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November 15, 1981

How to Get Really Tough

Top managers, already under pressure because of high interest costs, sluggish markets and cash-flow anxieties, need new skills to get their companies through tough times now—and the even tougher times ahead. *Essentials:*

- An executive team that has the boldness and authority to make changes *quickly*.
- A core operation that is economically and competitively viable even if conditions get much worse.
- Employees who are motivated enough to execute top management's hard-times strategies.
- Financial resources that are available externally or internally to weather a downturn.

FLEXIBLE MANAGEMENT

Central to success in hard times: Executives skilled in *ad hoc* management. These *competitive* managers enjoy tough challenges and attract loyal, competent workers. *They also are:*

- Highly skilled negotiators in pressure situations with both suppliers and lenders.
- Good interviewers who can get to the bottom of any problem *fast*.

Ideal *ad hoc* managers are *hands-on types* who spend little time in their own offices, demand a high degree of *personal* authority and successfully motivate employees. *They take rapid hold of:* Budgeting, cost-cutting and cash flow.

THE CRISIS PLAN

With this kind of management at the helm, the company *is* strong and, equally important, gives the impres-

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sion to insiders and outsiders alike that it *can deal* with problems. *The agenda:*

- Make short-term improvements, typically by cutting costs.
- Lay the groundwork for sustained growth once the tough economic conditions improve.

The most effective plan:

- Is a tough one.
- Can be implemented quickly.
- Imposes a new way of operating on the company's *entire* organization.
- Delegates operational authority to key lieutenants.

Essential: The chief executive retains key decision-making authority.

What the plan must do: Shock all those affected into a realization that the company will operate on a new, leaner basis from now on. *One harsh but effective way to demonstrate this:* Fire a senior manager who, though weak, has always been considered untouchable.

Other immediate actions:

- Fire all temporary help. Redeploy existing staff to plug the gaps.
- Require approval by the chief executive officer before *any* indirect or support personnel is hired.
- Require chief executive approval of capital expenditures above a limit, which is *lower than the previous limit*.
- Unload redundant inventory at whatever price can be obtained.
- Cut back sharply on purchases of new office equipment.
- Curb expense accounts.

Essential follow-up to the shock: Motivate the survivors. Show them how *they* will benefit from the changes. Devise incentives to give them a piece of the action as the company's fortunes improve.

SURVIVAL STRATEGIES

Combine short-, medium- and long-term strategies to strip the com-

pany down to its most competitive core, and then rebuild it.

Short-term measures:

- Divest the weakest product lines.
- Reduce the working-capital to sales ratio to improve margins.
- Look for opportunities to raise prices. Avoid cutting prices to increase sales volume.

Medium-term measures:

- Take a fresh look at *everything* the company is doing—from cash management to cost accounting, from design to distribution, from purchasing to production. *Aim:* Cut waste, improve efficiency.

• Make basic changes to measure management performance more carefully. The best system results in top rewards for tough, competitive managers.

• Establish controls (both financial and nonfinancial) to serve as *early warnings* of potential problems.

• See the company as others see it. *Ask:* What is wrong with that company?

Long-term strategies:

- Redeploy assets from slow- to fast-growth areas.
- Invest to increase productivity throughout the company and to enlarge capacity for the growth businesses.
- Develop a marketing strategy that targets high-return segments and stabilizes expenses.
- Concentrate on developing a long-term human-resources plan.