8 Types of Corporate Crises:

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A crisis is a defining moment in any organization's life. It is more than whether it will prevail or falter.

Overcoming a crisis often embeds deep values in the psyche of the corporation.

During an existential crisis, a corporation will revert to its core national culture and its deep instinctive national behaviors and habits. A company facing financial disaster where, in its view, it was mistreated by the banks, may decide never again to be reliant on external funding—if it survives the experience. However, some organizations like P&G, Siemens, Shell, GE, and Exxon have prevailed over many decades, and continue to add value to society. By enhancing insight into their own cultural strengths and history, we believe more companies could prosper for longer.

Here are eight of the most typical sources of a corporate crisis to better understand the root cause and highlight the influence of the national culture.

POOR STRATEGY IN FACING COMPETITION

There is little doubt that the British have often been slow in coining new strategies, compared with archrivals in manufacturing such as Germany, Japan, and the United States. Their 19th-century successes, largely due to the industrial revolution, gave them manufacturing preeminence for the best part of the century. Such industrial (along with political) dominance inculcated the minds of the English elite with a sense of superiority over other people that lingered for decades after the empire had disappeared. Such complacency, persisting even post-1945, left the British unprepared for challenges such as the German Miracle, the rapid burgeoning of American postwar industry, and, most surprising of all, the runaway success of the Japanese. Insularity and love of tradition are continuing factors impeding British alacrity. Only in the sphere of financial services have British strategies led the field; for the most part they have a reputation for "muddling through."

The French, also conservative and traditional, are nevertheless more quick-witted than the British. They often make changes on impulse. They cannot be regarded as slow-coaches. However, their reluctance to learn English is poor strategy for pursuing business in China, Japan, the United States, and most of the world. In this regard, the British can certainly outperform them. The Italians, invariably adaptable, are quick to change strategies—especially pricing—when facing competition. They have been particularly adept in marketing cars and white goods. The Americans, change-oriented by nature, generally are skillful in adopting the right strategy to meet competition—their ubiquitous presence in the world's market means they often set benchmarks. The Chinese and Indians face competition with confidence in

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many areas of manufacturing. Their overarching strategy—rock-bottom wages in their factories—is normally triumphant.

POOR EXECUTION

The Germans, with their renowned efficiency and sound planning, outplay most rivals in terms of good execution. They excel in quality, timeliness, and exactitude. Koreans pride themselves on good execution, exemplified by industry leaders such as Samsung, Hyundai, LG, and Kia. The Koreans' incentive to maintain high standards emanates from their burning desire to "beat the Japanese." Switzerland and the four Nordic countries excel in execution. As far as the Americans are concerned, they have few problems with quality or timeliness but are slow to analyze differences in local cultures.

DISRUPTION

This is often caused by the rapid emergence of new technologies or new manufacturing processes that cause previous ones to suddenly become outdated or obsolete. Across most countries, management is slow to react to disruptions as it attempts to balance the cash flow in a profitable legacy business while investing in the new disruptive business, which often requires new skills and capabilities. The Americans are best placed to deal with such phenomena, though Kodak went bankrupt, despite acknowledging the digital technology years in advance of anyone else. Most, though not all, new technologies emerge in the United States. Computers and mobile or smartphones have evolved at a bewildering pace and certain U.S. firms have suffered acute crises as a result. Adaptable companies such as Sony and Nokia encountered serious disruption, though in general one would expect technologically strong countries such as Japan, Korea, China, India, Sweden, Finland, Germany, and the UK to cope. However, considerable financial losses can be incurred when popular technologies become obsolete.

SUCCESS

If we scrutinize the names of the companies currently in the top 100 Fortune firms, we shall see that just over a dozen survive from the comparative list compiled 100 years ago. Success can breed hubris, decline, bankruptcy, and disappearance. Hubris was one of the causes of Daimler's disastrous merger with Chrysler. American blind overconfidence resulted in Walmart's repeated failures in trying to "do it the American way" in both Europe and Asia. In general, the United States is the chief culprit in pushing American "success" methods in cultures that disdain them; Japanese, Canadians, and Australians are more modest in their approach to foreign markets. Koreans, eager to win but realistic in their expectations, strike the right balance. Korean chaebol (a form of business conglomerate) owners do not fall into

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the share price trap, so lethal in the U.S., where shareholders' demands can prejudice a profitable operation that needs significant investment to thrive long-term. Even though the chaebols are now run by professional managers rather than by the owners or their relatives, there is little pressure on them to provide profits that might endanger the fate of the enterprise. Finns, too, in spite of Nokia's setbacks, try hard to remedy problems caused by the firm's temporary (though uncharacteristic) hubris.

TIME

If you don't move forward in business—and in life—you risk moving backward. In the last 20 years, China has outplayed everyone in moving forward, though Korea has been a good second. Concentrating on technology, the United States, India, China, Korea, and small Finland are likely to be leading innovators and maintain momentum, while Brazil is finally "beginning to move." Japan, however, has stagnated for two decades, due to its postwar alacrity encumbered by fearsome bureaucracy and lethargic political parties. Mature conglomerates like Shell and Unilever are content to move forward at their own pace. Norway's giant Statoil has deliberately slowed its development in the interests of conservation and long-term solvency.

CHANGE OF LEADERSHIP

Change of leadership occurs more easily in some cultures than others. In meritocratic, change-oriented U.S., it is a natural event, although firms justly hang on to intelligent, charismatic leaders until they begin to fail. In Germany, change of leadership is not a huge problem, as successors are expected (and inclined) to follow strict procedures and established processes that created the successful enterprise in the first place. Changing a manager is more complicated in France. While mistakes by German leaders are not easily forgiven and American managers are summarily fired if they lose money, there is a high tolerance in France for management blunders. The humanistic leanings of French and other Latin-based cultures encourage the view that human error must be anticipated and allowed for.

Leadership change has been successful in Brazil and Korea inasmuch as in both countries there took place a fortunate transition from centralized management to one exercised by a staff of professional managers. In Brazil, rule was originally vested in rich families who were hand in glove with the army. In fact, for decades, business was run primarily by the military. Given the size and eventual growth of the country, the conduct of commerce just became too complex for a small number of key people to control and thousands of managers were educated and trained to run the economy. The same happened in Korea, where the families owning the chaebols had to found a large managerial class to achieve efficiency and growth.

NAVIGATING TRANSFORMATION

Navigating transformation and predicting its effects is the responsibility of the management and the board; such decisions need to be made in the context of the national economy. The most traumatic change is due to take place in China, where declining speed of growth dictates an urgent transition from a decades-long, export-led economy to a domestic-led one. Tens of millions of rural Chinese are moving to the big cities. By 2020, there will be numerous metropoles with more than 20 million inhabitants, individually larger than most European states. These cities, with their incalculable capacity for consumption, will transform the imperatives and goals of Chinese enterprises, both state and in the private sector. Resolving the thousands of crises that will arise during this transition will define the eventual commercial face of China for the rest of the century.

Russia, too, faces an inevitable transitional crisis of enormous proportions. Currently 80% of Russian GDP is resources-based (oil, gas, minerals). Commodities are presently abundant and highly priced. Russian state and private enterprises are acutely aware of the problem and are already active in international organizations such as G20 and the WTO, exploring long-term solutions and agreements with governments and conglomerates. India faces more transformation problems than any other country, given her widespread poverty levels and fragile infrastructure. Some cultures are more adept at handling chaos than others—India, Russia, and Italy are among them. The BRICS group (Brazil, Russia, India, China, and South Africa), if successful, can solve a lot of problems for each other. China not only can buy Brazilian crops but also already sends peasants to farm (neighboring) Russian land. India will need to find a meaningful role in this quartet. Land-and-resource-rich Canada and Australia could undergo favorable transformations. Asset-poor Japan faces demographic problems and may have to transform its immigration policy. American, British, and other Western companies with their numerous subsidiaries in Europe, Asia, Africa, and South America will need to predict and handle crises with sufficient agility as they arise. This will have to be done with respect to and in conformity with local cultural tradition and in sync with the current politico-economic climate of the countries they operate in.

National culture and corporate culture are simply one lens through which the board, the management, and the investors should analyze a company and its performance. It doesn't replace other perspectives but adds a complementary view to the currently more popular short-term results-focused business strategy and execution orientation promoted by analysts, management consultancies, and investment bankers. This rational perspective has become prevalent in particular in companies in Western countries and among their business advisors and bankers. In recent years the cultural perspective has been dismissed over other, easier-to-measure, factors but should not be overlooked. MW

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