



## Leadercast: Patrick Kron, Chairman and CEO of Alstom

**In what has been called one of the more successful corporate turnarounds of all time, Patrick Kron, Chairman and CEO of Alstom reveals how he managed to deliver the previously-troubled company from a commercial crisis.**

Even in today's downturn, he still stands by his leadership style, which he says starts with a shared and proper analysis of the problem, building up a comprehensive plan to get out, and finally showing wins as you move ahead – because a little motivation goes a long way.

Here are edited excerpts of Kron's recent Leadercast interview with INSEAD Professor Narayan Pant.

**Narayan Pant:** *I'd like to start this conversation if I may, by talking about the corporate turnaround. When you looked at the magnitude of this task, how did you even begin to start making sense of this? It was a gigantic task.*

**Patrick Kron:** Well, the first is that I probably underestimated the problems and overestimated my capacity to solve them. Actually what happened is that we had a number of problems and the difficulty was not to solve each of them but to have to address them all together.

We were facing a commercial crisis because of a slowdown in the market. Our main market, power generation, went down by half between 2001 and 2003. When the problem arose we had technical issues. The turbines that we bought were not

working properly and were costing us three million euros per day. We had to restructure our manufacturing and engineering base for lack of competitiveness and productivity. We needed to refocus our portfolio (and) restructure the company financially.

**Pant:** *I imagine the way in which you approached this is with a team of people who were then assigned to different parts of the job. Tell me a little bit about that team.*

**Kron:** We were working internally. We didn't ask a specialist to give us the right cures and recipes. We said we'll put the guys in charge and find a way out. And we worked internally. I actually, before I took over had the opportunity for two months to go through the businesses, ask every business unit its budget and plan and therefore identify the issues. And we put all this in a pot, stirred it and tried to make it happen.

**Pant:** *Tell me how that works because this is the essence of bringing about change, converting people from a point of view. Reason or rationality alone can't do it.*

**Kron:** You know there is no magic tool and you need to make a fair and shared analysis of the problem.

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The diagnosis is a key element. If you are wrong and are not clear enough ... then the remedies won't work. So first, shared and proper analysis of the problem.

Secondly, build a comprehensive plan to get out and (outline) where we want to go and how we are going to go.

And the third one is to show wins as you move ahead. You cannot just have success on the horizon and just rocks on the road. You need to find the successes which are going to stimulate for the next ones and the next ones. So all this came luckily on stream.

**Pant:** *And do some early wins stand out which made you feel here, that we are going to turn the corner and people are going to come on board?*

**Kron:** Well, things actually happened more or less how we said it would happen. The problem was an issue on confidence. People lacked confidence: our customers, other stakeholders, the banks which give the guarantees that are needed for us to sell to customers, and more importantly our people.

So we had to rebuild confidence. Our customers started (coming back) first because they needed us. When they saw that we were putting in place a plan which made sense in their minds, they came back. Our people came back. Maybe because there was no choice, they came back. The banks took a little bit more time.

**Pant:** *This particular recession, crisis - whatever you want to call it - has been different in that for the first time, we're hearing calls that what the world is going through could, on the one hand, be just another recession but, on the other hand, possibly a restructuring of the way we do business. What in your view is going on at this point?*

**Kron:** The sad news is that the experts who are trying to (figure out) the current recession are the same ones who had not seen it coming. So now they are (trying) to explain why it happened and why it was obvious that it should have happened.

First, everyone was shocked by the speed and magnitude of the slowdown. Financial business stopped overnight and this has created a number of waves which are hitting the real world. I would say I thought candidly for a while that this will remain within the financial circles. Okay, there was the subprime issue spread across financial institutions and they'd swallow the losses and come back. This has not happened and it has been much broader than I personally thought and that has hit the real economy.

Now the key question is what's going to happen next and, as you know, the future is more difficult to predict than the past. Frankly speaking, the characteristic of the current situation is uncertainty. It's very difficult to say what's going to happen. And certainly, for large corporations such as ours, it's a key issue obviously.

There are three possibilities. You know the kind of limited slowdown and rebound that I call a V in the demand -- that is quite easy to swallow, it will not be that dramatic. For companies such as ours which have a large backlog, it would be quite usual.

Then, more likely, it's going to be a U, in other terms a recession which is going to last a little bit and which is going to have some depth. The question is how deep is the U going to be and how wide it's going to be.

And the third is the negative scenario I call the L, where you face a kind of Japanese-type slowdown as the one which happened in Japan after the real estate crisis and that could last a decade. We'll see.

**Pant:** *Are there any indicators that you're looking out for that suggest to you which one of these scenarios --*

**Kron:** This is the difficulty. We're lucky on at least three grounds.

The first is that we serve the infrastructure market which is a growing market in the long term. And what we said six months ago about the long-term positive trends of the market have not changed. There might be some vibrations, but the trend is positive.

So we are serving, I would say, good markets, long term and probably (these) may benefit from some stimulus packages in the short term.

The second element is we have a large backlog, 2.5 years of activity which gives us some visibility.

And the third is we have cash on hand and therefore we're not talking to banks on how to finance ourselves. And this is a good news in the current circumstances.

We need to be very careful about the signs coming from our customers. So, I would say, I don't know whether it will be a V, a U or an L(-shaped recovery) but we'll try to understand it by the way our customers react. So we're not in a kind of panic situation.

As I said, there is no reason to make a turnaround in our strategy. We have identified a number of strategic actions that are going to be implemented. But we'll do whatever everyone does in uncertain

times. We are going to be more careful. We are going to prioritise our spending. We are going to define what is absolutely necessary, rather than what is nice to have or maybe delayed. So we'll be more careful.

We'll work on our sales and administrative costs. We are going to prioritise our capital expenditure. Instead of building a plant for 100 for a capacity of X, we are going to build the first half of this unit for half capacity and the second one as the first one will be filled. We'll prioritise and be more careful. But we are not going to turn around and make a U-turn versus what was our credo a year ago.

**Pant:** *From your perspective, what could one or two good fall-outs from this current economic crisis that we're going through?*

**Kron:** Well, first if the States worldwide consider that it's a need to put at the right level the infrastructure, it will definitely be good to everybody, us as a contributor of infrastructure but all the citizens of the planet because it will upgrade the potential for economic development and living standards. That's a key element.

I hope that this will push though towards environmental protection issues. I don't think that one should choose between fighting against the crisis and fighting against climate change. You have to address both. But this can also be a change in scope, the risk being obviously that the drain on collective wealth by burning so many billions (of dollars) worldwide ... creates poverty. This is obviously something which needs to be fought.

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