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PROCESS OF RENEWAL IN A COMPANY IN CRISIS. A CASE STUDY

Summary: The article describes the crisis that occurred in a specific organization which operates in Central Europe and employs several thousands of people there. As a consequence of the difficult economic situation, the process of Renewal had to be applied to change the operating strategy of the company and refresh the processes that directly influence its financial stance. Specific activities related to the acquisition strategy, the implementation of new business lines and building strong leadership for the company as well as ensuring financial stability after the crisis are depicted in this article. Eventually, the implementation of the described actions led to strengthening of the company's leading position in Poland and abroad.

Keywords: corporate renewal, case study, crisis.

1. Introduction

In the present global situation and in the dynamic environment, we more and more often need to look at the processes and the whole organisation from a new perspective. We frequently deliberate whether the current way of doing business can give to us some expected profits or perhaps we should improve something in order to achieve intended goals in a stated period of time.

Quite recently we have had to deal with a huge crisis in the world economy, which hit most companies and enforced changes in the way of doing business. Many owners and managers had to apply renewal more or less consciously – i.e. the process of refreshing or replacing the procedures, attributes, phenomena or qualities of the organizations that will bring a desired, beneficial effect in the longer time perspective [Agarwal and Helfat 2009, p. 282].

Yet, it is not always the environment that enforces this kind of changes as we often need to adopt such an approach when a product is getting old or when it needs to be supplemented with other qualities significant for the client in view of the greater complexity of the offer, etc. Management through innovation plays an important role in such a process and it is the innovation that can be perceived as the dominant of the achieved success. A new product can completely alter the condition of the company as it happened in the case of Apple, Google or IBM, which decided to test

the strategy of implementing little, frequent samples of projects, on which the whole organization could then learn [Agarwal and Helfat 2009, p. 288].

The analysis preceding the implementation of renewal can begin with describing the strengths and weaknesses of the organization for the day, where it is advisory to consider what to start the process of changes. It is also worth considering whether the energy put in the process will bring the expected improvement in the field of efficiency and generated profits, or maybe it is sufficient to abandon changes and accept the periodicity of prosperity.

On looking at different cases we should decide whether we are willing to adopt the methodology of renewal in a revolutionary, radical and unhesitating way or we prefer an evolutionary approach, i.e. approaching changes gradually, without causing possible negative results. As with everything in the field of management – it depends. [Mezias and Glynn 1993]. The size of changes is an interesting variable here as it can change the whole strategy of a company or just improve one of the processes, which can lead to savings on a large scale.

The objective of this article is to present the advantages of applying renewal strategy in a particular company. We want to answer the question whether the described series of activities positively influenced the condition of the company and significantly improved its position on the market as well as its economic indicators. Can it be said that through small steps in different areas of its activity the company altered its strategy? Can the crisis cause the need for changes, which will create even bigger stimulus for development of the organisation in the future?

The research method used in this study was based on the example of a real company, which underwent renewal processes in various areas of its business activity. As the described phenomenon is entirely new in business environment, the empirical analysis was employed here.

The subject definitely needs further continuous research and analyses based on specific cases applied in particular organizations. Therefore, the described cognitive approach seems to be the best and the only method to be used.

2. The characteristics of the crisis and the company

In the following section, I would like to present a company that had been operating for circa 10 years and had been a leader in the personnel outsourcing industry in Poland when it suddenly got surprised by an abrupt, unexpected crisis situation that came from the environment. The company had to react to changes very quickly and eventually also change itself quite rapidly. The emphasis was put on improving processes on the one hand, and introducing a model of innovation and new business lines on the other. It was certain that all these operations were aimed at rescuing the company results in the first place and increasing its value for shareholders in the future – the time played a significant role here.

Work Service is a company that was established in the cellars of the dormitory of Wrocław University of Economy. It was started by two students of Human Resource

Management, who noticed a niche in the market in that time; namely, the need for making the work market in Poland more flexible.

The company started with a very low capital, i.e. € 1,000, which was needed to register it as a limited liability company. In the first stage of development, the company employed three people, who worked on getting into the market by offering a new product called temporary job.

The company's clients were in the first three years mostly hypermarkets, which needed workers from Work Service for certain days and hours. Full flexibility was the added value, which meant that the time, the number of workers and the range of activity were carefully adjusted to clients' individual needs. It allowed for using the resource of the work system that can be compared to "Just In Time" – I order as many people as I need on a given day and in given hours.

The company developed very dynamically and soon became a leader in the segment of huge surface shopping chains scattered around the country. Its advantage over the competitors was a perfect offer based on an innovative product together with quickly constructed network of small offices, allowing for complex service within the whole country.

In the next stage of development orders for workers came in large amounts from production plants. Those were recruitment processes and filling positions in car and spare parts manufacturers in automotive industry, producers of food, chemicals and pharmaceuticals as well as in logistics and support for sales departments. After first five years of the company's existence, it employed around 5,000 workers in almost every kind of industry.

At that time an idea of international development appeared in the company. The Czech Republic and Slovakia were first thought of in this context. The business model there was very similar to the Polish one and presumed development based on investment in so-called greenfield. First employees, whose job was to build a branch in the Czech Republic, were sent there in 2004. They changed the owners' attitude to the development and opened the door to the company's investment in other six European countries.

In years 2000-2005, the company again made quantum leaps based on the innovative model of Customer service – a call centre, performing both incoming calls as well as active sales via the telephone. Finding staff for dynamically developing telecommunication companies in a country with the population of 40 million people resulted in employing around 4,000 people in that industry. Until now it is the industry with the biggest potential as for the possibility of interaction with a prospective recipient of products and services.

The first 10 years of the company's development can be described in terms of a very dynamic growth in turnover, often exceeding 100% a year, a rise in the employment of workers in flexible employment systems to circa 15,000 and running operating activities in seven countries. The business strategy promoted territorial expansion, innovativeness and national and international acquisitions, four of which were made at that time, increasing the total turnover to 0.5 billion zloty.

The dynamic environment in which the company operated together with the management style of its owners implied continuous development and putting emphasis on investment. The market grew about 30% a year and the described company always grew faster. To maintain the rapid pace of development, it needed financial resources in the form of operating credits as well as financial tools, i.e. factoring.

The whole system working for such great development became soon verified by the unexpected change in the environment, the collapse of Lehman Brothers investment bank on 15th September 2008 and the advent of the most serious economic crisis in the history of the world economy. The first negative reaction was the decrease in potential new contracts, visible in all the companies irrespectively of the industry, sales volume or a country. Yet, the fastest pace of losing new orders could have been noticed in the UK, where business is fast and very vulnerable to changes of the environment. In the highly competitive economy the reactions to crisis were very abrupt. The following months demonstrated decline in turnover, even by 30% when comparing year by year. A similar situation was observed in the whole industry. The biggest declines were noted by automotive and construction industries, which co-operated as far as temporary workforce is concerned.

The analysis of the strategic renewal case in Work Service company presented in the following sections was made basing on author's own observations and active participation in the process. First the tasks carried out were described from the point of view of a member of the management board and then, after the changes had taken place, from a new point of view – that of vice president of the supervisory board. This is a case study of the organisation, which was hit by such a great crisis for the first time and had to cope with the situation in a deliberate way.

3. Symptoms of renewal in Work Service

3.1. Cash flow enhancement

It is definitely true that managing finances in a growing company differs a lot from handling it in a company that is going through a crisis. It refers not so much to basic monthly flows but rather to the capital investment strategy, i.e. acquisitions or developing new innovative products, which would start earning money in a year or two.

The decision taken by the board of executives to cut all unnecessary expenditures as for investment and planned acquisitions was quite natural. At that time only those who had money and were able to handle it safely could survive, especially that banks were unwilling to grant credits or guarantees. From that moment on, the company looked at the finances in a shorter perspective and all expenses were paid more thoughtfully. It was important to survive and have a positive cash flow, postponing costly acquisitions until the crisis is over. The price of money in the bank market rose while its availability decreased.

Offering better trade conditions to customers in exchange for faster payments – cash flow was a good move. Eventually the idea turned out to be very successful and profitable both to the customers and the company. In addition, new recovery positions were established. They helped to get back money, which, as it has already been mentioned, was so important at that time for survival and further development of the company. All these actions improved the cash flow in the company and it was monitored every day through the extra implemented money tracking system.

Managing the money in a way that did not stop the process of customer service was also quite of a novelty. The management board decided to issue bonds – a reliable and safe source of raising capital. The strategy was more expensive but also more predictable way of financing, particularly in view of the uncertain situation of banks. It was also more long term, as it considered the economic situation would improve in 2-3 years. After this operation the company was safe and could concentrate on further accommodation to the consequences of the world crisis.

3.2. Change of investment strategy

Until the second half of 2008, the biggest return on investment could have been achieved on any stock exchange in Central Europe. Many companies offering, similarly to Work Service, B2B services, had earned money presenting valuations that often had little to do with their real value. Everything was based on stock market gambling and presenting prospects of huge profits for these companies in incredibly short periods of time.

The value of the company was based on acquisitions of subject companies after valuation e.g. P/E of 5 and the sales of the conglomerate of joint organizations after valuation P/E of 10 and more. Work Service built its investment strategy in this way, acquiring four companies and planning its issuance at the end of 2008. Unfortunately, the situation on the world markets changed radically and the company had to verify its plans.

A new attitude was to build the company results basing on core business, i.e. on what the company could do best and in the industry where it was in position no. 1. The acquisition plans were altered and the company concentrated on raising efficiency inside itself and on potential search for companies that offered niche products with high margin, without looking for scale effect or ambitions to enter the stock market.

In dramatic situations coming from the market everyone would like to have a company that steadily produces good profit, even in return for a slower pace of development or fainter possibility of holding a greater share of the market. Predictability becomes most valuable thing for investors and owners at such time and Work Service was becoming such a company – it was slowing down but let one feel more in control over itself.

Unprofitable business lines were discontinued. The company concentrated on gaining bigger return on old, tested products. Also, the foreign expansion was limited to the countries where Work Service had already functioned, yet in two of the countries, the company's operations were frozen.

3.3. New products in new markets strategy

A significant issue was cost-cutting and it had to be done as quickly as possible in order to limit negative consequences of losing such a big volume of income. One of the main actions taken was scaling down the level of employment and rebuilding the organisational structure. The latter was flattened, reducing the directorial level in some departments and strengthening the managerial level in those where the managers were responsible for maintaining production.

Planned rises were suspended and the staff was informed about the situation of the company to reduce their worries about uncertainty of employment. All superfluous positions outside directly productive areas were eliminated.

Equally important were other costs related to administration, consumer service and preparing the company to stock market debut. All of them had to be seriously reduced or eliminated in a short period of time.

A fundamental issue apart from cost-cutting at the time of crisis is looking for new projects that would bring high margins on the existing and on new products. In this area the unprofitable contracts were renegotiated and new business lines bringing substantial profits were promoted. It can be said that in this field, similarly as in the IBM model of renewal [Agarwal and Helfat 2009, p. 285], the emphasis was put on innovations and complex product offers. In our Work Service case study they were assigned to particular industries, such as insurance or telecommunication.

The company used urgently amended budgets for the years to come. The perspective was shortened, no big growths in turnover nor advances in profit were expected in the situation in which the most important was to survive the conjuncture in the new, unknown environment. To emphasize the importance of the issue, the management board first declared cost cuts and reductions in expenses, which were to be copied in the remaining units of the organisation.

Similarly to other firms using the business model based on innovation and following the innovation model depicted by BCG [Lindgardt et al. 2009]. Work Service concentrated on:

(a) Value Proposition:

- target Segment – change of the customer's portfolio;
- product of service offering – new products, newly started business lines;
- revenue model – emphasis on increasing incomes.

(b) Operating Model:

- value chain – values for the customer;
- cost model – drastic cost reduction;

- organization – adjusting the structure of employment and a correct communication of changes.

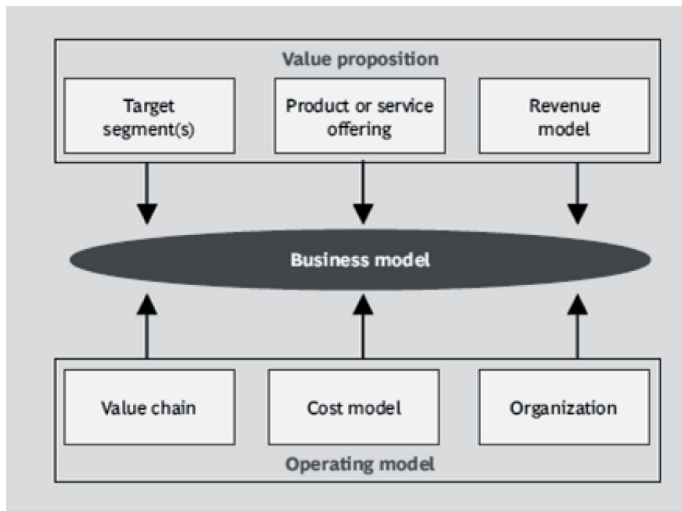


Fig. 1. Idea and key components of business model concept

Source: BCG research.

3.4. Strong leadership

Until 2009 the founders/owners of Work Service served in the company's management board. They were founding fathers of success, typical architects, dealing particularly well with start-ups, i.e. projects, which develop dynamically and thanks to the skills of their creators bring the company rapid acceleration. In the face of the looming crisis, a decision on modifications at high level management was taken. A newly appointed president of the board was largely responsible for restructuring and slimming down the company. In his previous job, he was responsible for similar operations aiming at curing the business, which had to change under strong turbulences from the environment.

The new president was granted full power and freedom of decision-making in every area of company activities. It resulted in employing a new member of the management board, responsible for finances and expense reduction programme. Simultaneously, new highly profitable projects were launched. Interestingly, the actions taken by the new management board were supported by the new strategy, devised earlier during the strategic session together with the owners of the company, which stressed the need for suitable, open and honest communication in the face of upcoming, unpopular decisions. Despite the current trend in the market at that time,

Work Service decided not to lower managerial salaries. The motivational system was changed so that it would consider the need for an immediate sales acceleration.

The whole process of changes lasted about 6 months and did not meet any opposition from the staff – primarily thanks to good communication and open organisational culture. A more difficult problem was the fear of more waves of redundancies or leaving the company. Preventing situations of these kinds demanded more time and building the feeling of team work over again. The owners did not withdraw from supporting the organisation. On the contrary, they were always in the background to support the management board in the process of changes from the positions of members of the supervisory board.

In the new situation only new managers could effectively save and improve the company. Their knowledge and experience could have been utilised without worrying that the experiment of changing the architects into restructurers may not succeed. An old managerial maxim saying that we should surround ourselves with and employ people specialised and experienced in particular, existing situations worked well here.

4. Conclusions

We definitely had to do with the renewal phenomena in the case of Work Service, in the field of some of its elements, described in the world literature. At the first stage, the company was protected against the lack of cash flow and a new model of money tracking system was introduced. The strategy towards investment and building company's value was altered. Beforehand the company was in the stage of huge and practically unrestricted growth. What became the most important was the maxim: survive and protect the frontons up to the moment the market reverses the trend – as it was described in [Simon 2009]. The organisational structure of the company was slimmed down and the level of employment was fitted to the current situation on the market. Modern indicators monitored daily the level of employment of company's own employees versus those employed outside by a client.

The company coped well with change management through the transfer of knowledge – professional managers well-experienced in change management. No action would be possible without a plan and it would not be possible to decide which areas needed to be changed and how deep these changes should be, was there no analysis. The organisation knew what it wanted and was ready for the new.

Basing on the described organisation, it can be confirmed that the renewal process resulted in improving business performance of the company within the next few months. It became lean as far as its complex structure is concerned and more willing to changes. The employment and cost levels were fitted to the level of obtained income and could at any moment be changed in a flexible way. The company understood that they cannot expect going back to the times when two-digit growth in turnover was almost guaranteed year by year. They concentrated more on

management in a shorter perspective, counting on improvement in performance in the longer term. Possible corrections of the direction of all phenomena were done up to date, adequately to current micro- and macroeconomic circumstances. The reactions had to be immediate as waiting with them could have led to e.g. the loss of financial liquidity or losses in the financial result. Actions of this kind come down to a theory: I think and plan in a long time perspective so I must act, immediately reacting to circumstances here and now. Many processes were monitored in the described company at the same time and only those were chosen that after altering according to the renewal principles, could best increase the added value. Without identifying priorities it could not be possible to get really good performance of the company in the years to come.

Changes of this kind in an organisation like Work Service practically never end. It cannot be said that such a dynamic company should stop focusing on its development and not make a new complex offer, which – being a market leader – it can even alter in time into a product category.

At first, crisis arouses anxiety and insecurity to become after a while a powerful stimulus for the introduction of what is the most desirable – the renewal.

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Streszczenie: Artykuł opisuje kryzys zaistniały w konkretnej organizacji zatrudniającej kilka tysięcy pracowników i operującej w krajach Europy Centralnej. Następstwem tej sytuacji jest zastosowanie modelu Renewal do zmiany strategii działania i do odnowy procesów mających bezpośredni wpływ na poprawienie wyników finansowych opisywanej firmy. Przedstawione są konkretne działania w zakresie strategii akwizycji, wdrożenia nowych linii biznesowych oraz zmian idących w zaimplementowanie silnego przywództwa i zapewnienia przedsiębiorstwu stabilności finansowej. Ostatecznie wdrożenie opisywanych działań doprowadziło do umocnienia pozycji lidera w kraju i za granicą.