

Leadership in times of turmoil



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“What keeps you awake at night?” It’s fairly easy to imagine that during the economic boom of the past few years, the response of many Asian business leaders would have involved a stare of disbelief and something along the lines of “Well nothing actually, our top and bottom lines beat expectations in another record breaking year!”

What a difference a year makes. The credit crunch, plunging financial and commodity markets, slowing or negative economic growth, failed or postponed deals, major frauds, failures of household names, rising unemployment, declining property prices and the resulting erosion of consumer confidence. “How long have you got... my Corporation faces a long and deeply distressing list of challenges, all of which keep me awake” might be the more common response to the same question if asked today. The rapid deterioration of the major global economies over the 2H08 and into 2009 is having a profound impact on all Asian corporations in one way or another.

In this atmosphere of uncertainty, the consensus is that economic conditions are not likely to get substantially better anytime soon. Asian corporations therefore face considerable challenges – and managing during these times of economic turbulence will be a new experience for many whose careers have been built in more benign times.

Corporations must consider the effects of the current economic conditions and what they mean for the survival of their business, but they cannot stop there: they also need to address several key questions – What do they need to do differently? What do they need to do better?

Often, the secret of survival will be to focus on getting the simple things right rather than embarking on wholesale radical change in every aspect of the operations. Many practical steps can be taken to position the business to emerge stronger once economic conditions improve.

In this context, PricewaterhouseCoopers has identified 10 key priorities for senior executives to consider in developing their action plans.

1. Strengthen oversight

It’s easy to jump to conclusions when under pressure to protect profits during a downturn. Many corporations will be tempted to freeze infrastructure investments, mothball new growth projects and defer integrating the latest acquisition. Advertising and recruiting investments are easily cut, as are loyalty programmes for customers and staff.

However, some will take a different approach and invest where others are cutting back. Cash-rich and far-sighted Asian corporations will take risks to benefit from the situation.

Businesses which understand the environment in which they operate can navigate a downturn in a way that makes the most of the opportunities arising; those who do not will be inclined to take the path of least resistance, leading to defensive and piecemeal actions. Most damaging of all, these businesses may incur the risk of losing out to their competitors.

This is where the senior executive teams must show their leadership qualities and add real value. Board members who may have the experience from previous downturns should help to stabilise the ship, boost confidence among staff and chart a course towards making competition irrelevant.

The leadership team needs to take a closer look at the business to fully understand how it is being impacted and challenged by the downturn:

- Is our current strategy still relevant?
- How healthy is the order book?
- Are there any funding concerns?
- Were any business fundamentals glossed over in a rush for growth that now need to be elevated to front of mind issues?
- Is our monitoring good enough in these new times?
- Do we have complex structures that currently limit our options?
- Should we be establishing an executive “turmoil team” and if so what are its terms of reference and who should be on it?

It is also important for senior executives to ensure clarity of their role going forward vis-a-vis the Board's. It is not unreasonable that Boards will want to increase their oversight of corporations and executives can expect both formal and informal interaction with Boards and their Committees to increase during this period. This change needs to be embraced rather than shunned.

- What does the Board, and perhaps Non-Executive Directors in particular, want now that they haven't needed before?
- How will the Board monitor the action plans that address the current times?

2. Act decisively, focus on key drivers of value

Strong corporations won't sit back and wait for the storm to pass. The winners will be those who take tough decisions and position themselves to take advantage of the upturn when it comes. Asian corporations that benefited from previous economic downturns were those that acted proactively and decisively, using the slump to steal a march on their competitors. Senior executives should be taking the time to consider their appetite for risk, its linkage to growth and potential returns and identify new concerns arising from the turmoil. This could possibly be achieved by establishing a temporary “turmoil committee” to oversee the various initiatives needed to steer through the impending storm.

Now is a very opportune time to introduce or review the organisation's risk management systems in support of improved governance processes.

3. Cash is king

Financial pressure during the downturn will force many to re-examine and minimise their investment in working capital – cash is king.

Those corporations emerging as sector leaders from past recessions typically had an average net debt-to-equity ratio of about half of their less successful competitors before the downturn. Successful businesses also held more cash on their balance sheet than their competitors.

Managing cash is an everyday concern, but in a downturn it becomes a heightened priority:

- reviewing the adequacy of financing arrangements
- monitoring performance against financial and non-financial covenants
- adopting a proactive hands-on approach to cash management
- developing aggressive working capital management strategies
- minimising discretionary and non-discretionary expenditures
- enhancing controls over purchasing and order processes.

4. Manage your sustainable cost base

Corporations need to thoughtfully reassess the relationship between cost and profits, to reduce the sustainable cost base whilst maximising profitability. In good times, inefficiencies are tolerated more and unnecessary complexities built into the way corporations conduct business remain unnoticed. However, the competitive landscape is changing so fundamentally that previous business models may no longer be appropriate.

In an economic downturn, the emphasis must be on:

- stemming value leakage
- simplifying and improving end-to-end business processes and business structures
- improving the overall cost control environment and creating a cost culture.

Finance functions need to produce meaningful analysis of cost spend by business unit, to enable self review by the business and to help identify maverick spending and waste.

The desire for cost optimisation and staying lean must be tempered by the threat of control slippage. If not well thought out, the rush to cut out processes or to retrench or re-deploy headcount, can unwittingly lead to serious quality, financial and reputational issues to name but a few. Well-designed control systems are a priority and should not be compromised. Such control systems will focus on preventing problems occurring in the first place, be supported by detection (monitoring) mechanisms and will reinforce senior executive accountabilities for maintaining effective control systems.

5. Focus on what really matters – prioritise

Customers are the number one priority in a downturn. Those supporting their customers through these difficult times will gain respect and benefit from mutual advantages. This is a good time to consider which customers or segments, products and channels are the most profitable. These will provide the critical volumes to drive the business through the economic turmoil.

Asian corporations need to rethink their investments and consider deferring projects until the economic landscape becomes clearer. More fundamentally, exit strategies for projects that are no longer relevant or critical should be considered. Senior executives, working with the Board, have a key role to play in establishing a culture of continually re-challenging and re-prioritising.

6. Reliable management information is key

As the affects of the economic slowdown start to be felt, Asian corporations will have an ever greater need for reliable and up-to-date information to support timely and informed decisions. Many executives are beginning to realise that their management information systems are woefully inadequate or not sufficiently well designed to manage key operational and cost levers.

Too often, the same reporting templates and key performance indicators (KPIs) are used regardless of changes in the external environment. To exacerbate matters, the information management relies on is often received late and out of date.

KPIs and critical reporting templates should be reconsidered and revised in light of changing circumstances. Increased emphasis should be placed on:

- managing a smaller number of more reliable parameters
- accelerating reporting processes and increasing frequency of reporting
- ensuring more regular exposure for the senior management and Board.

Times of crisis require extraordinary measures. Reports are now circulating that some executives are no longer waiting for outdated reports on the status of the cash balances from the cash book to materialise but are calling for daily or weekly updates on what the bank statement is currently showing. Similarly, some are making more use of (or reverting back to) spreadsheets to extract the relevant information needed to analyse their business.

7. Plan for different scenarios

Managing in a downturn requires flexibility and an ability to anticipate and react quickly to changing circumstances. This helps mitigate risks and better positions the business to seize new opportunities that may arise. To achieve this, management needs to invest time to assess operations and consider possible scenarios, challenging themselves with the what-if questions.

Nobody can fully predict what impact the current downturn may have on a sector or on a particular organisation. To survive, management needs to plan for the potential eventualities, and address the organisation's resilience to handle the worst case and extreme scenarios.

A key initiative is also to establish or re-examine Business Continuity Plans which are often outdated and offer illusory comfort. Too few organisations in Asia fully work through how they will react in a crisis in advance of the crisis itself.

8. Recognise the value of your people

In tough market conditions, motivating employees and maintaining productivity levels is a major challenge. Whether the struggle is to deliver business as usual, or to manage a restructure, a critical first step is to identify talent that must not be lost during or after the downturn.

Having mapped the talent across the business and identified the potential human capital risks, effective retention strategies are needed which can be immediately put into action. Waiting until the economic climate changes is not an option. Innovative thinking is also required – use talent differently rather than adding to the headcount; offer internal promotions earlier than planned; offer employees new challenges in a different part of the organisation. Most importantly, continue demonstrating to employees that they are valued, offer them development opportunities and discuss their future with the organisation.

Transparent and robust performance management processes, with clear links to reward, help to ensure employees feel recognised for their contributions and encourage the necessary behaviours to deliver targets. Reward structures applied during boom times may no longer be appropriate. Taking time to introduce

appropriate incentives will promote behaviours necessary for an organisation's survival and motivate commitment among employees.

However market changes are responded to, communicating the business strategy and the employees' role in enduring the turmoil can make a significant difference to the discretionary effort they will apply to help their organisation succeed. Regular communication with employees will reinforce their commitment to the business and increase the chances of retaining them now for when the upturn begins.

9. Take your stakeholders with you

Good stakeholder management is crucial to executing a winning strategy. It can enhance an organisation's reputation when performed during difficult times.

Shareholders and debt-holders need to be engaged in a positive dialogue about how the downturn is being handled, the opportunities presented, what is being done to address any underlying weaknesses and the strengths that set the organisation apart from its peers.

Staying on customers' agendas and rewarding loyalty is essential. Key account management programmes can be an effective way of identifying the most profitable customers and to ensure that adequate retention programs are instituted.

Open dialogue between employer and employees helps safeguard an organisation's assets. When money is tight, it can be difficult to reward good performance, but there must still be advantages for key and reliable employees. Honesty with employees will engender trust and make it easier for the organisation to attract talents.

Be inventive – consider alternative approaches to business and financing such as barter and debt equity swaps to get through the current period.

10. Take advantage of new opportunities

In line with the classical trade-off between risk and reward, the economic downturn does present opportunities. Asian corporations that are in good shape can ride the downturn with greater flexibility to invest and are able to strengthen their position at the expense of competitors.

Difficult economic conditions do not mean that all investment programmes should be halted and future growth sacrificed. Rather, a clear understanding of the investment landscape and risk levels should be obtained to help make appropriate and informed strategic decisions. There are many opportunities to benefit from lower asset prices and reduced competition during this downturn.

Structural change in an industry can be accelerated by a slowdown, as the most progressive players implement strategies that made sense all along, but may have been difficult to push through in the good times because the 'burning platform' wasn't there. A downturn can be the making of tomorrow's market leaders, as the changes implemented at this time will make businesses stronger in the long term.

Challenge as opportunity

In a downturn, numerous difficulties will present themselves to Asian corporations – all important, all urgent. A natural response may be to "batten down the hatches" and focus solely on today's problems. Prudent management is necessary but it is important to recognise the opportunities presented – to challenge old ways of doing things, to take advantage of weaker competitors, and to plan for the changed marketplace that will emerge.

Effective management will help ensure organisations are best placed to come through the bad times re-energised and fit for the future. Thriving in a downturn requires greater diligence and skill than during favourable economic times. However, the rewards can be greater as businesses that adapt quickly with the right strategies can not only grow, but position themselves strongly for the inevitable upturn that will happen.

Addressing any combination of the 10 priorities will enable organisations to do just that. It is now up to the corporate leaders to play an active role in operationalising them and to make it real. ■

10 priorities for C-Suites to add value

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2. Act decisively, focus on key drivers of value
3. Cash is king
4. Manage your sustainable cost base
5. Focus on what really matters – prioritise
6. Reliable management information is key
7. Plan for different scenarios
8. Recognise the value of your people
9. Take your stakeholders with you
10. Take advantage of new opportunities