

booz&co.

Recession Response
*Why Companies
Are Making
The Wrong Moves*



Contact Information

Amsterdam

Neil McArthur

Managing Director, Europe

+31-20-504-1922

neil.mcarthur@booz.com

Cleveland

Cesare Mainardi

Managing Director, North America

+1-216-696-1829

cesare.mainardi@booz.com

London

Shumeet Banerji

CEO

+44-20-7393-3502

shumeet.banerji@booz.com

Zurich

Carlos Ammann

Partner

+41-43-268-2144

carlos.ammann@booz.com

EXECUTIVE SUMMARY

The force and speed of the global downturn have sent most companies reeling, and many senior managers have not yet figured out exactly how to respond. That uncertainty was apparent in a December 2008 survey by Booz & Company of more than 800 global managers. Although more than half said they expect their companies to emerge from the crisis stronger, that optimism seems at odds with some of the survey's other findings. There is a significant lack of confidence in senior leadership's strategies, and in their ability to carry out those strategies—including doubts among C-suite executives themselves. In addition, a high percentage of companies appears not to be following the strategic agendas that make most sense given their situations. For instance, financially strong companies are not all revving up their M&A engines; financially weak companies are not all accelerating their efforts to preserve cash.

Why not? An analysis of the data suggests many companies are misreading the environment or their position in it—maybe both. Not that executives should be judged too harshly for this. The transformational nature of this crisis is evident in the fact that more than half of all senior managers think their industries will be permanently altered by it. And it's not just managers at financial-services companies who say this—those in energy, industrial goods and consumer businesses are of the same opinion.

Another casualty of the crisis, besides traditional industry structures, will be the corporate social responsibility agenda. At a time when many companies are fighting to stay alive, initiatives aimed at bettering the environment and local communities inevitably will be delayed, respondents said.

MANAGERS' VIEWS ON THE DOWNTURN

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? And what impact will the crisis have on companies' social responsibility agendas, including their willingness to invest in a cleaner environment?

These questions have arisen for many businesses since the worldwide financial crisis erupted last fall with the bankruptcy of Lehman Brothers in the overleveraged U.S. investment banking sector. But most of the debate has been led by policymakers, academics, and journalists. What do senior corporate leaders themselves

think about the economic crisis? And what do their answers reveal about their companies' ability to survive—and thrive in the long run?

To answer to these questions, Booz & Company in December 2008 surveyed 828 corporate managers, both in developed markets like the U.S. and Germany and emerging markets like Brazil and India (see “About the Survey” on page 13, for methodology and other information). The replies offer insight into how businesspeople worldwide view the crisis and are responding to it.

It is not a pretty picture. Many managers' usual confidence seems to have deserted them, with 40 percent not being sure their senior leadership has a credible plan and almost half not

being sure the leadership can carry out the plan, credible or not. A remarkably high number of 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.

There are several possible explanations for this inaction. The speed of the downturn may have left people in shock—unable, for the moment,

to take the most appropriate action. Some executives may be waiting for additional data—hoping that the downturn will turn out to be less severe than their gut instincts are telling them. Leaders at stronger companies may not want to be the first to make a bold move and run the chance of appearing to have acted hurriedly. But whatever the reason, the inescapable conclusion is that too many companies are not taking the steps they need to take. Those steps include making a realistic assessment of the business environment, identifying the company's position in those environ-

ments, deciding on a strategy, and then pursuing the strategy forcefully and effectively. Not to do this is to let value for all stakeholders slip away.

In fact, some companies, having accurately taken stock of their prospects and made the right strategic moves, may yet leap past slower competitors. This can happen only at companies that have recognized the changing structure of their industries and started to position themselves with the right capabilities—the knowledge, processes, tools, and systems—to succeed in those new structures.¹

One-quarter of financially healthy companies surveyed are not taking advantage of opportunities the crisis affords them.

INTERPRETING THE DATA: AN OPTIMISM THAT DOESN'T QUITE COMPUTE

Despite the depth of the challenges and difficult odds they face, many of the business leaders 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, over 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 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.

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 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

Over half of all respondents believe that the crisis will ultimately have a positive impact on their companies' competitive positions.

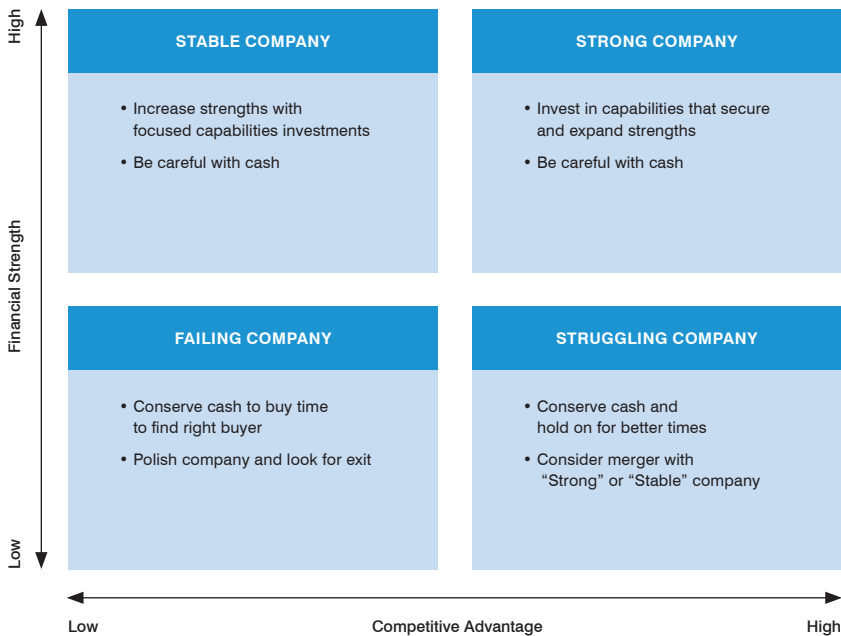
and competitive strengths: Financial strength depended on their company's ability to carry on without immediate external financial support and competitive strength was determined by whether they were better or worse than the competition on five dimensions (costs, product/brand positioning, technology/capabilities, leadership/management, and ability to influence/collaborate with regulatory authorities). The answers made it possible to identify four clusters: *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 (see Exhibit 1).

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 (a relatively small percentage for companies in this

Exhibit 1
Four Kinds of Companies



Note: Survey respondents were asked whether their company was financially strong and not in need of financial support, and whether they believed they outperformed their competitors. Fifty-four percent qualified as Strong, 22 percent as Stable, 15 percent as Struggling, and 8 percent as Failing.
Source: Booz & Company Economic Crisis survey

situation, which may reflect managements' sense that the capital simply wouldn't be made available to them).

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 a quarter and a 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. It may be

that the crisis has come upon them so quickly that they haven't yet had time to adjust their plans. Or it may be that they're unclear about their own status as Strong, Stable, Struggling, or Failing—in which case they might not recognize the best options open to them.

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. These companies may be hesitating out of a concern that there will be no external financing available for M&A or that their acquisition moves, if not absolutely rock solid, will be disproportionately punished by a skittish stock market. They may also think that asset prices haven't hit bottom, and that they should wait a while longer before making their moves.

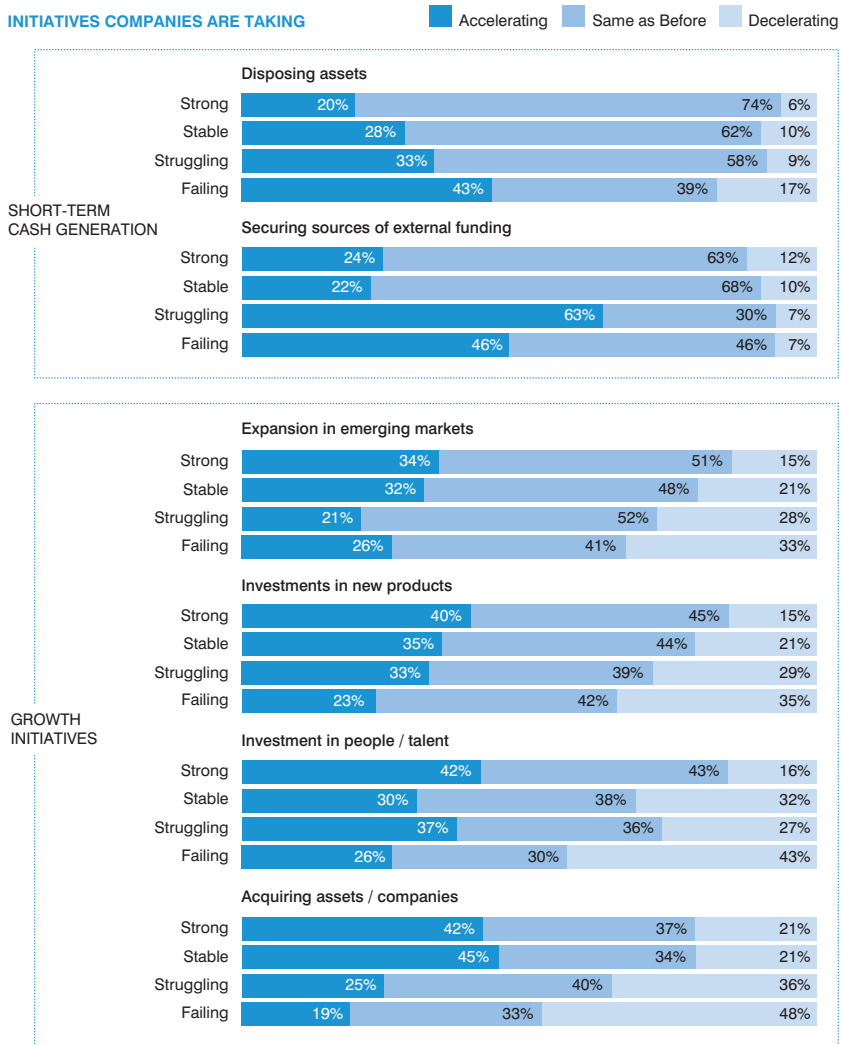
In any event, the deceleration of M&A activities is not the only sign of strate-

Many Struggling and Failing companies need to move more decisively to preserve cash.

gic hesitancy. One in every five Stable companies is also investing less in new products or is slowing its moves into emerging markets. The conclusion is inescapable: Stable companies—and some Strong companies as well—are more focused on cutting costs across the board and conserving cash than on the opportunity they have to strengthen their competitive positions.

In short, many companies simply aren't doing what they could, given where they fall on the dimensions of financial and competitive strength. Many Strong and Stable companies are playing things too conservatively for the moment. And many Struggling and Failing companies need to move more decisively to preserve cash (*see Exhibit 2*).

Exhibit 2
Unexpected Actions



Source: Booz & Company Economic Crisis survey

DOUBTS ABOUT LEADERSHIP

It may be no surprise 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. Although this may be due

in part to executives' inability to communicate the elements of their plans, it is clear that the plans simply don't resonate with many of the people who must make them happen. This general lack of confidence also seems at odds with the optimism many respondents express about their companies' futures.

The wavering faith in senior leadership, not surprisingly, is highest within those clusters 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),

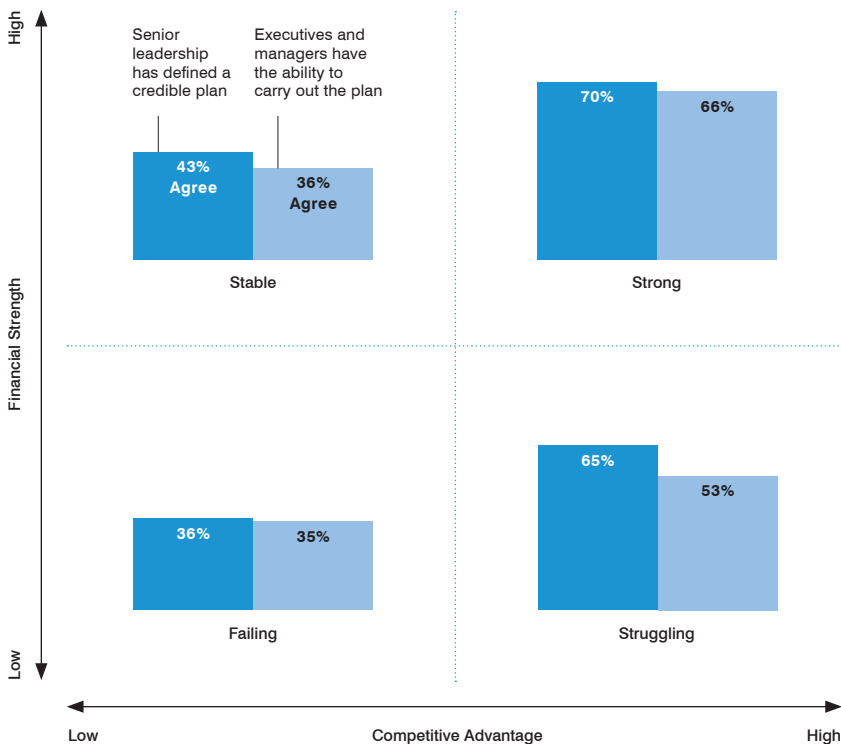
It is clear that a significant number of people have serious doubts about their leadership's plans and abilities during the recession.

only 43 percent of respondents said their senior leaderships have 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. Still, those are hardly unanimous numbers, and they would certainly be higher in a non-crisis environment (see Exhibit 3).

Exhibit 3
Executive Credibility in Question



Source: Booz & Company Economic Crisis survey

Along the same lines, a significant percentage of respondents at Stable companies (44 percent), Struggling companies (also 44 percent), and Failing companies (58 percent) thought management was too short term in its thinking. Senior leadership at Strong companies got better marks in this area; only 29 percent of managers working for Strong companies thought management’s agenda was too short-term-oriented. It is clear that a significant number of people across all companies have serious doubts about their leadership’s plans and abilities during the recession.

BEYOND THE COMPANY: UNCERTAINTY ABOUT THE FUTURE OF INDUSTRIES

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. Big structural changes have already come to the financial sector, of course, with government bailouts and government-monitored acquisitions and waves of new regulations. So it's not surprising that three-quarters of respondents at financial companies anticipate industry changes; in finance, change is a *fait accompli*. It's more surprising to hear a similar point of view from managers at industrial goods makers, healthcare/pharmaceutical firms, and energy/utility companies (approximately half of whom see big changes coming to their industries as a result of the crisis). One likely form of structural change in these areas: the strong taking over the weak.

Financial executives were alone among survey respondents in saying that leaders from business, government, and unions had worked together effectively to stabilize their industry. Forty-three percent of financial-industry respondents agreed that was the case; only 20 percent disagreed. This may reflect the fact that such collaboration is already going on in the financial-services industry, and has arguably rescued the industry from bigger problems if not complete failure. Meanwhile, respondents in every other industry expressed more skepticism than optimism about the quality of stakeholder collaboration so far. The skepticism about stakeholders' ability to collaborate was especially high in healthcare and pharmaceuticals (where 56 percent of respondents thought stakeholders weren't collaborating effectively, versus only 18 percent who thought they were), transportation and communications services (41 percent versus 16 percent), and telecommunications and media (42 percent versus 19 percent).

Fifty-three percent of all respondents said the structure of their industry will change dramatically as a result of the crisis, versus only 23 percent who don't anticipate major structural changes.

WHAT TO DO NEXT?

The gap between logical actions and actual actions, and between respondents' optimism and their faltering confidence in corporate leaders, are all symptoms of one major problem from which companies are suffering. Their world view, at the moment, isn't always realistic.

So this is step number one for senior leaders who want to restructure their companies during the crisis: 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.

Having arrived at a more realistic sense of their positions in the world (the clusters they fit into), executives must take step number two: pick from the actions available to them. 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 developing new products, expanding into new markets, or building a stronger talent pool. The key, however, is to avoid trying to do too much. There is much to be

said—especially during a crisis, when time is short and resources may be diminished—for identifying 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.

Step number three is to communicate and execute. This is vital to regaining the confidence of all stakeholders, from skeptical managers to risk-averse shareholders.

These three steps of crisis restructuring are the subject of a separate article, "Restructuring in 2009: Understanding and Responding to the Crisis," forthcoming from Booz & Company in February 2009. They will work best at those companies that have avoided the misconceptions described in this study—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.

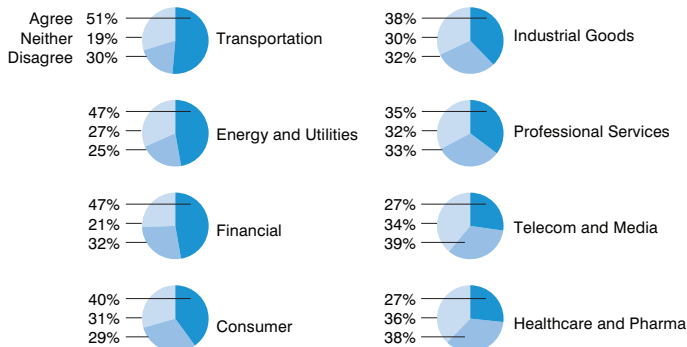
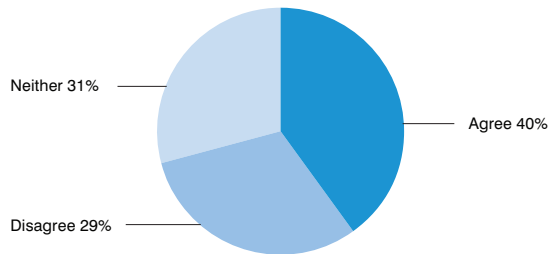
Collateral Damage? “Green” Agendas Will Be Delayed

One likely casualty of the economic crisis: The corporate social responsibility (CSR) agenda. Forty percent of respondents said their industries won't be able to accomplish as much as they had expected with respect to energy efficiency, the environment, and community service (see Exhibit A). The pullbacks will be especially pronounced among transportation and energy companies, with, respectively, 51 percent and 47 percent of respondents in those industries saying CSR agendas will be delayed.

That is troubling because those are two of the industries in which broad environmental or community-oriented initiatives were expected to have the biggest impact. Moreover, there is little correlation between financial strength and optimism about CSR agendas; 28 percent of respondents at financially strong companies said CSR agendas in their industries will be affected by the economic downturn.

Exhibit A Good Works Will Have to Wait

THE ECONOMIC CRISIS WILL DELAY PROGRESS IN MY INDUSTRY OF THE SOCIAL RESPONSIBILITY AGENDA (ENERGY, ENVIRONMENT, COMMUNITY, ETC.)



Source: Booz & Company Economic Crisis survey

Endnotes

¹ For more on decisive approaches to the downturn, see "Rethink Your Strategy: An Urgent Memo to the CEO," published December 11, 2008, by Booz & Company's Paul Branstad, Bill Jackson, and Shumeet Banerji, at [/www.booz.com/global/home/what_we_think/reports_and_white_papers/article/43229221](http://www.booz.com/global/home/what_we_think/reports_and_white_papers/article/43229221).

About the Survey

Booz & Company's Economic Crisis survey was fielded in December 2008; we received responses from 828 managers. The respondents represented many major industries, from financial services to healthcare to energy to consumer goods. Thirty-seven percent of the respondents were CEOs or people who reported directly to CEOs; another 24 percent were only two levels below the CEO; the remaining 39 percent worked at other levels in the hierarchy. Geographically, the survey captured responses from managers in 65 countries. Western Europe was the most highly represented, accounting for 38 percent of the sample, followed by North America with 30 percent and emerging markets with 28 percent.

The most recent list of our office addresses and telephone numbers can be found on our website, www.booz.com

Worldwide Offices

Asia

Beijing
Hong Kong
Mumbai
Seoul
Shanghai
Taipei
Tokyo

**Australia,
New Zealand &
Southeast Asia**
Adelaide
Auckland

Bangkok
Brisbane
Canberra
Jakarta
Kuala Lumpur
Melbourne
Sydney

Europe

Amsterdam
Berlin
Copenhagen
Dublin
Düsseldorf
Frankfurt
Helsinki
London

Madrid
Milan
Moscow
Munich
Oslo
Paris
Rome
Stockholm
Stuttgart
Vienna
Warsaw
Zurich

Middle East

Abu Dhabi
Beirut
Cairo

Dubai
Riyadh

North America

Atlanta
Chicago
Cleveland
Dallas
Detroit
Florham Park
Houston
Los Angeles
McLean
Mexico City
New York City
Parsippany
San Francisco

South America

Buenos Aires
Rio de Janeiro
Santiago
São Paulo

Booz & Company is a leading global management consulting firm, helping the world's top businesses, governments, and organizations.

Our founder, Edwin Booz, defined the profession when he established the first management consulting firm in 1914.

Today, with more than 3,300 people in 58 offices around the world, we bring foresight and knowledge, deep functional expertise, and a practical approach to building capabilities and delivering real impact. We work closely with our clients to create and deliver essential advantage.

For our management magazine *strategy+business*, visit www.strategy-business.com.

Visit www.booz.com to learn more about Booz & Company.
