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THE INSURANCE INSTITUTE OF IRELAND

ANNUAL CONFERENCE – 11th AND 12th MAY 1995

**THE CHALLENGE OF CHANGE**  
**THE WATERFORD GLASS RESPONSE**

**SPEAKER**

**Dr E. Patrick Galvin**

Chairman and Chief Executive  
Waterford Glass

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ADDRESS BY

**Dr E. Patrick Galvin**

Chairman and Chief Executive  
WATERFORD CRYSTAL

**"Implementing Strategic Change  
for a Turnaround  
at  
Waterford Crystal"**

INSURANCE INSTITUTE OF IRELAND

Friday 12 May 1995

## **Introduction**

Over the past ten years or so, many companies have been forced into discussing the renewal of their business from a corporate stand point. For the older and mature companies, it is much more difficult.

Our ability, as a nation, to maintain and build wealth depends in large measure on the speed and effectiveness with which we change and adopt new technology that lifts productivity.

Like it or not, corporate managements must confront the need to transform themselves and their companies; the price of not confronting transformation can ultimately lead to extinction. And the economic blessings that stem from the steady march towards a knowledge workforce can become a personal curse for the worker who does not have the advanced skills to keep up. Just as global economies have been changed by global competition, so has the nature of work been changed by the rush for efficiency and the end of the corporate family, as we knew it.

It is change, then, that has concentrated the minds of corporate managers so much in the turmoil of the past decade. For industry, new technology has changed not only the production process but the design and developmental process too, not to speak of the way we bring our products to market.

It is clear that there is no sector of industry that can escape the impact of technology. The challenge, now and in the future, is for companies to understand and exploit scientific discovery and technology and to develop a strategy which can transform the organisation successfully.

## **Strategic Success**

Strategy is the key to success. Strategic management is about how to get an organisation from where it is now to where, after careful planning, it wants to be in a period of years from now. Says Denis Brosnan "to succeed you must have a world class team, discipline and dedication and prepare well".

Strategic success increasingly rests not just on management's skill in bridging the gap between strategy and business operations but also in getting organisations to perform at higher levels of speed, flexibility, quality and efficiency. But this requires effective leadership (at all levels) that is real, is radical and is challenging. Essentially, it is leadership in the top team which is the driving force that causes an organisation to stretch beyond its normal range of performance.

## **The Challenge of Transformation**

Business and Finance's recent analysis of top companies in Ireland, concluded that corporate Ireland has undergone a profound restructuring over the period from 1982 to date.

Sooner or later, I believe many companies face the challenge of transformation for survival or renewal. Those companies that move decisively and early succeed and improve their competitive advantage. Others hang on until its almost too late.

One of the new realities facing most of us is the exposure to foreign competition. Only those companies which can recognise this competitive threat and can devise a proper strategy for competing will survive. This comment was highly relevant to Waterford Crystal.

## **Five Points of Transformation**

From my experience, I can identify five key points which are likely to arise in successful transformations.

1. The transformation of an entire corporation is generally preceded by an event, usually a crisis, where corporate survival is at stake.  
  
Several examples spring to mind – Xerox, IBM, General Motors, Aer Lingus, Waterford Crystal.
2. Whilst the term "survival" meets the emotional need, people also need to be given a clear and worthwhile sense of purpose.
3. To lead an organisation in new directions very often requires new people to match new orientations. This was certainly the case at Waterford Crystal.
4. Everything must be challenged since change is occurring so rapidly and is so pervasive that every aspect of the business has to be carefully and objectively examined. Competitors must be benchmarked, best practices identified and new plans developed and challenged at every stage. The examination of "sacred cows" is also a must.

5. The successful transformation requires the integration of the essential elements of management, which would include strategy, structure, organisation and culture.

### **The Changing World of Work**

We could usefully spend a few minutes reflecting on what was happening in the outside world of work in recent years. At Waterford Crystal, we were not alone in our predicament.

We are all familiar with the latest vocabulary of buzz words especially re-engineering, restructuring, delayering, downsizing, etc.

Beyond the buzz words, is a radical redefinition of the way we work, perhaps more than at any other time since the advent of mass production.

The relationship between employer and employee is not what it used to be. The new psychological contract dismisses paternalism and embraces self-reliance. Unconditional lifetime employment is fast disappearing.

The corporate environment is one of near continuous downsizing and reorganisation, reminding us that anything can change. Employees must acquire new skills to keep up with new technologies.

The new world order of a global economy demands such change if enterprises hope to survive and prosper; rapidly evolving technology facilitates and drives the process. A “no change” employment relationship is not tenable today.

In companies that cut jobs without redesigning processes and structures and adopting new technology, the remaining employees will be simply on borrowed time.

### **The Key to Winning**

The key to winning is:

- the ability to see the need to change
- the ability and courage to effect change, and
- the determination to do it.

As one student of business put it “95 per cent of managers say the right thing; five per cent actually do it!”

### **Waterford's Story**

In many ways, Waterford Crystal is one of the marketing miracles of the post war period. Despite running into very stormy waters in the late 1980s and early 1990s which led to severe financial difficulties, it could be said, now, that Waterford is one of the turnaround miracles of the 1990s.

The period of 1987 to 1993 was the period of Waterford's greatest turmoil. A period when Waterford Crystal plummeted to the depths, nearly ceased to exist and finally emerged at the beginning of last year with hope and promise.

The strategy we adopted was twofold:

1. Develop a turnaround strategy simply to survive. This called for the launching of targeted initiatives that would deliver the performance breakthrough required to survive.
2. Develop a new strategy for growth.

Slashing costs, downsizing manning levels, going for tactical, revenue-enhancing plans etc. are not necessarily enough to provide a solid foundation for implementation of a successful growth strategy.

All of our efforts were geared initially towards getting the fundamentals right and driving for international competitiveness upon which we could build new growth.

For the past four or five years, I and my colleagues at Waterford Crystal have been obsessed with making massive changes to bring about the turnaround at Waterford Crystal.

We soon realised that the problems went beyond the purely financial and that the more difficult aspects of the turnaround would be the enormous social and organisational issues.

Clearly, in the environment in which we had to operate these would prove very difficult to achieve but, of course, they were vital to success.

## Waterford's Culture

At Waterford, as we faced into the change process, we had to be very conscious of the culture of the organisation. We could see clearly that the culture which existed back in 1989/90 was out of synch with a changed environment.

People use culture to reinforce their ideas and feelings. At Waterford Crystal, our shop-floor workers had come to acquire over the years many erroneous beliefs. We had to change all this and start the process of creating a new culture to take account of commercial realities.

We had to convince them that change was necessary to protect and secure the future. Communications played a vital role in this process.

Waterford Crystal had neglected the need to remain competitive. Its fortunes slipped, so that, by the time that a new management team was formed in 1989, the very survival of its Irish manufacturing operations were threatened.

To restore our lost competitiveness, it was necessary to formulate and implement a robust and demanding change programme.

Before doing so, we had to:

- establish a clear vision
- bond a leadership team and develop a strong management apparatus
- exercise imagination
- radically question the "business model"

As the change programme unfolded, we also had to:

- communicate relentlessly
- change attitudes and work practices
- dedicate ourselves to simplicity and focus.



## **1. Establish A Clear Vision**

The first step in any programme for change is to establish a clear vision. Visionary thinking is always difficult but particularly in long-established organisations. The temptation is to allow history and precedent to influence your vision.

For success, one must first decide what one wants and then set out to get it. Be bold, use the more radical thinkers to develop your vision.

In Waterford Crystal's case, expressing the vision was somewhat easier - the early stages of our vision were driven by the need to survive.

To be successful, creating a vision calls for three requirements:

- a purpose - ideally a noble purpose
- a sense of urgency
- clear boundaries.

For us, defining a noble purpose was ready-made, it was the very survival of our operations.

Secondly, a vision has to create a sense of urgency about an organisation's need to act. On this count, Waterford Crystal had little option, at the time, but to act with urgency or sink.

The third characteristic of visions is the drawing up of clear boundaries. For example, in our case, the vision called for lower cost of production but no lowering of product quality.

## **2. Bonding A Leadership Team**

At the top of every high-performing organisation, you will find a high performance leadership team. Such a team is not merely a collection of senior managers who function well together. The key is whether these people trust one another and single-mindedly share a common vision. True believers of a vision live it, push it and stake their careers on it.

By this criterion, not all organisations have a real high performance leadership team at the top.

The job, therefore, is to make a "real team" out of the group.

In time, we also managed to broaden the team to include down-the-line champions of change to help drive the change process throughout the organisation.

In a complex change process, there is a "critical mass" of people whose commitment is necessary to provide energy for a change to occur. Therefore, it is crucial to select people with energy and commitment, give them responsibility and use these "champions" to spearhead key initiatives.

### **3. Exercise Imagination**

A winning strategy is, above all, imaginative. The field of strategic planning was dominated for decades by quantitative analysis. Today, the big breakthroughs come more from imaginative leaps than from spotting trends.

Einstein said that his theory of relativity owed more to imagination than to scientific enquiry.

Imagination is at the heart of all compelling visions of the future.

This is not just fanciful stuff. We should not underestimate the power of a vision to mobilise support, to win the battle for hearts and minds, to carry us through the difficult stages which are the inevitable product of all change processes.

### **4. Radically Question the "Business Model"**

Having clearly identified the issues to be tackled, the next step was to formulate solutions, but there was a barrier to be overcome - the need for radical questioning of the "Business Model".

By this I mean the handed-down and, largely, unquestioned assumptions about all aspects of the business whether it be financial, operations, manufacturing, logistics, marketing, etc.

Radical questioning means the questioning of conventional wisdom and sacred cows. It takes courage to pose such questions.

So a climate has to be created where people feel free to think the unthinkable.

## **5. Communicate Relentlessly**

Implementing change in long-established organisations is primarily a battle for the hearts and minds of people. It is easy to change things but hard to change people. Communications is your most valuable and important management tool.

At Waterford Crystal, we carried out a massive communications exercise. We also ran a very strong communications campaign at sectional and departmental level.

Our experience is that the need for change has got to be reiterated throughout the change programme - getting agreement to the principle of change is only the beginning.

## **6. Changing Attitudes and Work Practices**

Clearly, one of the most important elements of any change programme is to achieve competitive attitudes and work practices. Organisations requiring major change need to introduce into the business a completely new set of values, different ideas and beliefs about what is needed in a more competitive commercial environment.

Ultimately you are trying to change not just attitudes, but behaviour. This can only be achieved by a hands-on approach by managers at each level in the organisation.

## **7. Simplicity and Focus**

The key things to keep in mind are:

- keep it simple - reduce complexity wherever possible
- give clear directions and support - it's not enough to put the boot in, you have to give people a clear idea of what is expected of them.
- insist on focus - there is always too much to do at a time of rapid change.

### **Achievements of the First Leg of the Strategy**

The key leg of our strategy was to achieve a quantum leap in our competitive position. Such a strategy required upheaval – ushering in a period of wrenching change that was designed to weed out the inefficiencies of outmoded work practices and production methods. The productivity requirements to meet heightened competition took an enormous toll on jobs.

The seven key areas I have outlined will give you an understanding of our focus for action; and I would like to tell you how effective they have proved in bringing us through a traumatic chapter in the history of Waterford Crystal.

Since 1989, we have taken some £35 million out of the cost base. We are now out of intensive care - if you like - and we are rebuilding our strength to produce acceptable profits commensurate with the prestige and image of a luxury goods company.

But we cannot stop there. In tandem with those cost reductions, we have implemented a far reaching R&D programme to ensure that our facilities will be the match for those of our competitors. We have also concentrated on advanced training and continuing education for the workforce.

We see that the introduction of new technology is imperative to achieving our goals. Our R&D programme is designed to take us to world-class glass technology. This year, we are investing £13m in our Waterford plants to bring us to world class manufacturing standard.

### **New Strategy for Growth**

I mentioned earlier that the second stage of our strategy was a new strategy for growth. While all the changes were taking place in our manufacturing operations, we were just as busy in developing our strategy to provide growth in our business.

It was clear to us that a major and radical change in our marketing strategy was called for, including fundamental repositioning of the brand. To respond to changing consumer taste, we urgently needed to address our product offerings in terms of price point, design and gross margin.

The most dramatic move in our brand repositioning strategy was the creation – for the first time in the company's history - of a sub-brand known as "Marquis by Waterford Crystal" which we developed to widen our product base and to strengthen market share. Marquis has proved a phenomenal success.

And we didn't neglect our "mother" brand – "classic" Waterford Crystal – either. We embarked on the most extensive new product introduction programme in the company's history, which gave us product offerings in a much wider span of the premium crystal market.

Strategic marketing to achieve growth will continue to be an all important part of our strategy.

### **Conclusion**

After a decade of buoyant growth in the 1980s, consumer marketing companies, since the early 1990s, have entered a period of margin pressure. In the past few years, there has been some malaise in branded goods. During the decade of the 1980s, consumer companies pushed up product prices systematically (and this included Waterford Crystal). This coincided with many households being forced by economic circumstances to reduce discretionary expenditure.

Consumer branded goods companies had become accustomed to increased real prices and had allowed a rising cost base to grow beneath the price umbrella.

To regain the initiative, branded goods companies must now refocus on delivering value, especially to the consumer.

Cutting fat is not enough; most fundamentally, they must reorganise their key processes, focusing on innovative marketing strategies and recreating superior consumer value. By failing to focus on strategic processes, many companies suffer the pain and disruption of re-engineering without creating competitive advantage.

The truth is that it is no longer adequate to build a business around excellence in a single key function. The performance levels now required – especially to achieve a growth strategy, demand that all parts of a business be involved.

Eventually, the battle will be won by those who can create the greatest competitive advantage coupled with superior marketing.

In the final analysis, what counts most is who can deliver better value to customers/consumers.

Two great currents are running through the global economy, the Information Revolution and the spread of market economies, especially following the fall of communism. These two forces have joined to create spectacular opportunities for all of us.

There really is a revolution going on throughout industry and business. We are currently living a transformation but this time it is global in scope, and it will continue for the next 20 \_ 30 years.

Today, the basic economic resource is "knowledge". In this environment, it is more important than ever that we prepare our people for knowledge work.

The productivity of non-manual workers is what matters now - improving it requires applying knowledge to knowledge. And this is the job of today's "management revolution". Managers must take responsibility for the application and performance of knowledge. Knowledge is now the most meaningful resource and this change will create its own social and economic dynamics. But we must remember that individuals are central in the knowledge society. Knowledge is carried by people; created or improved by people; applied by people; and taught by people.

The real difficulty for society today is that science and technology is evolving so rapidly that we have not yet devised the social machinery that will guide their rational controlled use. We are facing an uncertain future which will impinge, not only on levels of employment and the structure of industry, but also on the distribution of political and economic power and the nature of work itself.

It is clear that the world we will live in 10 years hence is rooted more than ever in decisions we make today. For many, life will be immeasurably better. But as skill-driven markets realign the globe, the gap between rich and poor will widen with likely serious consequences.

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On the eve of the 21st century, the signs of monumental change are all around us. Everyone seems aware that unfamiliar and unusually powerful forces are at work. Some would say that we are not only entering a new century ; we are, in reality, entering a new era.

As William Butler Yeats wrote of our 1916 Rising "a terrible beauty is born". For us, will it be "terrible" or will we rise to the challenge ?!

Thank you.