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Why Some Companies Are Making the Wrong Moves

by Shumeet Banerji, Neil McArthur, and Cesare Mainardi

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A new survey reveals a disconnect between what managers should be doing and what they are doing.

by Shumeet Banerji, Neil McArthur, and Cesare Mainardi

How well are top corporate executives handling the global economic crisis? Are managements and governments collaborating effectively to bring the turmoil to an end? What kinds of companies will emerge from the downturn stronger? What actions should companies be taking?

These questions have arisen for many businesses since the worldwide financial crisis erupted in the fall of 2008. But most of the debate has been led by policymakers, academics, and journalists. To understand the corporate perspective, Booz & Company in December 2008 surveyed 828 business leaders, both in developed markets such as the U.S. and Germany, and in emerging markets such as Brazil and India. Their replies offer insight into how businesspeople worldwide view the crisis and are responding to it.

It is a decidedly mixed picture. Many managers believe their companies are strong and well positioned competitively. But a remarkably high number of managers at hard-hit companies said they are not accelerating their efforts to preserve cash, which experience in former downturns suggests is the first thing they should be doing. Moreover, one-quarter of financially healthy companies surveyed are not taking advantage of opportunities the crisis affords them. And at many companies, there is a lack of confidence in leadership, with 40 percent of managers unsure whether their senior leadership has a credible plan and almost half unsure whether the leadership can carry out the plan, credible or not.

Optimism That Doesn't Compute

Despite the depth of the challenges and the odds they face, many of the managers responding to the December survey described their companies as being in an advantageous position vis-à-vis their competitors. Three-quarters, for instance, said their companies are financially strong and not in need of immediate external financial support; only 13 percent said their companies are not strong. Most respondents also ranked their companies as better than the competition in the areas of cost control, product positioning, technology capabilities, and management.

Contrary to most recent newspaper headlines, more than half of all respondents — CEOs and lower-level executives alike — believe that the crisis will ultimately have a positive impact on their companies' competitive positions. This sense of optimism was even higher among managers in emerging markets, which generally have seen almost nothing but growth in recent years. Fifty-nine percent of respondents in emerging markets said they expected their companies to emerge stronger from the crisis, versus 53 percent in North America and 52 percent in western Europe.

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Whether those positive self-assessments are realistic is another question altogether. The crisis will certainly create real opportunities for some companies, and it is not surprising that many respondents chose to see their own companies as potential beneficiaries. Given the severity of the downturn, however, some of this "glass half full" perspective will inevitably change as the impact is felt in more industries.

The survey shows that many business decision makers have not yet come to terms with the troubling reality of the global recession. Respondents were asked to assess both their financial and competitive strengths: Financial strength depended on their company's ability to carry on without immediate external financial support, and competitive strength was determined by whether they were better or worse than the competition on five dimensions (costs, product/brand positioning, technology/capabilities, leadership/management, and ability to influence/collaborate with regulatory authorities). The answers made it possible to identify four categories: Strong companies (characterized by both financial and competitive strength), Stable companies (strong financially but weak competitively), Struggling companies (weak financially but strong competitively), and Failing companies (weak in both areas). For each of the four clusters, there is a clear and obvious course of action.

Questionable Actions

Unfortunately, many companies are still not following the course that is best for them. The disconnect between what companies should be doing during the crisis and what they actually are doing came through clearly in the answers to a series of questions about cash preservation. One would expect both Struggling and Failing companies, given their lack of financial strength, to accelerate their efforts to generate near-term cash, either by disposing of assets or securing new funding. Yet only 33 percent of Struggling companies and 43 percent of Failing companies are picking up the pace of their asset disposals, and only 46 percent of Failing companies are trying harder to secure external funding.

Likewise, one would expect all Struggling and Failing companies to accelerate their efforts to improve working capital positions, slash overhead, drive process improvements, and renegotiate deals with suppliers. Surprisingly, many are not. Between one-quarter and one-third of these survey respondents said their companies are pursuing such long-term cash-generation initiatives no more aggressively than they were before the crisis — and in some cases are pursuing them less aggressively.

The same disconnect between appropriate and actual actions was evident in a series of questions about growth initiatives. One would expect Stable companies, given their relatively strong finances and weak competitive positions, to capitalize on the crisis by buying companies with the opposite characteristics (compelling products or brands but weak finances) or by pursuing other growth initiatives. Yet 21 percent of Stable companies are actually pulling back on M&A; the same percentage of Strong companies are doing so.

Doubts about Leaders' Credibility

The survey found that two out of every five respondents are skeptical of the plans being put forth by senior executives. Even those at the C-suite level — who presumably created the plans — have mixed feelings, with 34 percent expressing doubts. There is even more skepticism about the ability of management to carry out those plans. And the skepticism grows the farther down one goes in the management chain; among managers who don't report directly to the CEO, 51 percent expressed some level of doubt that their companies' leaders will be able to implement their crisis plans.

The wavering faith in senior leadership, not surprisingly, is highest within those categories in which the current actions are most at odds with perceived needs. For instance, among the Stable companies (a group that is moving forward too conservatively), only 43 percent of respondents said their senior leadership has defined credible plans, and only 36 percent said management has the ability to carry out those plans. Confidence is even lower at Failing companies — senior leadership's plans seem credible to only 36 percent of respondents. Confidence is higher at Strong companies, where 70 percent of managers said management has a credible plan and 66 percent said management has the ability to carry out that plan.

If the responses indicate an uncharacteristic amount of doubt and paralysis among managers, it may be explained by an overarching sense that this crisis is so big and fast-moving that there is no way of controlling the outcome. This concern comes through in the fact that 53 percent of all respondents said the structure of their industry will change dramatically as a result of the crisis, versus only 23 percent of respondents who don't anticipate major structural changes.

Next Steps for Managers

The gap between logical actions and actual actions, and between respondents' optimism and their faltering confidence in corporate leaders, are symptoms of one major problem from which companies are suffering. Their world view, at the moment, isn't entirely realistic. This suggests a three-step process that senior leaders should follow as they plan to restructure their companies during the downturn:

1. Get an accurate read on the environment and your position in it. Without an accurate self-diagnosis, the cycle of inappropriate actions will inevitably continue.

2. Choose the appropriate actions. There are many different ways to strengthen the balance sheet or to reduce costs, some for the short term and some for the long term. Similarly, many companies have options for pursuing growth, such as making acquisitions, developing new products, expanding into new markets, or building a stronger talent pool. The key is to identify a limited set of straightforward initiatives that have the potential to make a difference quickly. Needless to say, these actions must fit with capabilities that exist in-house or that are available externally.

3. Communicate and execute. This is vital to regaining the confidence of all stakeholders, from skeptical managers to risk-averse shareholders.

These three steps will work best at those companies that have avoided the misconceptions revealed in our survey, misconceptions that may keep some companies from positioning themselves to survive whatever is around the corner — or from making the most of the opportunities that the crisis will provide. In all of these efforts, there's no time to waste. +

Resources

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