

# How managers create and destroy value in times of crisis



*A School with a View*



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# Many things are matter of perception



**When the storm comes,  
some build walls,  
the others build windmills.**

# Current economic crisis was fairly easy to predict and direct causes can be clearly traced



- Introduction of non-transparent high-risk derivatives was not matched with appropriate internal risk management systems and procedures
- External risk and fraud control mechanisms were too loose
- Dogmatic liberalism believed in self-regulatory capacity of markets
- Managers (particularly in financial institutions) had huge bonuses based on the revenues rather than sustainable (risk-adjusted) profits
- Fast moving international careers and deviant compensation systems stimulated short-term thinking

# What is less obvious are background changes in social and economic setting



- Obsession with growth regardless of price to pay for it
- IT technology running out of steam as productivity increase driver
- Managers enjoy extremely low levels of trust in companies and society
- Shareholders gained excessive power over other stakeholders
- Unclear long-term policy towards global energy balance
- Globalization opening more questions than providing answers
- “Consumer mentality” pushed at all levels of society, with spending beyond current means becoming a norm

# Consequences for our region are creating more damage than in the West



- Central and Eastern Europe practically stopped growing and significantly deteriorated its risk rating
- National budgets became unsustainable, high levels of indebtedness difficult to service
- Governments have problems in acting as sources of liquidity, focus on banking sector, raise of protectionism
- Huge drop in orders for B2B industries, huge drop in sales of durable goods, some drop even in FMCG and services
- In countries with more consolidated retail, this is the source of next wave of liquidity problems
- Media portrait political and business leaders as incapable, but dependence on global economy limits space for action

# Practically all companies are impacted by the crisis



- No access to external financing
- Huge drop in equity value distorted all performance indicators
- Drop in revenues and liquidity problems fought mostly with production stoppages and labor cost reductions, but effects limited (possible wave of bankruptcies)
- Company climate at lowest level since 1998 (in some countries since 1993)
- Drop in product / service quality
- Practically no capital investments, huge drop in R&D / educational expenses

# Although crisis could have been predicted, most companies were “taken by surprise”



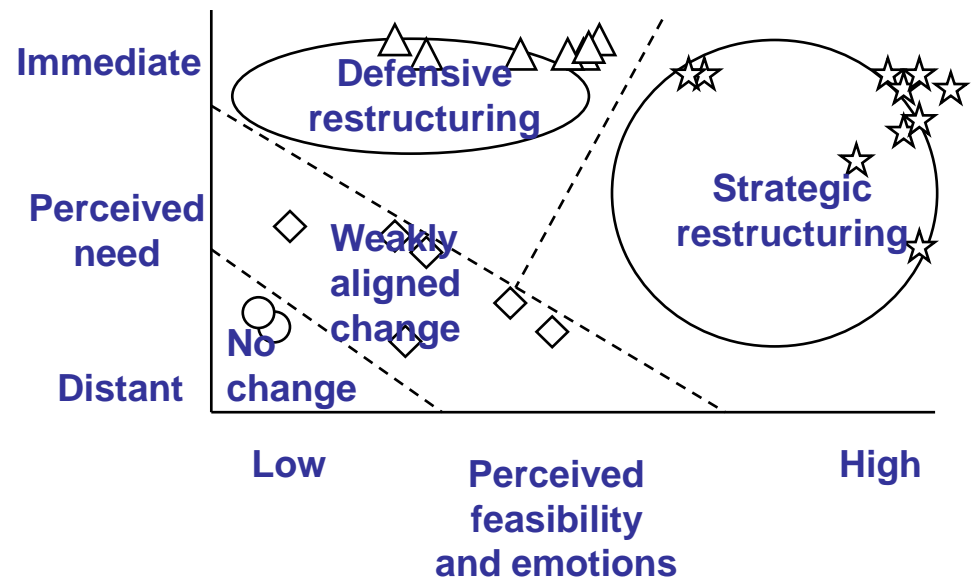
## Why?

- Lack of competence
- Conflict of interest
- Fear

## What to do?

### Corporate governance

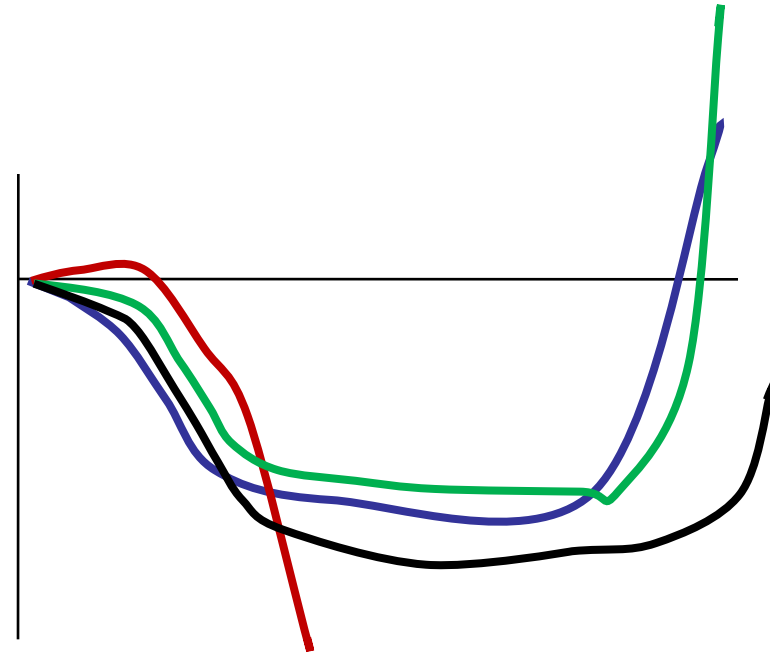
- Selection
- Supervision
- Stimulation
- Support



# “Surgery” is the typical first reaction to crisis: it is needed, but requires balance



- Centralize
- Stop the cash bleeding
- Get rid of non-core assets
- Focus on cost cutting
- Downsize
- Focus on core business efficiency ...



**...but be aware that 25% of revenue drop cannot easily be compensated by cost decrease**



# Even though surgery might be successful, it may well happen that the patient dies



- Short term thinking develops, need for operational efficiency eliminates other priorities
- Inward focus makes the company lose sight of customers and markets
- Some of the eliminated assets prove to be critical for long-term development
- Centralization stiffens the company, creates bottlenecks, lack of initiative taking and imagination
- Survivors' syndrome develops, along with cynicism, fear and lack of trust
- Company loses readiness and ability to learn

# Along with efforts to control the bleeding, focus must be turned to defending and growing the business



- Actively manage the top line
- Make sure to choose winning partnerships
- Defend the pricing (even if that requires extra reduction of volumes), give discounts in kind rather than money
- Signal to competitors that price wars are “lose-lose” game
- Reconsider the business model, look for opportunities to boost the service fast
- If reasonable, move office staff to sales, expand your sales portfolio, increase bundling and cross-selling
- Reduce risks for customers
- Selectively attack customers of weakened competitors
- If in B2B, consider going after renovations / spare parts market
- Share best sales practices across organization

Source: Simon-Hucher & Partners

# In times of crisis people turn to trustful, inspirational leaders



- Face reality, tell the truth and ask for truth
- Be ready for worst case scenario, understand what is needed to survive it
- Adopt positive mindset, turn crisis into opportunity, communicate “positive future” to all stakeholders
- Have time for your (best) people, involve them
- Actively support learning, out-of-box thinking and search for new value added
- Act as a role model (e.g. make sacrifice yourself before asking it from others)
- Use all opportunities / good practices to build trust