

OPINION PAPER (February 2009)

How SME's can take advantage of the current recession and credit squeeze

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A paper written for SME's that *outlines* a **proven process** for change which embraces contemporary techniques and methods for improving performance and establishing a sustainable enterprise. The creation of organisational, resource and activity alignment, balance and flexibility forms the core of this process.

The paper is written for SME's of any size and any sector

The purpose of the paper is to promote specific change that enables your enterprise not only to survive but to also take advantage of the current market conditions and position itself for maximum gain when market conditions improve



## How SME's can take advantage of the current recession and credit squeeze

### Recession; A question of Survival or ..... an Opportunity?

#### INTRODUCTION; Context for Change:

It's tough here in business-land right now. Particularly, I think, for the leader of a SME. I hold that view because as a former SME CEO, I know what its like to fight to survive; even against the odds and then have to cope with major change and succeed,

Within a SME, the leader's normal day is focused on managing growth or survival with limited resources (eg cash, skills, capacity, etc.). However, throw in the current 'seeming' chaos and the 'apparent' gloom & doom of recession as well as the associated credit crunch and ..... Wow!! What have we got?!!

Well .... to be frank .... an opportunity! But ..... what, who, when, why, where, ... how?! .....

After all ... you're caught in the 'reality' of the here and now; understandably survival is forefront in your mind; coping with cash management is in your face ..... Its tough out there and there is no respite. It seems to be a fight on all fronts; bank manager, staff, clients, suppliers, everywhere .... even management conflict. Suddenly, thinking about tomorrow doesn't seem as important as getting through today. However, the decisions you make will have a profound effect on the future of your enterprise and your own career.

Change is therefore inevitable .. isn't it? And change should be for the better .. shouldn't it?!

But, how many really understand the nature of that change or the opportunity afforded to you by it? How many of you would be (seemingly) bold enough to grasp that opportunity? And, how many of you would be concerned if your competitors were bold enough to take advantage of the opportunity before you did?

The fact is that 80+% of businesses are financially dominated, budget driven and traditionally structured with a management approach to suit that inhibits necessary change. The fact is that such traditional business models, structures and methodologies are no longer good enough to compete in today's world; even before the banking and credit crisis. That's what makes it tougher for British businesses to compete on a sustainable basis; let alone survive the current crisis. That doesn't mean to say we are getting in totally wrong; we're just not getting it right enough!

WHY is that?

Well, consider the points below in context with your own enterprise and experience:

1. Financially dominated decision making (via management accounts) is trying to manage the future by the past. 'Complementing' this financial information by adding sales forecasts is simply providing a best guess assumption on revenue performance; with what confidence? ..... Thus ignoring the real drivers of value.
2. Managing performance using an annualised budget forces short term decision making which puts future performance at risk. Even when non-financial metrics are considered as part of enterprise performance, they are often subordinated to financials when it comes to major decisions.

3. Crisis creates fear which stimulates financially driven knee jerk responses without proper consideration to cause-effect outcomes or an appropriate balance of short term – long term impact to provide a proper perspective of risk or performance.
4. Traditional structures are poorly aligned to the drivers of real value in the enterprise and encourage 'silo' mentality. This results in both efficiency and effectiveness being impaired, thereby wasting cash, damaging your quality and fundamentally putting your market and enterprise at increasing risk from competitive attack. Can you afford such waste and risk?
5. Flexibility in your organisation to respond to change is vital for sustainability. Traditional management styles, techniques and structures inhibit this flexibility, with too many 'us and them', 'that's not my job', 'fear of failure', etc., attitudes.
6. The restrictive 'box' or 'straight-jacket' created by these factors also inhibits proactive change and impedes the delivery of win-win stakeholder value. But why shouldn't staff, customers, suppliers and enterprise all win; together? Particularly as that is the only way to establish a sustainable enterprise.

I could go on, particularly as the Internet is now having a profound impact on all business types, but the above is enough to provide perspective as to WHY our enterprises need to change. However, 'Pareto' tells me that at least 80% of you are saying ... "So What"? ..... 'You're taking me into areas of probable profound change when we are just trying to survive!' ..... 'I cannot be distracted from the task at hand; I'm just too busy' ..... 'Besides, cash is king, so why shouldn't financials dominate; particularly now?!'

### WHY CHANGE:

I can to some extent relate to that viewpoint. This was how the business that I took over as CEO was managed; we were in 'intensive care' with our bank and I had to cope with massive challenge and change and that within a 'fear of failure' staff culture which was also dominated by VC 'demands' to manage by annualised budget as this was the benchmark for executive management performance! Even after turnaround, I still had to battle with rapid growth with limited resources; but that's the nature of a SME, so we have to get on with it.

After a formative process relating to the significant challenge of having successfully changed that style and culture and the subsequent learning curve and polishing associated with modification and implementation at a variety of SME's, I can appreciate both the challenge of change as well as the opportunity from embracing it. *I can certainly recommend the benefit of full engagement when change is being enforced anyway.*

Therefore, with a traditionally focused management approach in place I suggest that to survive you must change anyway, because to survive an enterprise must be:

Innovative and creative  
 &  
 Efficient and effective  
 &  
 Flexible to change

If an enterprise is not properly managing all 3, consistently, then it will not survive and with c80% of enterprises still operating in traditional mode (independent research) then the opinion expressed above suggests that change for the majority has now become a business imperative; if they wish to survive This change has been evolving for quite some while now and many enterprises have risen to the challenge and are better positioned to cope with the current crisis because of embracing such change; whilst those that have not have been finding markets more difficult to maintain as global competition arrives at their doorstep.

The current economic turbulence we find ourselves operating in now only serves to accelerate this pace of change and certainly the banking 'fraternity' will no longer entertain support for any enterprise UNLESS these factors are being properly managed ..... and why should they? After all, it's your role to ensure that cash is used properly for maximising enterprise value and cash generation whereas poor alignment and balance which cause inefficiencies and ineffectiveness, impedes that goal.

Furthermore, to establish a sustainable enterprise you must manage shareholder value; ie enterprise value. This can only be achieved by maximising the value to all enterprise stakeholders; ie each group that has an affect on or is affected by the enterprise; eg staff, suppliers, customers, etc. But this gain/value is both financial and non-financial and the OUTCOME of what you DO and what you DO is 90+% non-financial.

Therefore, (even as 'cash is king') to survive and build sustainability, an enterprise MUST;

- o Have resources and actions properly ALIGNED to delivering stakeholder value  
AND
- o Ensure their performance management process properly considers analytics and metrics BALANCED for financial and non-financial factors  
AND
- o Make better informed decisions with cause-effect and risk in mind over an appropriately BALANCED short and long term timescale.

So let's go back to ... "an opportunity! .... But, what, who, when, why, where, ... how?!".....



## HOW TO CHANGE:

How (1) ... the change PROCESS.

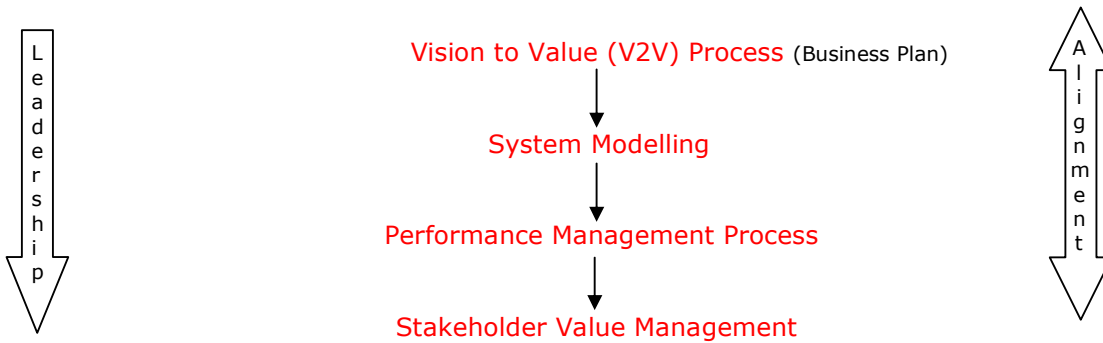
Process rules: a) Simple b) Common Sense c) Integrated

1. Think of your business as a system; which it is.
2. A system must be modelled (simply)
3. The model enables the definition of:
  - a. Structure & Organisational alignment (who & what)
  - b. Key Business Processes (how)
4. The system requires the following elements to function properly:
  - a. What it is you DO to create value
    - i. For your enterprise
    - ii. For your stakeholders
  - b. What stimulus your system needs to operate
  - c. What output you require from the system
5. The system is also the means to an end and not the end in itself.
6. System performance must be managed for maximum efficiency and effectiveness and within the bounds of acceptable risk
7. As the 'vehicle' that transports the enterprise to its destination, the system requires a route map of the journey from where it is starting to where it is going
8. The system must have the flexibility to adapt to change along the way

Creating a 'process' for change itself creates alignment of all activities for improved implementation; instead of the usual approach which utilises change initiatives as bolt-on activities. Such a process (NOT procedural) driven approach, when applied in parallel with good leadership, simplifies the communication of the context for change as well as the management of that change, thus achieving necessary buy-in, consensus and ownership at each level. Once this process is in place, it becomes a natural 'way of doing' to ensure on-going flexibility and keeping the change process 'live'.

How (2) ... the Management Process.

Process rules: a) Alignment b) Balance c) Risk Appetite d) Leadership e) Flexible



The above diagram highlights the 4 major stages involved in the drive for sustainable shareholder (enterprise) value. Each stage can be considered as a sub-process thereby enabling true integration for simplified alignment and effective implementation. Breaking the change management process down in this way also simplifies the task; particularly as each sub-process itself is straight forward.

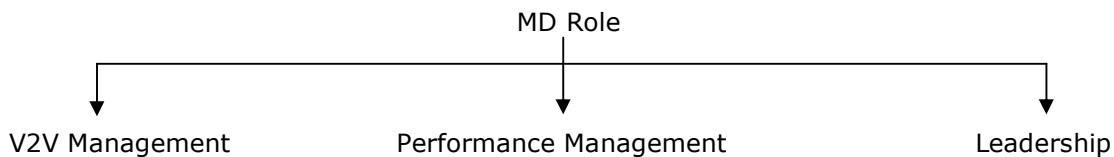
*NB: Each one of these stages is supported by ISΔS*

How (3) ... The Leaders Role.

Process rules: a) Alignment b) Balance c) Contextual d) Flexible e) Cultural

Profound change requires leadership at each key level throughout the enterprise to affect cultural shift. This leadership starts at the top. The leader's role can also be considered as a process to ensure perspective, balance and alignment:

*NB: I've written a separate paper on this topic.*



The leader's role is not easy and there is no question that it is getting harder. When things are going well its easy to fall into a false sense of security when focus on financials hide the cracks that become crevices when times get tough; particularly when transformation as has happened recently takes place so fast.

Seeing the role as a process once more brings the benefit of balance and alignment as well as context and focus. This approach, at the very least, enables the leader to develop a perspective for their role no matter the context, issue or activity they may be involved in; especially as the chameleon nature of the role can change by the minute let alone day!!

## THE BENEFITS OF CHANGE:

As well as improved competitive positioning and cash generation, the benefits of fully embracing with such an approach to change are numerous and tangible but can be summarised as follows:

- Provides all round balance from every contextual aspect
- Creates natural alignment and focuses limited resource for maximum benefit
- Enables organisational flexibility and responsiveness
- Facilitates consensus at every level
- Enables better informed decision making and change & risk management
- Creates a bottom-up quality & continuous improvement culture
- Disables blame culture and departmental silos
- Enables cross-functional and multi-disciplinary teamwork
- Simplifies leadership challenges and makes the leaders role more enjoyable
- Maximises efficiency and effectiveness to reward ingenuity
- Process driven to enable ongoing future management
- Flexible in term of the breadth, depth and phasing of the change programme as all elements are integrated and self aligning

Such change may be considered to be profound; but change is required anyway just to survive. However the process of change is simply a management process and can be phased depending upon circumstances and priorities. Although, for those bold enough to grasp the opportunity to fully embrace such change now, enables their enterprise to position itself for maximum benefit when the recession clears.

As always, its up to you ..... the opportunity is there ..... for the moment.

Pareto's law suggests that 80% of those that started to read this paper would have left probably half way through page 3; particularly those who are cynical of any 'new way'. For the remainder, even though you may be sceptical (which I consider can be healthy), I encourage you to challenge me to explain this in more detail; no matter which way you try to cut it, it really does make sense.

**I look forward to your call ..... whilst others are distracted in cost reduction and restructuring via traditional methods and BEFORE your competition grasps this opportunity.**

For more information on this process of change contact Brian Wadsworth using the details listed below. Please note that my website (link below) carries much more information on the above as well as my services, approach, background and client testimonials, etc.

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