being a responsible business.

- It is obviously easier for operational managers who work for companies that are already on the corporate responsibility journey, and have moved from treating corporate responsibility as a ‘bolt-on’ to business operation to where it is built into business purpose and strategy.
Businesses which have embedded corporate responsibility and made the link to corporate values and strategy are also more likely to have identified what they want operational managers to do about corporate responsibility. The best companies will have incorporated corporate responsibility into key performance indicators, management training, and into reward and promotion decisions. In such cases, the task of operational managers is to understand the corporate responsibility strategy and to define what is expected of them and where there are opportunities for voluntary initiatives and experimentation over and above core requirements.

To take corporate responsibility forward in their organisation, operational managers should ask themselves if they have a company code of ethics and/or a statement of general business principles. If they do, does it cover all they believe? Is there anything where they would personally go further (assuming they are contractually bound to do their best to perform their job in compliance with the code)? Have they experienced ethically beneficial behaviour in their business, or conversely ethically dubious behaviour, in which cases what did they do about it? Are there opportunities to get training on corporate responsibility and ethics within or outside the business that they could take up? Are there possibilities to champion a corporate responsibility pilot for the business?

Corporate responsibility champions

Many leading companies are now establishing systems of corporate responsibility champions at all levels of business to promote corporate responsibility overall or particular aspects such as diversity or climate change. Marks & Spencer, for example, has The A Team champions in every single store. Lloyds TSB has an ‘enablers network’ of sixty corporate responsibility champions across the business. TNT has champions for corporate social responsibility in each of the 200 countries they operate in. Innocent (the fruit smoothies business) is encouraging suppliers to appoint their own sustainability champions.

Even in companies without clearly defined and embedded corporate responsibility strategies, the committed manager has considerable scope, starting with the manager’s own behaviour and way of operating. There is the opportunity to model responsible and ethical practice and to ‘walk the talk’. The operational manager can, for example, be a mentor and encourage staff to take up training opportunities and aspire to achieve what they can become. They can promote talent irrespective of gender, disability, race, age, or sexual orientation and make it clear that bullying or sexual, racist, homophobic, sexist or behaviour will not be tolerated. Even in uncommitted companies, managers should be able to initiate recycling and energy saving schemes, perhaps presented to superiors as another way to save money. Managers can discourage a long hours culture by personal example and also be sympathetic to employees’ crises with childcare or homecare and taking health and wellbeing issues seriously. They can exemplify ethical behaviour and set a good example and talk to their staff about how they believe business should be conducted, and use examples of events inside or outside the company to illustrate this. Operational managers can also talk about their own experiences of getting involved in a charity or community organisation or campaign and what they get out of it as well as what they put in.

Influencing others

Beyond leading by example, an immediate area of responsibility as operational manager has a number of opportunities. Companies have spreads of influence even if the company overall is indifferent or at an early stage of development in corporate responsibility. The individual manager’s practical example and (hopefully) the positive results of their initiative, may even be the stimulus to more widespread corporate commitment. The Doughty Centre at Cranfield plans to study the impacts of such corporate responsibility ‘pioneers’ in business. What motivates them, what obstacles they face and how they overcome them. Once senior management teams discover the ‘pioneers’ in their business, they can back their efforts in a way which empowers rather than suffocates and alienates the original ‘pioneers’.

Within their ‘spheres of influence’, managers can support and challenge the suppliers and professional advisers that they have day-to-day contact with, as well as their own peer group. This may be through a judicious line of questioning about environmental and social impacts; or using their discretion to favour the supplier with better sustainability credentials when other factors such as price, quality and availability are equal. ‘Managers can manage up’ by putting more attention on relevant aspects of responsible business practice and by helping the organisation to influence its value-chain from initial sourcing to end disposal. One method which can be effective is when managers show their superiors the number of their own customers who are now requiring proof of environmental and social performance in order to join or stay on their tender lists.

The individual manager will generally be more effective if they can find and combine forces with kindred spirits. Apart from reducing loneliness and self-doubts about whether one is making any impact, there are opportunities to support each other by facilitating action-learning through ‘communities of interest and practice’ and to produce and lobby for innovative ideas.

Managers also have ‘spheres of influence’ outside working hours in the rest of their lives. This includes their own circle of family and friends, local community and leisure activities as well as being the 4Cs: consumers, citizens, campaigners and co-owners of businesses (through their pension funds, life insurance and other savings). As the 4Cs, managers can reward organisations whose environmental and social performance they approve of, or penalise those whose performance they disapprove of. This experience can also be brought back into workplace discussions.

Additionally, most managers will be a passive member of at least one professional association. Such associations may well be looking for volunteers to develop their sector or profession’s understanding of what sustainability and corporate responsibility means for them, and what the professional body can be doing to raise awareness and spread good practice. Lawyers, for example, now have a legal sector alliance for corporate responsibility. Accountants have the Prince of Wales’ accounting for sustainability project and various other initiatives to measure and set standards for corporate responsibility.

There are now a range of organisations offering practical tips for busy managers.

Some things to watch out for include the dangers of loneliness or ‘burn-out’. The need to stay balanced for the long-haul by maintaining a work-life balance. Mental, emotional and physical well-being are all important to keep one’s vision of corporate responsibility refreshed.

Climate change, sustainable production and consumption, better interfaith understanding, growing and ageing global populations are all challenges that will shape our futures; and should not be ignored by businesses that want to last.

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Definition:

A responsible business is one that has built into its purpose and strategy a commitment to deliver sustainable value to society at large, as well as to shareholders, and has open and transparent business practices that are based on ethical values and respect for employees, communities, the environment and other stakeholders.

Doughty Centre for Corporate Responsibility
The war for talent moves online

By Dr Emma Parry
Senior Research Fellow, Human Resource Management

Current skills shortages mean that employers need to engage with potential employees and build relationships with them in order to attract them into their organisations. Dr Emma Parry outlines how the internet is being used to do this.

The last decade has seen great change in the recruitment market place. Firstly, in contrast to the 1980s, employment has been relatively high and the skills needed by organisations less readily available, resulting in competition for high quality workers increasing. This ‘war for talent’ has meant that employers are forced to find new and innovative ways to engage with job seekers in order to attract them into their organisations. Secondly, the use of technology for recruiting staff has grown dramatically with around two-thirds of organisations now using the internet in some capacity to attract staff.

Our anecdotal discussions with recruiters have shown that some are struggling to keep up with these changes in the recruitment market. On the one hand they are finding that their usual methods of recruitment are no longer sufficient to attract the skilled workers they need; and on the other hand many employers are struggling to interpret the hype that exists around new technology and do not know how to use these systems to their benefit.

Over the past year we have conducted several research projects into the use of e-recruitment and Web 2.0 as tools to attract and engage with job seekers. We have found that in many cases, the use of technology can actually provide a solution to the difficulties in recruiting skilled individuals. Our research examined the potential benefits of e-recruitment to employers and the ways in which recruiters can use the internet and Web 2.0 tools to attract and engage with the talent they need. This included a series of case study interviews with job seekers, conducted on behalf of MonSter.co.uk; and a survey of employers about their use of Web 2.0 technology.

Benefits of e-recruitment

Our research has consistently shown that e-recruitment, defined as “the use of the internet to attract, sift and manage candidates”, can provide significant benefits to organisations. Significant cost savings can be achieved through the reduction in agency and advertising fees, less need for paper and postage and drop in headcount due to administrative savings. For example, Marks & Spencer have reduced administration headcount due to administrative savings. The telecommunications company Orange, has saved £1.8 million a year by moving to an e-recruitment system. E-recruitment can also lead to considerable efficiency savings by shifting to a more streamlined process. Vacancies can be posted online immediately and reviewed as they arrive, making the process much faster. This means that the overall time to hire is greatly reduced so there is less chance of a good candidate being recruited by a competitor before the process is complete. For instance, Marks & Spencer have reduced administration by around 60% through using an online system.

Not only is the process faster, cheaper and more efficient, but it is transparent and the data produced by the system is accurate and readily available. The process can be tracked through the system and an analysis of the value-for-money of each recruitment source can be obtained virtually at the touch of a button. E-recruitment can also be used to ensure that recruitment processes are consistent across an organisation so that everyone is treated the same way regardless of where they have been sourced from.

The benefits of e-recruitment may seem too good to be true. Many employers are worried about its capacity to reach the candidates that they need or to reach a diverse population of candidates. Statistics from the National Online Recruitment Audience Survey (Enhance Media, 2008) show that people from all industry sectors and at all levels search for jobs online. For example, 18% of online job seekers are from ethnic minorities and 7% are over 55 years of age, suggesting that the internet attracts a diverse source of applicants. In addition, online recruitment can reach a global audience, 24 hours a day.

The need to engage job seekers

Employers may still however have difficulty attracting high quality job seekers to their organisation if they do not take steps to engage with these people. Employers must make sure that they pay enough attention to the design of their system if the benefits described above are to be realised. Unless they have a prominent brand, employers must take steps to drive job seekers to their corporate websites through the use of jobs boards or search engines. Once they have done this, they must present themselves in a way that will attract the job seeker and build a relationship with them so that they want to apply for a job.

This can be done by creating a content-rich website that is interactive and interesting, by using functionality such as videos and podcasts to provide information about the company and job. For instance, Marks & Spencer have included a quiz on their website so that potential employees can find out whether they are suitable for the job (see Figure 1).

Figure 1 - M&S uses an online quiz to interact with potential employees.
On its website, Cancer Research UK offers prospective applicants details of what it is like to work for the company in an easy-to-use modern format (see Figure 2). Employers can also attract job seekers by making the site quick and easy-to-use so that people can find the information they want within three or four mouse clicks and by allowing the individual to interact with the company through web chats. The application process should be clear, simple and not too time-consuming to complete.

The popular HR press has given some attention to the implications of these developments for recruitment, but generally this has focused on the problem of employees discussing a company online and potentially damaging its employer brand. Anecdotally, the evidence suggests that this may be due to a failure on the part of employers to fully understand the potential that these tools provide. Many employers are only beginning to take advantage of the benefits of e-recruitment and are now facing with another minefield of technological tools and ways of communicating.

Research has shown that the new generation of job seekers regularly use social networking sites to communicate and use search engines such as Google to look for work. Therefore, we believe that employers may be missing a trick if they do not at least consider how they may access this online population when looking for talent. Some organisations have taken steps in this direction. For instance, Royal Bank of Scotland and KPMG both held recruitment fairs on the online virtual world, Second Life, in 2007. Others such as Whistleley have optimised their use of search engines to reach candidates and a number of organisations have developed blogs in order to engage potential applicants.

The use of the internet for recruitment is developing at an alarming rate, particularly through the introduction of Web 2.0. However, the effort needed to understand and take advantage of this technology to engage with potential employees may be worth it in helping employers to attract and engage potential employees. Our survey research has shown that the number of organisations using Web 2.0 for recruitment is still very low (see Figure 3).

Anecdotally, the evidence suggests that this may be due to a failure on the part of employers to take steps to learn about this technology and its potential. Nobody is saying that it’s easy as technology develops at a rate that makes it difficult for most of us to keep up. However, with ‘Generation Y’ entering the workforce, job seekers will expect to be able to look and apply for work online. Therefore employers must find a way to engage with this online community if they are to be successful at finding and securing the talent that they need to be competitive. 

Employers should consider exactly how they would like to improve their recruitment processes in order to build a list of requirements for an e-recruitment system. They can then go out and select or develop the system that is most suitable for satisfying these needs. Employers must also consider the type of talent that they are trying to attract and design a recruitment website and application process that best fits with these individuals. Job seekers don’t want to spend hours on a website reading pages and pages of text, so it is important to make use of the functionality available and to take care over the content provided in order to attract and engage with the right people. A recruitment site should allow a job seeker to make judgements about how well they fit with an organisation, while at the same time promoting an attractive employer brand and allowing users to find the information that they need quickly and easily.

Finally, employers should recognise that the job seekers they want to reach may be using Web 2.0 tools both in their job hunting and in their life generally. If this is the case then optimising their use of search engines such as Google by sponsoring keywords, or venturing onto social networking sites such as LinkedIn or Facebook, may be a good way of engaging with prospective employees. Recruiting via Web 2.0 tools might not yet work for everyone, but as the use of these methods is likely to grow in the future, employers should take steps to learn about this technology and take advantage of the opportunities that it may offer.

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Managing your business in a downturn

What steps should managers take during a downturn to put their business on a solid footing ready for when the economy takes a renewed upward swing?

By Gerard Burke
Director and lead designer of the Business Growth & Development Programme (BGP)

The British economy is currently experiencing a slowdown, caused by banks putting the brakes on lending, consumers reins in spending and raw material and oil prices rocketing. According to the Office for National Statistics, the economy grew at its slowest pace since 2005 over the second quarter of 2008, fuelling fears that the country is about to slip into recession.

The last genuine recession in the UK took place in the early 90s - too long ago for many owner managers to have experienced. However, some businesses have traded through one, or even two recessions and are still thriving today.

As Cranfield’s Business Growth and Development Programme (BGP) for ambitious owner managers celebrates its twentieth birthday, two businesses that participated in the BGP in the early years, share their experiences of trading in a recession.

Precision Polymer Engineering (PPE)

For elastomer component design business Precision Polymer Engineering (PPE) the early 1990s was about survival, says executive chairman Peter Cummings, who founded the Lancashire firm in 1975. “At one point, our bank wrote to us, asking us to find a different bank,” he recalls. Cummings managed to persuade the bank to stick with PPE and the business weathered the recession, thanks in part to invoice discounting, but also to a robust business model which placed great importance on risk spreading and customer service.

“PPE was born in the recession of the mid-70s, which made us appreciate the importance of exports,” says Cummings. “Today, 85% of our business is export which makes us less vulnerable to conditions in individual markets.”

He says the same applies to customers that develop relationships with multiple smaller customers rather than focusing on fewer larger ones. This minimises reliance on any one source of revenue. “Even now, our largest customer only accounts for less than 10% of our income and we operate in eight markets across 26 countries,” he says. PPE is also careful about who it does business with. “We like to deal with people who can pay their bills,” he says. “Before doing business with companies who are new to us, we carry out thorough commercial checks, particularly in more distant markets like the Asia Pacific.”

Establishing a reputation for excellent service and rapid delivery times has helped PPE gain an edge over its mainly bigger rivals. In the early days, this might have meant delivering at weekends. Today PPE maintains its advantage by guaranteeing 48 hour manufacturing lead times.

In 1992, Cummings embarked on the BGP programme, followed by current managing director Peter Cloney, 11 years later. Both agree that they took ideas and approaches from the programme that they’ve applied to make the business even more resilient.

The company’s entire activity is focused on growing margin as well as turnover to enable it to invest money back into the business - on people, equipment, facilities, research and development and e-commerce. So, for example, accounts staff are encouraged to drive down debtor days, sales staff adheres to a tight pricing system whereby authorisation is needed to deviate from the standard and the company-wide bonus scheme is geared towards gross profit margin.

PPE isn’t yet feeling the impact of the current economic slowdown. However, if times do get harder, Cloney is confident that PPE has never been in better shape to face economic uncertainty.
Easibind International

Another business that had to fight for survival during the early 1990s was Easibind International, a manufacturing and specialist print company based in the East Midlands.

“We grew very fast during the 80s, by around 30% per year; from sales of £500,000 to £10m by 1990,” says owner Harry Skidmore. “Going for growth was the thing to do then, and we did what we thought was right at the time, which involved recruiting more sales staff and increasing spend on marketing.”

However, when recession hit, Skidmore says the business crumbled as it was not built on solid foundations. “The main problems were customers going out of business and bad debts,” he recalls. “Making away would have been easier than continuing to trade.”

However, rather than admitting defeat, he cut staff numbers from 200 to 80 and developed a strategy based on sustainability, profitability and innovation. One of the biggest changes was stripping away sales and marketing activity and instead developing partnerships with specialist supply channels and intermediaries such as contract stationers, creative agencies and print management companies, which then became Easibind’s sales force.

This allowed Easibind to dramatically reduce overheads and concentrate on developing new graphic materials and creative services. Now Skidmore says Easibind is ahead of the market rather than trying to keep up with it. Developing staff skills helps Easibind stay at the forefront of technology. It does this through Knowledge Transfer Partnerships (KTPs) and graduate placements, which have boosted the firm’s design capabilities and skills.

Easibind learnt the hard way in the last recession that over-reliance on banks can be dangerous. Today, through prudent cash flow management it has built up reserves that fund investment in new technologies and printing processes at a time when other companies can’t afford to. Becoming a pioneer rather than just another player has helped Easibind attract blue chip customers it knows aren’t going to disappear overnight.

“We only employ around 100 people today and we’ve got 80% less customers than we used to have, but that 20% are really driving the business,” says Skidmore.

As we teeter on the brink of recession, many organisations would benefit from applying some of the lessons learnt by survivors of past downturns. Here are some tips managers can apply to ensure their business is resilient enough to weather any storm.

✓ Be positive

Even if the current downturn gets worse before it gets better, most analysts agree that we are unlikely to see a re-run of the early 90s, when interest rates, unemployment levels and inflation were sky high. In fact, according to some economists, it could be just a year before the economy is in a state of recovery. It’s important, therefore, to look beyond the short term to the medium and longer term.

• Stay positive about what makes your business great.
• Stay positive about your passion for the business.
• Stay positive about the future you will create for your business and yourself. This will have a knock-on effect on other people in the business, your customers and your suppliers.

✓ Be distinctive

Ensure that what you offer is distinctive and that your customers are prepared to pay for that distinctiveness. Hold fast to that distinctiveness and articulate it at every opportunity. Without it, your offering will be treated like a commodity and you will come under severe price pressure.

✓ Be brave

It might be tempting to reduce your prices to win business, but although it’s counterintuitive, you’re probably better off increasing prices, even if it means losing business. Here’s why: if your gross margin is 20% and you drop your prices by 10%, you have given away half your profit. To achieve the same profit in pounds you have to generate twice as much revenue. For most businesses, that’s just not feasible, and so to do would probably mean taking on more staff and increasing overheads which would then probably need to be paid for before payment is received from the customer, resulting in cash flow shortages. If, on the other hand, you raise your prices by 10%, you will either make 30% more profit or you can afford to lose about a third of your sales volume while maintaining your current profit. You should then be able to reduce overheads too since you will be a smaller business.

✓ Keep costs variable

Some costs vary with the amount of sales volume while others are fixed irrespective of sales volume. In times when sales volume is unpredictable, try to ensure that as many costs as possible vary with sales. For example, costs of associates or sub-contractors are variable whereas the cost of employed staff tends to be fixed.

✓ Reduce fixed costs

At the same time, it makes sense to reduce fixed costs where you can. Go through each cost in turn and ask yourself whether it could be reduced, eliminated or done in a more flexible way.

✓ Focus on cash

Never is the saying ‘cash is king’ more pertinent than in a downturn. Make sure you manage your cash very closely and make someone specifically responsible for it.

✓ Get paid quicker by debtors

Money owed to you by your customers is your only source of short-term finance. Get invoices out on time and do everything you can to ensure customers pay you on time, from forking strong relationships with their accounts payable, to finding out when they do their payment runs. Call them a week before the payment run to check your invoice is on the list. At the outset of projects, negotiate a payment schedule that includes upfront and/or interim payments. Also be aware that during an economic downturn, the risk of bad debt is higher, and former customers have little incentive to pay debts.

✓ Negotiate discounts with creditors

It may be worth paying suppliers early to secure discounts – even if you have to borrow from the bank to do so. Say, for example, the normal payment term for a supplier is 45 days, but that supplier agrees to offer a 2.5% discount for settlement within 10 days, the saving you will gain by making early payments is 26% per year. The same considerations, but in reverse, apply to the discounts you allow your customers.

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Going live... lessons from Terminal 5

By Dr Peter Baker
Senior Lecturer in Logistics and Supply Chain Management

A key measure of success for any project must be what customers experience immediately after the ‘go live’ date. When projects become fully operational, how often is there a negative impact on customer service?

When it comes to large projects, there is a strong tendency for top management to be focused on the state-of-the-art infrastructure that is being introduced, whether it is a new distribution centre, computer system or airport terminal. While the long-term benefits of the new infrastructure may be unquestionable, this ‘management focus’ can often deflect attention away from the customer, who, as the Terminal 5 opening showed, may be severely affected by the transfer of the ongoing operation. Sadly the importance of the ‘go live’ period is a frequently neglected area of project implementations.

In today’s rapidly changing markets, managers are increasingly focussed on multi-disciplinary projects in order to re-engineer business to provide a competitive advantage. In fact many managers may spend more time on project work than on traditional line management responsibilities. By their very nature new projects tend to be exciting – at least in the first few months or years of their life. However key project personnel are often seeking to move on before the project finishes. While the initial design may be exciting, the operational detail of the ‘go live’ phase may seem rather mundane in comparison, and is often passed to day-to-day managers near the end of the project.

Unless the operational management has been the key driving force behind the project from its initiation, then there is a real danger that the ‘go live’ phase does not receive the attention it deserves.

While this decrease in interest may be happening at the project management level, senior management are obviously very interested in a new project reaching the commissioning stage and look forward to the benefits that this will bring. However, again the focus is likely to be on the overall design of the infrastructure and how this will eventually benefit customer service and profitability. The transfer of the ongoing operation is frequently regarded as a detail, not worthy of the same attention.

Should this ‘detail’ of transferring the ongoing operation be regarded more seriously by senior and project management teams? The experience of the opening of Terminal 5 would suggest that this should be the case and in fact, this is supported by previous research at Cranfield School of Management into warehouse automation projects – many of which happened to involve similar sortation technology as the baggage handling systems at Terminal 5.

Terminal 5 – success or failure?

It can be argued that Heathrow Terminal 5 was an outstanding success with the project reportedly completed on time and within budget. Awards have been given for its architectural design and the new terminal provides a platform for delivering higher customer service levels than were previously possible at Terminals 1 and 4.

Similarly, it could be argued that the planning for the ‘go live’ phase was extensive and thorough with preparations including:

• a six year construction programme
• 400,000 man hours of software engineering
• for the 17 kilometres of conveyors
• six months of training staff and testing systems
• 15,000 volunteers conducting 66 trials
• 32 aircraft trials
• baggage system tested (fully loaded) 20 times prior to opening.

Nevertheless, the ‘go live’ was a customer and public relations disaster. As reported in the media, there were long queues and delays at the terminal. Thousands of bags went missing (28,000 not with owners four days after opening) and many flights were cancelled (about 500 in the first two weeks). The backlog of baggage was so severe that many were forwarded to Milan and the USA for sorting and despatch to the last known address of customers. In addition, some insurance...
companies declared Terminal 5 as a ‘ Known risk ’ and would therefore not compensate travellers for lost luggage.

The corporate consequences were severe, with British Airways suffering a loss of reputation. The financial cost to the company was reported to be £ 17m in the first few days of March 2008 alone and traffic volumes in March/April 2008 were down from 5.6m to 5.3m passengers year-on-year (although this always could be due to a mix of factors). As for the British Airports Authority, the bad publicity has stimulated the debate over their control of the three major London airports.

In addition, affected airlines and retailers have sought compensation. For example, passenger throughput at Terminal 5 was down from the projected 70,000 to 40,000 per day (owing to the postponement of the transfer of long-haul flights) resulting in a loss of 35% over their control of the three major London airports. In addition, affected airlines and retailers have sought compensation. For example, passenger throughput at Terminal 5 was down from the projected 70,000 to 40,000 per day (owing to the postponement of the transfer of long-haul flights) resulting in a loss of 35% of revenues year-on-year (although, as always, this could be due to a mix of factors). As for the British Airports Authority, the bad publicity has stimulated the debate over their control of the three major London airports.

While the ‘ go live ’ difficulties appeared to come as a surprise to all concerned, there have been plenty of warnings of this danger: not only from other airport openings (such as Denver and Hong Kong, which also had significant baggage handling problems) but also from many other large scale projects. Some of these, such as the new distribution centres for Sainsbury’s (such as automated dispensers), and unloading / loading equipment. Approximately half of these automation projects were in new buildings as at Terminal 5 and about half in existing buildings. The results showed that almost 80% of implementations involved some disruption to the ongoing operation, with 33% experiencing moderate or extensive disruption (see Figure 1).

The reasons for the disruptions, as quoted by the survey sites were wide ranging (see Figure 2), including the information technology system, the equipment installation, the building construction and the impact of new technology on people. This range of reasons indicates the multi-disciplinary nature of such projects.

Operational planning

The key question which remains is whether management in companies are fully aware of the importance of operational planning and preparations for the ‘ go live ’ period. In our survey, only one company mentioned they had a detailed plan for the ongoing operation and this company experienced no service level dip.

In the case of Terminal 5, the Chief Executive of British Airways advised the Transport Select Committee that the building programme was, in fact, not 100% complete and this compromised testing. At the same hearing, the Chief Executive of the British Airways Authority advised that 28% of the terminal’s 275 lifts were not operational on day one. It was reported that a discussion took place as to whether to scale down or postpone the opening but, presumably, it was decided that the risk of a significant disruption was too low. With hindsight, the Chief Executive of British Airways stated that he regretted that decision and the one major lesson learned was that, the planned six month testing period should not have been compromised. This should act as a valuable lesson for all management teams involved in major projects.

Potential risk to customer service

The potential effect of automation projects on customer service levels can be depicted by a ‘ service level dip ’ (see Figure 3). The intention of the project is often to improve customer service levels but, in the short-term, it needs to be recognised that there is a significant risk of a reduction in those service levels – unless the ‘ go live ’ period receives the senior management attention that it deserves.

Managers are frequently ‘ bullish ’ about projects and often it is regarded as being ‘ negative ’ to add a word of caution or realism to the discussions. A letter often it is regarded as being ‘ negative ’ to add a word of caution or realism to the discussions. A letter by Alan Bradshaw, visiting professor at Cranfield School of Management, to the Financial Times stated that: “ T5 shows a troubling lack of corporate attention that it deserves. ”

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Success factors

A key measure of success for any project must be what customers experience immediately after the ‘ go live ’ date. There are three important lessons from our research and from the experience at Terminal 5. Firstly, a key component of any project should be a detailed plan of exactly how the operation will continue through the ‘ go live ’ period. This should include risk assessments of what could go wrong in this critical period and contingency plans for every potential eventuality. Secondly, the training, testing and commissioning programme should be seen as an essential part of the project. It is not something that can be ‘ squeezed ’ if other elements of the project overrun. Finally, the ramp-up of the operations should be realistic. “ Testing problems ’ and ‘ snags ’ are normal in all large infrastructure projects and therefore the scale of the operation should be increased gradually so that these problems can be notified without affecting customer service.

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Mishandling the target-setting process can cause major issues for organisations. Cranfield has developed a new ten-step target-setting process to help organisations set their targets in a better way.

By Mike Bourne, Professor of Business Performance and Dr Monica Franco-Santos, Research Fellow, Business Performance

**Why set targets?**

Targets are goals to strive for and the idea is that striving increases performance. The problem then comes when we use them inappropriately for other purposes, such as paying bonuses. However, there is a further complication.

Setting targets as ‘high but achievable’ is the prescription that comes out of the last fifty years of motivation research. This applies well to the individual, but in an organisational setting, the ‘high but achievable’ mantra can cause issues. It works if the whole of the individual’s performance is delivered personally with minimal interaction with the rest of the organisation, but if the individual forms part of a process, the system may well fail to deliver. Herein lies the dilemma. Fifty years of motivation research suggests targets are useful, whilst a similar period of well-documented practice from the quality movement suggests that targets don’t work in this way. The quality practitioners look at organisational performance as a process, and if the process isn’t improved, improvements in performance cannot be sustained.

By Mike Bourne, Professor of Business Performance and Dr Monica Franco-Santos, Research Fellow, Business Performance

**How can this dilemma be resolved?**

We conducted a two-year research project funded by the Chartered Institute of Management Accountants and developed a process to help organisations set their targets in a better way. Our ten-step target-setting process takes you through each of the steps that need to be taken, from understanding the stakeholders’ wants and needs through to rolling out and communicating targets and the associated implementation plan.

1. **Review stakeholder expectations**
   The first step should be a review of stakeholder expectations, asking questions such as: “Who are the organisation’s stakeholders?” and “What do they expect from this organisation?” This exercise will determine the critical areas that your organisation needs to address in order to be perceived as successful.

2. **Clarity and select strategic objectives**
   The next step is to articulate these expectations into strategic objectives which are clear statements of what the organisation aims to achieve. They must be few in number and they should address what the key stakeholders including customers, investors and employees require.

3. **Define a success map**
   A success map is a very simple tool which links the objectives together, so that higher level objectives are delivered through the attainment of lower level objectives. Expressing goals in this way will provide you with a powerful communication tool. You will be able to explain the goals to the whole organisation, as well as be able to show how each part of the organisation will contribute.

4. **Prioritise objectives**
   You need to remember that not everything can be achieved at once. Most companies try to achieve too much launching multiple initiatives that don’t get completed. It is much better to prioritise and deliver fewer objectives.

5. **Operationalise strategic objectives**
   This is the stage when you have to design the appropriate performance measures to assess performance. The way in which you define the measure will drive behaviour. So measures have to be defined in a way that both reflects the goals the organisation needs to achieve and also encourages the right behaviour from those who have been charged with delivering the goal.

6. **Collect data**
   You will need to collect timely and relatively accurate information. The data doesn’t have to be perfect, but it does have to be consistent and reliable enough to be fit-for-purpose. This step is often overlooked.

7. **Analyse data**
   This is one of the most fundamental stages in the process. Here you will need to do two things. Firstly, you will have to use your knowledge of the past (through data collection and analysis) and your knowledge of the future to forecast what is going to happen. This may require an assessment of the impact of outside influences, such as the credit crunch. But secondly, you will have to analyse the capability of the process. Is the process capable of delivering the forecast? If it isn’t, you will have to change the process.

8. **Set targets**
   Based on the previous seven steps, this is the point at which you should set targets. Judgement will be required and you will need to assess the risk of getting the targets wrong. This is also where many of the organisations we studied stopped, but it is not the end of the process.

9. **Design an action plan**
   After you have set the targets, you need an action plan. This should cover all the projects and changes to the organisation that are going to be delivered in support of reaching the target. It may include training and development, new processes, new products or ways of working with your customers, but they are all the assumptions on which you based your target. It is therefore important to plan and schedule their delivery.

10. **Discuss and agree an action plan**
    Finally, you need to communicate the whole plan to all your staff. Most organisations that we studied thought that they already did this. When we checked by asking their staff most were not aware of the plan. Communicating with staff should be done regularly through appropriate channels and with an opportunity for dialogue. A regular staff meeting where the objectives are reviewed, goals outlined and progress discussed is one good format. Sending the annual targets by email is not.

Start with the organisational goals

The process we have described sets the targets from an organisational perspective and this is the approach that should be taken. You have to know what the organisation wants to achieve before you can make any steps towards setting individual targets. If you don’t, you will inevitably find that the individual targets don’t align with the organisational ones. This will lead to misallocation of resources and effort which will ultimately lead to poorer performance. The outcome of this process is that many of the top level organisational targets have to be shared between senior managers. Some see this as a dilution of accountability but most of an organisation’s higher level goals can’t simply be allocated to an individual.

We take the view that targets which can only be achieved if managers work together are far better than individual targets that cause dysfunctional behaviour. Target-setting is part art and part science. It is a difficult process and the probabilities of getting something wrong are high. Today, however, organisations have the capabilities required to improve their target-setting process. By taking a more structured process approach, they can benefit from a well-designed system that links organisational and individual performance targets. Most organisational performance is delivered through team effort, so the targets should reflect this. If you only do one thing then communicate more. Explain to everyone what you are trying to achieve and why, and then discuss and debate how you are all going to deliver the goals. All the effort will be worth it - our recent research and that of others has shown that organisations that deliver direction and purpose to their employees perform better than those that don’t.

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