Decision Making in a Business Crisis

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Abstract

Business Managers are frequently in situations that require them to make some qualitative second-guesses about the future. They need to assess the business environment and understand the impact of their decisions. The important thing is that business decisions are not based only on cold number calculations. Managers are faced with situations where they need to consider moral issues, customer interests, employee opinions, trans-national cultures, and investor interests while taking decisions. As if these are not enough, crisis situations arise in large organizations that test a manager's resilience and decision-making skills in the face of adversity. This case brings together all these perspectives.

Background

By 2005, CSL was a globally renowned IT Services company, one of the top 10 companies in India. It had offices in more than 60 countries and development centres in more than 12 countries, most of them in India. It had ridden the crest of the Y2K boom for Indian IT companies. Its largest Global Development Centre (GDC) outside India, was in Sydney, Australia. The GDC had 450+ employees of which 40% were local Australian citizens or Permanent Residents. The other 60% were programmers and Project Leaders who had come from CSL's development centres in India. CSL also had smaller development centres in Melbourne and Canberra that had a total of about 150 employees between them. Apart from this, there were another 150 people working at client locations in several cities in Australia.

Growth strategy and values

CSL was known to be very aggressive in the market and was a Billion dollar company in 2006-07. The company was started in late 1980s and it saw hardly any growth until 1993. With the opening of the economy and increase in IT outsourcing, CSL had recruited some of the best talent around the world. It had expanded rapidly in terms of geographic footprint, number of customers and service offerings. In line with the philosophy of its founders, the company valued Entrepreneurship highly and had encouraged functional level managers to set aggressive targets for their units and achieve them. They were free to pursue several growth strategies and the corporate top level management acted only as investors and expected better than industry average returns from divisional heads and functional heads. They hardly interfered in functional level growth strategies. They intervened only when functional or geographic overlaps led to conflict among divisional heads.

Structure

The company followed a matrix structure of organization. In fact, it was a three dimensional structure. The three groups were Industry verticals (Manufacturing, Telecom, Media and Entertainment, Retail, Banking, Securities and Financial companies, Transportation etc.), Horizontal Service Offerings (SAP, Data Warehousing or DWH, Infrastructure, Engineering Services, Custom Application Development and Maintenance, etc.) and Regional groups (US, Europe, APAC, EMEAI). The regional teams were responsible for customer acquisition, sales, invoicing and collections. The vertical groups were responsible for creating a 'solution' to the customer by stitching together all competencies required for the customer. For example, a Telecom customer in Singapore may need a Telecom billing solution that combines telecom domain competency, SAP and DWH. In such a case, while the APAC region is responsible for the sale, the Telecom domain is responsible for forming the right skill sets from Telecom, DWH and SAP and stitch a solution together for the customer. The horizontals were responsible for developing specific competencies (SAP for example). The philosophy of the structure was that every group brings specialisation in its own field and that the combined teams delivered value that was greater than the sum of its parts. The nature of duties and the structure of incentives made sure that all units collaborate closely as they all stood to gain by acquiring customers and delivering solutions.

Startel

Startel is a large integrated telecom services company in Australia. It was started in early 1900s and until around 2005, was a 100% Government-owned company. In recent times, with the opening up of the Telecom sector, it was facing stiff competition from companies like Optus and Vodafone that were providing better and cheaper value added services and faster customer services. Between 2005 and 2009, Startel underwent three rounds of privatisation, bringing down the government equity progressively down to 51%. In line with the aggressive reforms initiated by the new Board after privatization, Startel has been looking to cut costs by outsourcing its IT work. Given its huge IT budget of nearly a billion USD per year, it exerted considerable influence in the Australian market.

Startel, CSL and the Australian growth story

CSL started a small 300K AUD work in 2002. The good work done by CSL was rewarded by a bigger piece of work in 2003. This trend continued and in January 2004, Startel awarded a 5-year contract worth 300Million AUD split between competitors DES, BIM, CSL and Fonisis. It also had another 50 vendors providing smaller services. This was for IT maintenance services (Non-discretionary services). This usually involved running and repairing already developed applications like Payroll on SAP, Appraisal systems, and other internal systems of Startel by using a IT workers onsite at Melbourne and offshore at Bangalore. The services companies could make additional money by working on new IT Development projects (termed Discretionary services).

Backed by the good publicity and brand image created by Startel's business, CSL was able to acquire other marquee customers like Qantas, Optus, Commonwealth Bank, Australian Rail, etc. By April 2008, Startel had become CSL's largest customer and accounted for nearly 80Million USD per year or about 8% of CSL's revenue. Its main competitor was Fonisis who had similar revenue from Startel. However, it had larger customers than Startel globally who accounted for much larger revenues. CSL clocked a revenue of nearly 160M USD from Australia during the year. By 2009, CSL was managing some of the key critical systems of Startel including its Payroll and almost all of its Data Warehousing applications. So, Startel's dependency on CSL was high.

Some of the data warehousing work being executed was technologically very advanced and CSL was able to develop some distinctive competencies in DWH, thanks to its work at Startel. This had given it a market edge in DWH bids against Fonisis in several cases around the world.

The bid for more business

In September 2008, with the 5-year agreement nearing its completion, Startel decided to consolidate vendors and bring down the IT vendors to three. It floated a tender for 1.2Billion AUD worth of Non-discretionary work to be executed over 6 years. It invited only five companies to bid - BIM, DES, Fonisis, PHP and CSL. CSL formed a top notch team of about 20 people from its regional, vertical and horizontal teams to prepare the bid response. The team came up with some innovative business models and submitted the bid in November 2008. In a series of discussions with Startel in December, CSL came to understand that their bid is rated number 1. The decision team of Startel went away on vacation during the third week of December with the assurance to all vendors that a decision would be taken after everyone comes back on January 10th.

Confession by the Chairman

On January 8th, Mr. Naidu, the Chairman of CSL, in a widely televised event confessed to having cooked the accounts of CSL. The 800 Million USD shown under Reserves in the latest balance sheet simply did not exist. He confessed to having raised false invoices and forged FD receipts. The share price on NSE fell from around Rs 350 to Rs 12 in a matter of days.

Several customers of CSL pulled the plug and cancelled their contracts. Many US customers offered jobs to CSL employees working on their accounts and pressurised CSL's managers and teams to join them (or a competitor vendor) en masse. In several cases this did happen, though in most cases the delivery teams stood together and serviced the customer day and night to bring confidence back. Startel was one such case. Mr. Kumar, the Relationship Executive from CSL for Startel worked day and night with key members of the team in Bangalore and Sydney to bring confidence back to Startel through uninterrupted service of delivery.

Startel stand

In spite of a number of meetings by CSL's new executive team and Startel, Startel's senior management called CSL's executive team and informed them that given the events at CSL, it has been made ineligible to bid for the billion dollar deal. However, given the criticality of Startel's dependence on CSL's teams and their knowledge about Startel systems, it directed CSL to *rebadge* its employees to one of the other vendors depending on the area of specialisation. *Rebadging* essentially meant asking own employees to resign and join a competitor to help continue to service the same customer. Rebadging usually happens when a company outsources some of its existing services to a new vendor and transfers the employees from that function to the vendor.

Startel indicated that it would come and *speak* with CSL employees to persuade them to join competition. If CSL were to accept this proposal, Startel may consider continuing the current maintenance contract in some form and may, over time, even increase its business. This meant CSL requesting its own employees to join the competition, which many employees felt was not a bad idea, given the events and the future outlook. Rebadging was not new to Australian-origin employees, although the India-origin employees were shocked with the concept.

One Startel executive also mentioned indirectly that failure to agree to the proposal would mean losing all contract immediately including all business at Startel's subsidiary companies. This meant a substantial revenue loss to CSL, when it needed cash the most. CSL's team was also told that failure to accept rebadging would mean that CSL will not be considered for any bids for at least 5 years.

The Business and Moral Dilemma

Mr. Kumar, the Principal Relationship Manager from CSL handling the Startel account was in a dilemma. He saw the situation as a moral dilemma intertwined with a business dilemma.

Should he agree to Startel terms so that his customer contract remains in some form?. After all, customer contracts are assets and employees on *bench* (people who are not on billable projects and are therefore not bringing in revenue to the company) are liabilities. Continuing the contract means that after the mess is cleared up, there is a good chance of getting back into Startel and growing the business. It also meant getting financial incentives from the company for retaining the customer. Agreeing to Startel looked like a good business decision and it also meant personal gain. In addition, since CSL had now become ineligible to bid, it would lose most of the current business anyway and most employees working on the account would not earn revenue, as they will become non-billable. From a business perspective, these people would be liabilities. So, it made sense to let Startel rebadged CSL employees to join the competition.

On the other hand - Should he stick to a matter of principle of not letting employees go to competition? How could he allow Startel executives to come into CSL GDC and talk to them about joining the competition? What could be the effect on employees? Was it morally right to persuade employees to join a competitor in exchange for some potential future business benefit? The employees, after all, have worked day and night, especially in the last three months, to keep the CSL flag flying high. Would it now be right to ask them to switch loyalties? Should not the company be ready to keep these people on the rolls and pay their salaries even if they become non-billable? In fact, should they not be rewarded for stretching themselves during the crisis?

Kumar was also wondering whether there will be any effect on other customers in Australia or any other geography. Is it possible that customers in Australia will follow the same course as Startel?. Kumar was not responsible for these other customers. Their continuation or break with CSL would in no way affect Kumar's own standing or career in the company. But then, should he really consider. CSL's interests in the whole region or stick to his jurisdiction?

He had already spoken to senior people in the HR department who had opined that letting people be rebadged was already happening with US customers. Given company's financial situation, it was not a bad idea to let people join competition and cut down expenses, as cash was a major problem for CSL right now.

On the other hand, some horizontal competency heads (of SAP, DWH, ADM) were of the view that the company had built key competencies at Startel with great difficulty and especially at a juncture like this; they should not lose those competencies. They felt that these competencies and the people who possessed them were needed to rebuild the company. These competencies were the differentiators for CSL against rivals like Fonisis and BIM.

There was also the question of what would happen if Kumar refused Startel's offer and Startel then influences other customers negatively? Given its size and brand in the market, Startel was considered a giant and its decisions and policies were watched closely.

Kumar was wondering how he should go about making a decision. He had to inform Startel about the rebadging decision next day.

Points to ponder:

- What would be the considerations of Regional Sales head and Horizontal competency heads?
- What considerations would the Board have?
- What communication strategy with the customers and employees should CSL follow?
- What is your recommendation to Kumar?

Note: This case needs to be analysed in a classroom from the following view points:

1. How do you assess a business situation in times of a crisis as seen in the fall of CSL?
2. As a manager, how do you balance your career and financial interests with business assessment and moral objectives for the company?
3. How do you assess what is the appropriate decision by analyzing short-term and long-term impact of decisions taken today?
4. As a manager, what view-points would you consider on behalf of investors, customers and employees? How do you balance their objectives in arriving at a decision?

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