

WHAT DUPONT DID RIGHT

BOOK EXCERPT

By Ram Charan

Photograph by
Ben Baker

A noted consultant offers advice on surviving the crisis. One example: how DuPont rallied its troops and confronted the downturn decisively



In *Leadership in the Era of Economic Uncertainty: The New Rules for Getting the Right Things Done in Difficult Times* (McGraw-Hill), renowned management consultant Ram Charan offers chief executives a detailed guide to surviving the worst financial and business crisis since the Great Depression. The key, Charan says, is “management intensity”—deep immersion in the operational details of the business and the outside world, combined with hands-on involvement and follow-through.

Plans and progress must be revisited almost daily. Big-picture, strategic-level thinking cannot be abandoned, but every leader now must be involved, visible, and in daily communication with employees, customers, and suppliers. In this world, CEOs need detailed, up-to-date, and unfiltered information. And they have to act decisively when trouble looms. “If you don’t prepare for the worst,” says Charan, “you will put both your company and career at risk.”

What follows is an excerpt from Charan’s book that describes how one of his major clients, chemical and life sciences giant DuPont, has responded to the crisis. CEO Charles O. Holliday Jr. reacted with maximum speed, rallied his entire company to confront the emergency, and put a sharp focus on maintaining cash flow, which Charan considers the lifeblood of any company in a severe downturn.

The first clear sign that the economic crisis was spreading globally came to DuPont CEO Chad Holliday in early October of last year, while he was visiting a major customer



Charan stresses the importance of cash flow in a downturn

in Japan. The CEO of the Japanese company, among the largest and most highly regarded in its global industry, told Holliday he was worried about his company's cash position. The Japanese boss had ordered his executives to conserve cash in case the financial contagion affected his ability to raise capital.

That conversation was a wake-up call. When Holliday's plane landed back in the U.S., he immediately summoned the six top leaders in his company to a meeting at 7 a.m. the next day. He asked them the following questions: How bad is it now? How bad could it get?

The answers that came back over the next few days were grim. The financial industry's problems were pervading many aspects of DuPont's business both at home and abroad. What had seemed to be a crisis of confidence on Wall Street had the potential to become a global crisis as panic swept Western Europe, Russia, and most of Asia. Credit was disappearing, leaving companies struggling to finance their operations.

Evidence of how serious the problems were becoming appeared in different places. Wilmington, Del., where DuPont has its headquarters, is usually a hotbed of legal activity: Many companies are chartered in the state, and corporate lawsuits are routinely filed in Delaware Court of Chancery in Wilmington. Yet bookings at the hotel DuPont owns in the city's downtown had plunged more than 30% in 10 days. Lawyers handling litigation for companies had canceled their reservations when their clients decided to settle their disputes and stop incurring legal fees.

SPRINGING INTO ACTION

More telling was the rate at which production at many companies was slowing. DuPont paint covers more than 30% of all American automobiles, and the company generally manufactures the paint less than 48 hours before it is sprayed on new cars. To maintain such a short lead time, the automobile companies share their production schedules with DuPont. Suddenly there weren't any production schedules. The automakers didn't know what they were going to produce in the face of collapsing sales.

Clearly it was time to take action.

DuPont has long stressed the paramount importance of contingency planning. Its Corporate Crisis Management plan, if invoked, instantly brings together senior managers to appraise the cause of the crisis and put appropriate disaster control procedures in place. The plan is seldom activated. It was used in the wake of the September 11 attacks and in the aftermath of major hurricanes. Holliday had to weigh whether the gathering financial storm was serious enough to warrant implementing the plan or whether declaring a crisis might frighten the company's 60,000 employees needlessly. As the evidence of a deepening economic downturn quickly mounted, he decided that activating Corporate Crisis Management was right.

Immediately, 17 standing teams met at DuPont headquarters. Over four days of meetings, it became clear

that the nature of the crisis was strictly financial, and eight teams—those that dealt with such issues as security and plant safety—stood down. At the end of the four days, the remaining nine had determined what needed to be done to ensure DuPont's viability. It was time to let the troops around the world know what was going on.

Holliday enlisted the company's chief economist and the head of its pension fund, both of whom are highly regarded in the organization, to explain in nontechnical language the roots of the crisis and the way it was affecting DuPont. The pension fund manager also took time to develop some instructional material advising employees about investment options for their \$18 billion in retirement funds.

Within 10 days of the crisis plan's creation, every employee in DuPont had a face-to-face meeting with a manager who explained what the company needed to accomplish. Employees were asked to identify three things they could do immediately to help conserve cash and reduce costs. Within a few days after the communications program was rolled out, the company conducted polling to see how well employees understood the nature of the crisis and to determine their psychological reaction. Were they scared, or were they energized and ready to confront the crisis? The company also wanted to see whether the rank and file were doing what they needed to be doing.

TOO CONFIDENT?

Overall, the employees seemed to get it. It helped that the news media were full of stories about the developing financial crisis. The actions aimed at conserving cash took hold quickly. Travel was curtailed sharply, internal meetings were canceled, and consultants and contractors were eliminated where possible.

Yet Holliday felt people still didn't grasp the urgency with which they needed to be acting. "In hindsight, maybe we were too good at giving them the reassurance and confidence that we could come through this," Holliday says. "We gave them so much confidence that they just weren't responding as fast as the slowdown demanded."

Together with his chief operating officer and chief financial officer, Holliday took the time to spend an hour and a half with each of the company's top 14 leaders. They were asked to explain what they were doing to cope

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CEO Holliday put emergency measures in place in less than six weeks

with the crisis. They all brought long lists, and it seemed they were doing a lot. But the problem was how fast it was getting done. "They were talking about things that would be implemented by January or February, but they were things we needed implemented in October," Holliday says. So Holliday and his senior team assigned the executive vice-presidents sharply revised targets for cost, working capital, and other metrics for the rest of 2008 as well as the first quarter of 2009.

Even as immediate measures were being taken, DuPont had three top executives looking at longer-term actions the company needed to embrace. It would take a while to figure out which production facilities could be closed permanently or shut temporarily to reduce costs. So the fastest way to save the most cash was to cut back as much as possible on the more than 20,000 outside contractors the company was using. In most cases a contractor could be released with one week's notice and without any severance costs. Where possible, employees whose operations were slowing or would be closed were shifted into what was formerly contract work.

DuPont's initial reaction to the spreading crisis took place in less than six weeks. There will be much more to do, depending on how the global economy fares over the next year or two. And when the slowdown ends, Holliday predicts that inflationary trends will reassert themselves. But DuPont will be ready for resurgent inflation—and any other emergency—if and when it happens.

The lesson CEOs should draw from Holliday's experience: You must recognize reality. This is the single most important task confronting a CEO, and it is extremely difficult to do in this environment. Facing wrenching uncertainty, many become fearful. Others indulge in wishful thinking: "We'll soon be back to normal." Don't believe it. Though we don't know what the new world will look like, we can be certain it won't look the way it did before. **|BW|**

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