

## Lectures on Defensive Management

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### Lecture #1: Theory of Defensive Management

#### Objective:

- . Introduce the concept of defensive management
- . Demonstrate the importance of defensive planning

#### Outcome:

- . Avoid problem at early stage.

*[Note: L makes mistake and C is usually right. All stories are being made up. Similarity is pure coincidence!]*

#### PART A

##### Theory of Defensive Management

###### 1. Introduction

The term “defensive management” is borrowed from the driving course that I took in the USA. The title of that course was “defensive driving”. Unfortunately, people who need to take this driving course are those who have a recent accident. The purpose of the course is to identify the common causes of car accidents, and the methods of prevention.

Similarly, in this course, you will learn the common mistakes that people (including experts too!) make. Since the price for the mistake can be expensive, we prefer not to make any. But then how?

###### 2. Murphy’s Law of the Universe

Murphy says, “When things may go wrong, it WILL!”

This is the earliest Law of Defensive Management that I came across while I was a high-school student. The meaning of this law can be illustrated by this example.

One day, L went shopping. She was so happy to find a pair of ear ring which she has been dreaming of, ever since she was a kid. So, naturally she bought it right away. On her way back, she took a bus. She was too happy that she kept looking at the ear ring. When she arrived home, she found out that her purse was gone. At this point, she does not know whether she left the purse in the shop, or in the bus. At this stage, Murphy says, “if the purse could be stolen or lost forever, it WILL!”

Another example happens all the time during a bridge game. How many times do you finesse, and you are caught. Every time you are caught, Murphy is right.

Thing like this happens all the time in the textiles and clothing industry. This is a popular experience. In 1988, the China quota for the whole year, had been used up around May/June. At that time, our shipment were stuck, because the US Custom Department did

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not allow any more in-coming shipment to clear. Our shipment was sitting in the dock until the door was opened. Unfortunately, the shipment was stored in the government dock, which has an exponential schedule, like the one in the parking lot of the Kai Tak airport. Eventually, the docking fee was more expensive than the shipment itself, We surrender the shipment. \$1,000,000.00 went down to drain!

### 3. Theory of Defensive Management

#### 3.1 Classification of mistakes

Things go wrong, here and there, and from time to time. Some of the causes are controllable, and of course some aren't. Therefore, it is of paramount importance to learn how to control those factors, which are controllable, and keep our fingers crossed for those out-of-control factors.

In order to study the potential mistakes, we need a way to classify them. According to Courtis [Ref. #1], there are generally five categories of mistakes.

- @1 Errors of omission (failure to act or communicate).
- @2 Errors of commission (doing things you ought not to have done).
- @3 Qualitative errors (doing the right thing inadequately or by the wrong method).
- @4 Errors of timing (doing the right thing too early or too late).
- @5 Credibility errors (doing the right thing, at the right time, but in such a way as to irritate everyone or discredit the action).

I would like to include the following additional categories of mistakes.

- @6 Errors in breaking relationship (fail to keep good relationship with people).
- @7 Errors in self abuse (fail to keep yourself under control).

#### 3.2 Case study

Learning from other's mistake is the most economical way to avoid mistake. Here are suggestions where you can get more case study:

- /1 Chit chat with friends, colleagues, business partners.
- /2 Watch more movies, read more story books.
- /3 Read newspaper, especially the forums.

Another way to learn the case study is through your own experience. But I can assure you: **THIS IS THE HARD AND EXPENSIVE WAY!** However, we all meet this challenge sooner or later.

#### 3.3 Prepare yourself

In part B, I'll show you some standard techniques in identifying the potential problem. You may find it a little abstract. As the course goes along, you'll learn more concrete examples, which you will meet in your future job. Therefore, it is definitely to your advantage to prepare yourself today, rather than crying for help.

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In the next section, I'll introduce the secret of success, based on my experience and others'.

### 4. Factor of Success

#### 4.1 Law of Success in the textiles and clothing industry. [My experience]

#1 Person who works most and make least mistake wins.

#2 Person who understands one's partners and competitors wins.

#3 Person who has self-discipline wins.

#4 Person who is hard working and self-improving wins.

#5 Person who keeps an eye on the world wins.

#6 Person who knows how to capitalise one's investment wins.

#### 4.2 Rules to turn loser into a winner. [Ref #2]

In order to turn yourself into a winner, you must observe the following rules:

%1 Teach yourself.

%2 Learn from others.

%3 Learn from experience (hard way).

%4 Learn from own mistake and not to repeat it.

%5 Correcting one's mistake

Step 1: admit the mistake to yourself;

Step 2: admit the mistake to others;

Step 3: find a solution;

Step 4: learn how to prevent.

%6 Make good judgement.

%7 Don't hope for the best, plan and execute to get the best!

%8 Set your goal, and search for opportunity!

%9 Prepare for the worst, and commit to your decision!

%10 Keep your body in shape, and your mind in peace!

#### 4.3 Delaney's business laws and guidelines [Ref #3].

~1 The closer that people live to the office, the later they arrive each morning.

~2 Those who arrive late also tend to leave early.

~3 There is a strange virus that seems to make people fall "ill" the day before or after a holiday.

~4 Show me any company's sick leave records and I will show you the paydays. Only people on the critical list are absent on payday.

~5 Most bad rumours come true. Most good ones don't.

[Murphy's law in disguise!]

~6 When you ask someone what time it is, and he or she does not know, he or she may give you a weather report.

~7 If we know what to do, we do it. If we don't know what to do, we talk about it. If we don't know how to talk about it, we write a report about it.

~8 No decision is the worst decision.

~9 A camel is a horse put together by a committee.

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- ~10 The length of the answer to any question is in inverse proportion to the validity of the answer.
- ~11 The boss is not always right, but the boss is always the boss.
- ~12 God is on the side with the heavy artillery.
- ~13 The worst thing about being dumb is you don't know you're dumb. The worst thing about being smart is you know you are smart. The former is difficult to work with and the latter impossible.
- ~14 One percent of something is better than 100% of nothing.  
[1 bird in hand is better than 2 birds in the tree!]
- ~15 Victory has a thousand fathers; defeat is an orphan.
- ~16 Ten percent of any group does 90 percent of the work.
- ~17 Ten percent of any group needs psychiatric attention.
- ~18 There is absolutely no free lunch. Somebody pays.
- ~19 You get help in proportion to the help you give, but not from the same people.
- ~20 It's not over until it's over, and then it's not over.
- ~21 Generally those who never make mistakes never make anything.
- ~22 If, at work, you have to choose between being liked or respected, choose respect.
- ~23 If you succeed, you will be called lucky. If you don't you will be called stupid.
- ~24 You are a success when you say you are, and not before.
- ~25 No one is indispensable, not even you.  
[There is always a substitute!]

### PART B

#### Techniques of Defensive Management

##### 1. Introduction

The secret of success in defensive management is to identify the potential and avoid it. Even if you cannot avoid it, you must be at least prepare for it. In this section, I'll show you some proven to be useful guidelines in identifying the problem. They are presented as a law. Keep in mind, in this course, you are expected to learn how to apply your knowledge to avoid problem. These laws are the best hints I can provide. The rest of the work is all yours.

Starting from week #2, we shall show you more concrete examples.

##### \*1 Law of Balance

###### \*1.1 What comes in must goes out!

Example: Job costing

Upon the completion of an order, the merchandisers are required to finalise the job costing. All the purchased raw materials must be used in one way or the other. The difference between the in-take and the out-go is the wastage. The wastage is a good indicator to prove the existence of theft, unauthorised production, etc.

[Defensive Act]  $In = Out + Wastage$

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Example: Purchasing trimming

The manager is looking at the job costing. He spots an unusual transaction. The price of trimming is 20% higher than last year. Since there is no abrupt or major changes in the environment, except the purchasing supervisor is new. He suspects that corruption may be the case. So, he looks at the detail purchase with each supplier. Finally, he identifies two candidates. He asks his friend to call and get a quote. By comparison, he is quite sure that it is in fact the case of corruption. So, he reports the case to ICAC.

[Defensive Act] Payment = Cost + profit

\*1.2 Flow in = Flow out.

Example: Cash flow

ABC company used to make HK\$4,000,000 last year. This year the profit drops to HK\$1,000,000. The top management wants to find out the reason. So, the first thing the investigators do is to look at the cash flow, and very quickly, they can identify suspicious transactions. Further investigation can then be focused.

[Defensive Act] Flow in = Flow out

\*1.3 Everything must be in the right proportion.

Example: Factory visit

ABC company is considering acquisition of a factory, XYZ. So, a visit is arranged. The manager of XYZ claims that the factory production of knitted polo T-shirt is 40,000 doz per month. So, ABC visually count the number of sewing machines. There are 40 serging machines and 20 lock stitch machines. The acquisition is called off. On the report, the investigator writes, "The production facility is out of proportion. The estimated of maximum production is 10000 doz."

[Defensive Act] x machine can produce a\*x product.

Example: Another factory visit

ABC company is considering acquisition of a factory, XYZ. So, a visit is arranged. The manager of XYZ claims that the factory production of knitted polo T-shirt is 40,000 doz per month. So, ABC studies the plant layout. The production area is 4000 sq ft. The storage area is only 100 sq ft. On the report, the investigator writes, "The production area is out of proportion. The estimated of maximum production is 10000 doz. That requires at least 500 sq ft of storage area."

[Defensive Act] a constant flow of material should be maintained in a factory.

\*2 Law of Absolute Certainty

\*2.1 Clarify the background of the new business partner

Example: Beginning of a new business joint venture

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XYZ factory approaches ABC company for a joint venture in China. XYZ factory claims that they have excellent connection, etc. Since the information is a little bit too exaggerated, ABC company hires DEF credit company to check on XYZ. The report is negative. So, the deal is called off.

[Defensive Act] We must check the background of our potential partner, before engaging into a joint venture.

\*2.2 Clarify the classification with Custom

Example: Tank top or blouse

This time, L is working in ABC company as a merchandiser. There is an order of ladies' cotton tank top, with a wide shoulder straps. Naturally, L purchased 338/9(1). When she wakes up the day the shipment arrives USA, she jumps up and down. This is the fax:

*Dear Ms L,  
The shipment, BL/0104, could not be cleared through the US Customs, because the officers said that the garment is a blouse, not tank top. Therefore, 338/9 should have been used. Now, the whole shipment is sitting in the Government dock. Please advice when can you obtain the required quota?  
Urgent  
Bic Wok*

When she calls the broker, the price of 338/9 is HK\$250 per doz, while the price of 338/9(1) is HK\$20 per doz in her original quotation.

\*3 Law of Crystal Ball

Information is the key of sound decision. So you should:

\*3.1 Keep an eye on the market

Example: Opening business at overseas

A successful local business man wishes to open up overseas venture. However, he thinks that marketing research is too expensive, so he goes with his instinct. At the end, he fails. [Of course some people succeed, but it is safer to check beforehand]

[Defensive Act] Before opening a business at overseas, we must conduct a marketing research, etc. to confirm the feasibility.

\*3.2 Keep an eye on the business partner

Example: A story of Chapter 11

In USA, ABC wholesaler has a major client called M. L and C are now the senior sales manager. Both of them know that M is not doing very well this year. There is rumours saying that M is going bankrupt soon. So, C calls IDD to the buyer every time

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before the shipment. L keeps her finger crossed, and just continue to ship. Finally, M files Chapter 11. Then C rushes all the shipment on hand, and sends the documents to M. [Catch: according to the law of the USA, all shipments received after the filing of Chapter 11 will be paid as soon as there are cash available. The queue may be long, but the payment is quite secured. However, for shipments received before the filing of Chapter 11, they are not qualified for the queue. Hence, the chance of collecting payment is slim!]

[Defensive Act] We must know the law and regulation well to make a correct decision.

\*4 Law of No Free Lunch  
Nothing is more true than this Law!

Example: A story of super discount

At the end of a season, many stocks must be liquidated to get cash back for the next season. This time, L opens a retail shop some where in Kowloon. C is only the humble store manager. A salesman comes in and wants to see the boss. He says that he has some stock leather jackets on hand. [Insider News: The market value is about \$250 per piece.] He is willing to sell at \$200 per piece, plus an 'extra' rebate [a technical term for bride money] of \$5 per piece. So, they go and take a look. Since the total quantity is about 1000 pieces in various styles, they don't have time to see them all. A sampling is made. The salesman is efficient, in a sense that the samples are ready right away. Of course, they are good. The only thing that C can spot is the water stain on the majority of the boxes. So, during a small discussion between L and C, C recommends not to buy. "The deal is too good to be true. The rebate and the water stains on the boxes bother me.", C says. L insists that it worth to take the chance, because the bargain is very attractive. Since L is the boss, the deal is made. Upon the receipt of delivery, they find that the shipment must have been drowned, because there are different kinds of oil stain on the jackets. The cost of dry clean is more than \$50 per piece. So, they end up cleaning the jackets themselves.

[Insider News: They are already very lucky, because there are stories in which the whole shipment is permanently defective. The purchase results in total loss!]

[Defensive Act] There is no free lunch!

\*5 Law of Mandate

In every transaction, there are elements, which are both indispensable and not controllable. They must be monitored closely to avoid problem. The best strategy is to be safe!

Example: China Visa  
[Refer to earlier example in Section 2 of Part A]

Example: Quota riding on a rocket  
In another bloody year, the business is low at the beginning. Rumours says that the

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buyers are waiting for the last minute to place order. So, L estimated the quota price for 347 to be HK\$100 per doz in her quotation. C does the same thing. Only a couple of orders are received. One day, everyone wakes up with the new processing of wrinkle-free pants. Suddenly, the heat is on, and the orders rush in. The quota price goes up rocket high to HK\$300 per doz. So, both of them jump up and down and scream and cry. L jumps because she does not have any quota on hand, so she needs to buy and loses HK\$200 per doz on her orders, in order to fulfill the contract. C jumps because he still have balance of unused quota on hand, which he can now sell and make a profit.

[Defensive Act]      We must secure the quota after the confirmation of order to avoid future risk.

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