

Hanging on the telephone? Change the way you work



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ON MANAGEMENT

THUMP! THUMP! THUMP! went the music and WAH! WAH! WAH! went my baby daughter. A party a few doors down was getting out of hand. It was 1.15 in the morning and time to take action.

"Wimbledon police station?" I asked, after dialling the number in the phone book. "Well, we handle their calls," a man answered, slightly mysteriously. (Great: a call centre, just what I needed.) But no, sorry, they didn't deal with this sort of thing. Try the local authority and its environmental health department instead.

I did. I pressed "3" to opt for help, and was put through to a tired-sounding person on the night shift. "Let me take a few more details from you, and somebody will call you back," he said. "Can't you deal with this?" I whined. "That's not how it works."

He'd done it now. "This system," I declared, with all the pomposity I could

manage at 1.30 in the morning, "is designed not to work!" "It is designed to help!" came the indignant reply. We agreed to differ. I went back to bed. The party ended, eventually.

Few people are at their best in the wee small hours. But some management systems are dismal at any time of the day. They are set up to fail.

"So many of these systems simply manage activity, without ever trying to understand why people call," says John Seddon, managing director of Vanguard, a consultancy that specialises in so-called systems thinking. "That builds in cost and waste. You need to understand what the nature of the demand is first. Put expertise in the front line, where people can deal with the calls that come in."

Sounds simple. But smooth-running organisations of this kind are rare.

Instead, in what Mr Seddon calls "manager-facing systems", employees worry more about performance targets than the customers who are in front of them. There is a script, a fixed way of doing things, and bad luck if, as a customer, your own needs cannot be met.

Old-style manufacturing-age thinking is based on the idea of making more-or-less identical products again and again as

efficiently as possible. Goods are "pushed" towards customers, whether they want them or not.

Such thinking can easily infect service companies in both the public and private sectors. But the customers of service sector companies – and their demands – can be almost infinitely varied.

Systems thinkers see the world

Wasteful processes are eliminated as work 'flows' through the system. Customers are in charge

differently. They start with the customer and what he or she wants. They then design businesses and organisations around that customer demand, and build in flexibility so that well-trained staff are able to respond to the range of requests that come in. Wasteful processes are eliminated as work "flows" efficiently through the system. Customers are in charge, not managers.

In an article on systems thinking for a recent book*, Mr Seddon and my friend

Simon Caulkin explain how revolutionary this approach can be. "Systems thinking requires a profound shift in... the design and management of work," they write, "reversing current norms to go from 'push' to 'pull', and placing the development of workers, individually and collectively, at its heart."

If companies want to get better at what they do, then their people have to be able to learn. It is a pity that the London Borough of Merton's environmental health department was unable to handle my blunt feedback the other night. "Feedback is what allows systems to adapt to the environment and also what allows people to learn," Messrs Seddon and Caulkin say.

Working within a rigid framework that is designed to achieve imposed targets makes it almost impossible for employees to learn. These targets prevent people from reacting to the variety of challenges which confront them. Instead, employees game the system to hit their targets and, in the words of systems guru Russ Ackoff, "do the wrong thing righter".

Sometimes you just have to tear up the system you are working with and start again. Some organisations, like Aviva's UK life insurance business, have found that by bringing call centre jobs back home, and

redesigning the way they operate, they have been able to reduce costs, increase efficiency and offer a better service to customers.

Velux, the specialist window makers, has changed the way it deals with UK customers. In the past, callers were told they could only buy their windows from building merchants. Business was lost. Now the answer to those initial inquiries is: "Yes, tell us what you want and we'll sell it to you."

In response to the outbreak of swine flu, the UK government has hired 1,500 call centre staff to help run the National Pandemic Flu Service. The call centre workers, who are not medically trained, have a strict script to follow, to help anxious callers diagnose whether they have the virus and need any special drugs or treatment. The new employees are meant to help calm fears and take pressure off the rest of the health service.

Best of British luck to them.

* *Action Learning: Research and Practice* (Routledge)

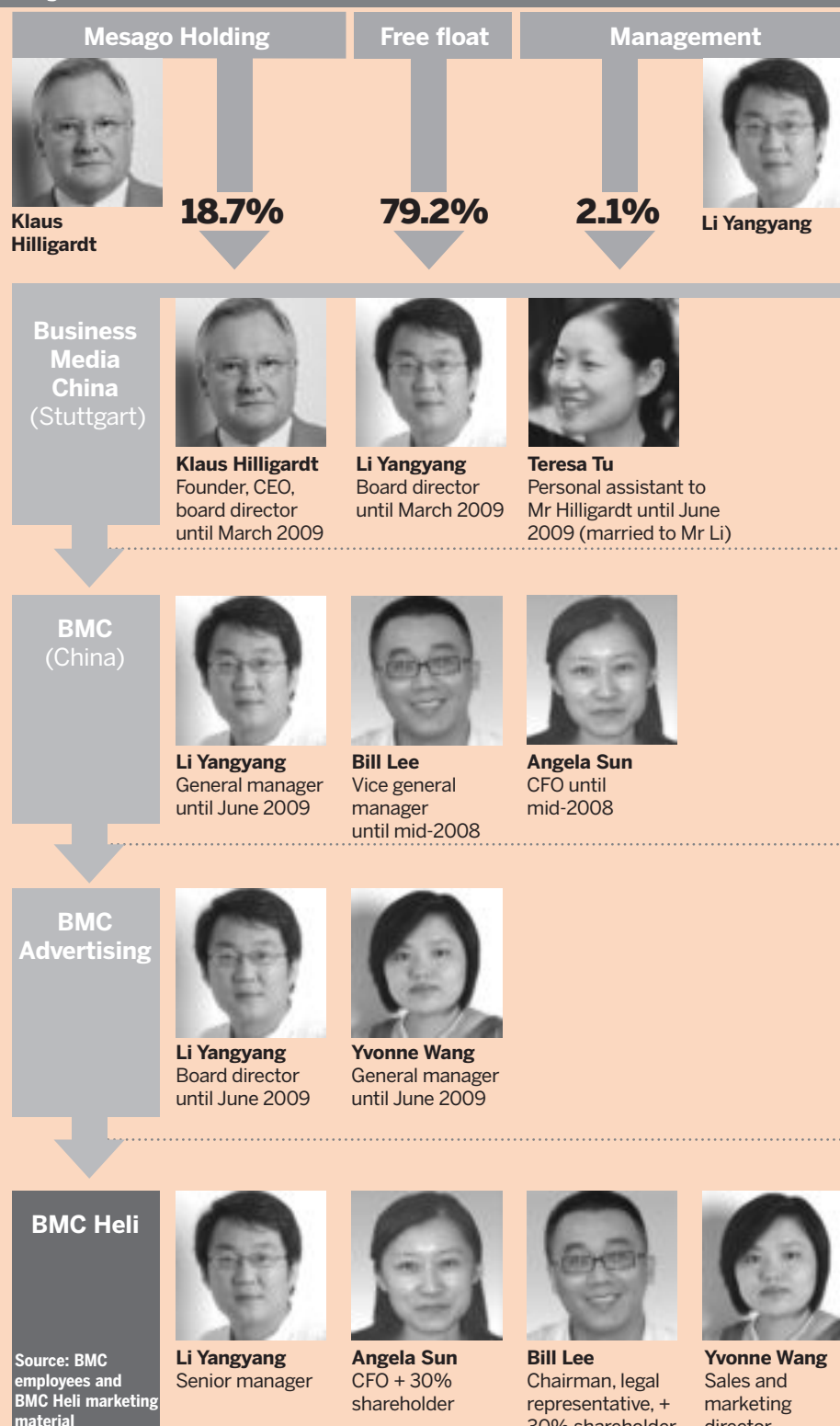
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A company within a company: the key executives in the story of Business Media China



The right location: a BMC advertising concession in Beijing Central railway station displays a BMC Heli advertisement



Raiding his own company's Beijing headquarters with the help of lawyers and a police escort was not what Heinz Zuercher had in mind when he agreed in March to take over as chief executive of Frankfurt-listed Business Media China.

But that is where he found himself in early June as he and another German manager broke into the finance department while a group of his employees barricaded themselves inside and hid under their desks.

The impromptu raid turned up a raft of evidence showing that a group of BMC's senior Chinese managers had – unbeknown to BMC's German managers – set up their own company within the advertising and exhibition business and, Mr Zuercher and the rest of the company's management claim, siphoned off its most lucrative advertising contracts.

"We'd been tipped off anonymously by one of our staff that some executives had set up this secret company and were taking all of our clients," explains Mr Zuercher, who is due to face shareholders tomorrow at BMC's annual meeting.

The case, which is under investigation by the Beijing police, involved at least seven senior executives and has brought to its knees a company that controls billboard advertising at dozens of China's largest railway stations and airports.

Corporate identity theft is not nearly as common as intellectual property infringement or outright bribery in China's robber-baron economy. But the brazen betrayal involved in this case provides a cautionary tale for any company hoping to do business in the country, where legal protections are rudimentary and local allegiances and networks take precedence over loyalty to foreign shareholders.

"There is an attitude among many in the Chinese business community that foreigners are rich and stupid and therefore fair game; that deceiving them is somehow acceptable in a way it wouldn't be if they were Chinese," says one intellectual property lawyer who has worked in China for nearly two decades, who asked not to be named to avoid repercussions for his business.

Business Media China was established in Germany and China in 2004 by Klaus Hilligardt, a 67-year-old engineer turned successful businessman from Stuttgart who sold his Germany-based advertising and exhibition company to Frank-

A cautionary tale from China

In a country where local allegiances and networks take precedence over the rule of law and loyalty to foreign shareholders, the experience of one company highlights the potential pitfalls of doing business in China. **Jamil Anderlini** reports

furt Exhibitions in the late 1990s, and then turned his attention to China.

This was meant to be his swansong, the final triumphant business foray before retirement. He felt he was well prepared for the "wild east": he had been to China repeatedly and had an affinity for Asia, having lived from 1967 to 1972 in Japan as a representative for Traub, the German machine tool maker.

Mr Hilligardt believed in putting local Chinese in charge of his business, not only because they spoke the language and understood the market but because they had connections and got things done.

"My management philosophy was one of mutual trust and harmony, a merging of European quality standards and discipline with Chinese drive and knowledge of the market," he says, sitting in his plush Beijing office surrounded by contemporary Chinese art. "I realise now that the key to everything in China is not harmony but control."

In daily business operations, Mr Hilligardt relied heavily on Li Yangyang, a young executive he recruited from the China Hairdressing and Beauty Association in 2003, at the tender age of 24, and groomed as his intended successor.

"I made him into who he is today; he was my partner from the start and he had my full

trust," Mr Hilligardt explains.

In his private life, Mr Hilligardt, who does not speak Chinese, was completely reliant on his secretary since 2001, Teresa Tu, whom he hired after she served as his assistant on an earlier trip hunting for business opportunities in China.

According to Mr Hilligardt, Ms Tu managed many of his business dealings, his personal finances, his shopping, accommodation and transport and also handled a number of his personal investments.

A romance sprang up between Ms Tu and Mr Li after he joined Mr Hilligardt's company, and in April 2006, they married.

Mr Hilligardt says now that he felt somewhat uneasy about the control over his life that the newlyweds enjoyed but he did nothing at the time because he trusted both implicitly.

With a war chest of nearly €40m (£35m) raised from a backdoor listing on the Frankfurt stock exchange, BMC expanded quickly in China, buying advertising concessions and the rights to run large exhibitions such as the China Beauty Expo in Shanghai. "Our exhibitions were always very profitable and in general you could say our business was very successful," Mr Hilligardt says.

But some of BMC's other employees were uncomfortable with Mr Hilligardt's hands-off

management style and the influence exerted in particular by Mr Li, who had recruited many of his former university classmates to work for the German company.

"Under Mr Hilligardt you could do anything in this company except challenge the positions of Teresa Tu and Li Yangyang," says one BMC employee who asked not to be named. "Li controlled everything and when he attended

meetings the only thing missing was a pinky ring and a cat in his arms."

Present and former employees of BMC describe numerous situations in which Mr Li and his former university classmates would flatter Mr Hilligardt, praising his Chinese language ability in spite of the fact he could barely say anything and telling him that no other foreigner understood the country like he did.

According to two employees, Ms Tu and Mr Li also introduced Mr Hilligardt to Lillian, a former model in her early 40s who they say became his mistress. Mr Hilligardt declined to comment.

By early 2008, the business was doing well, shareholders were happy and BMC's stock was trading above €20. The stock now trades at about €0.40.

"Everything looked super but soon after the Olympics everything broke down," says Mr Hilligardt. "We thought it was the [post-event letdown] but I now know that my top Chinese executives set up a shadow company and were taking our business for themselves. I blame myself for this mess



'Some executives set up this secret company and were taking all of our clients'

Heinz Zuercher, BMC chief executive

shadow business in August 2008, called BMC Heli. This company even used a logo that was almost identical to BMC's.

Mr Li and the other six executives did not respond to repeated requests for interview but Mr Li did claim that BMC Heli was an agent for BMC and that it helped the company to sell advertising.

Two of BMC's Chinese sales staff say they were informed in January by Chinese executives involved with the new company that the German parent had set up a new subsidiary and that all advertising contracts were now to be signed with BMC Heli. They also claim they were warned in mid-May not to mention any of the contracts to the foreigners and if the Germans asked, they were to say they had no clients.

A contract produced by BMC Heli when contacted by BMC lawyers appears to show that it paid BMC Rmb4m (£354,948) for the right to sell all the advertisements and keep all profits for locations that cost BMC more than Rmb30m in licence fees – a suicidal business proposition for BMC.

Mr Hilligardt and every other German manager at BMC deny any knowledge of this contract or of BMC Heli.

"It appears that at least since the start of this year, BMC was paying all the costs while this shadow company was earning all the money," Mr Zuercher says. "BMC was even paying that company's travel costs, printing costs and most of their salaries."

As details of the case emerged, Mr Hilligardt claims to have discovered evidence that Ms Tu, his trusted secretary, had used fake receipts to embezzle nearly €1m in the process of purchasing two imperial courtyard houses in Beijing on his behalf.

Ms Tu has been in police custody since June 12 on charges of embezzlement and her detention has been extended until at least mid-September while prosecutors build a case against her.

"These sorts of cases are what make people skittish about doing business in China," says James McGregor, author of *One Billion Customers*, a bestseller on how to do business in the country. "But what this shows you is you can't maintain a business by remote control in China and expect other people to run your company in your best interests."

For Mr Hilligardt, it a lesson he learned the hard way.