

01/06/1998

Survival kit

Datuk Michael Yeoh

THE ECONOMIC slowdown may last longer and may be more serious than what was originally thought. When the currency crisis hit the region in the second half of 1997, many believed that Malaysia, with its fundamental strengths, will be able to recover quickly. Some then thought the economy could turn around within six to 12 months. However, the mood of despondency that prevails now could lead to a prolonged downturn, lasting between two and three years.

At the macro-level, various measures were introduced to reform the economy and restore investor confidence. The setting up of the National Economic Action Council (NEAC) was one such confidence-boosting step. The NEAC exco meets daily to monitor the pulse of the economy and discuss the way towards economic recovery. There is no doubt that the NEAC comprises men of integrity and experience. The five exco members - Datuk Seri Dr Mahathir Mohamad, Datuk Seri Anwar Ibrahim, Tun Daim Zainuddin, Tan Sri Dr Noordin Sopiee and Oh Siew Nam - combine political wisdom with intellectual capacity and business acumen. While many are familiar with the Prime Minister, Deputy Prime Minister, Economic Adviser to the Government-cum-NEAC executive director and chairman/CEO of ISIS, few Malaysians have heard of Oh Siew Nam. Oh is managing director of Federal Flour (a company in Robert Kuok's stable) and a member of the board of directors of Bank Negara.

We have heard that the NEAC has come up with various proposals to jump-start and further liberalise the economy. But the details of the proposals are not known. It would have been better if the NEAC were to come up with a comprehensive strategy or package of proposals, and publish it, in accordance with the principle of transparency. Nevertheless the government should be lauded for establishing the NEAC and its exco congratulated for its diligence in meeting daily.

While confidence is slowly returning to the economy and the macro-economic outlook becomes clearer and more certain, albeit, resulting in higher inflation and lower growth, at the micro-level individual companies are not out of the woods yet. In fact, at the micro-level things may worsen over the next four to six months, as higher corporate receiverships and individual bankruptcies can be expected. Companies and entrepreneurs face testing times as the liquidity crunch affects their cash-flow and ultimately survival. There is a perception that things may get worse before they get better as the effects of the financial crisis works its way through the real economy.

With retrenchments expected to increase and with more companies freezing salary increments and bonus payments, the mood of consumers has been dampened. Domestic demand has declined. This will have a spillover effect. Already, the February figures for the Industrial Production Index (IPI) show an unexpected decline. This is the first time since June 1987 when the IPI recorded negative figures. In addition, the Malaysian Institute of Economic Research in its April Quarterly Business Conditions Index showed growing pessimism among manufacturing companies about their future business prospects. As such, the macro-economic measures intended to restore confidence and stabilise the situation have been perceived to be contractionary bringing up fears of a recession.

Malaysian companies will therefore face testing times. The next two years will be a period of transition and renewal. The testing times calls

for leadership, courage, vision and commitment. This is a period when many entrepreneurs and managers will have to grapple with issues of survival, managing change and succession. It has been said that tough times do not last; only tough people do. This is therefore a testing time for businessmen and managers to see how tough they are and whether they can weather the storm and yet survive at the end of the day.

Two years ago, Professor Michael Porter of Harvard Business School remarked 'that Asian companies don't have a strategy. They just do deals'. The economic slowdown has affected many deals as they go sour with declining property and stock market prices. Is Porter right or will he be proven wrong? As events unfold over the next several months, we shall see more entrepreneurs, businessmen and managers put to a test. This is in fact a defining moment for Malaysian business. How well we cope with the financial crisis will enable us to move forward to the next millennium as 21st century players well equipped to face economic vicissitudes. Or it could make us sink into oblivion. To be global players in business, one needs to know that good times don't last forever and in good times we need to have contingency plans to deal with not-so-good times. One also needs to recognise that just as there are rewards for business success, failures in business could lead to bankruptcies. One needs to accept the fact that in business there are winners and losers, success and failure. Someone once said that 'capitalism without bankruptcy is like Christianity without hell'.

The critical question then is how can Malaysian business face the testing times ahead? Business strategies to survive the downturn should probably be in two phases. The first is to survive the economic downturn while the second phase is to prepare for recovery and to lay the foundations for growth and profitability. In the first phase, the primary objective should be to keep the business as a going concern. To survive the downturn, cash flow and liquidity is of paramount importance. Short-term strategies should be put in place to determine how cash flow can be improved. These measures could include sale of assets, cost reduction, improvements in collections, seeking support from bankers and creditors. A quick corporate diagnostic is essential to ascertain the liquidity problem and what can be done to improve cash flow. Bold, tough measures are needed to survive the downturn. This first phase of critical and intensive care will allow the company to survive in the short run and be better positioned for the turnaround.

In the second phase, reengineering and corporate restructuring will have to be carried out. Management practices must be improved. Efficiency and productivity needs to be increased. Reengineering and restructuring could lead to slimmer and fitter businesses, better equipped to compete in the 21st Century. Downsizing often accompanies reengineering programmes. Next, the company and its management has to build value or create value for the restructured company. This requires innovation. Businessmen and managers need to continually innovate as customers and employees are getting smarter all the time. Managers also need to define a new focused strategy for the restructured company that will enhance shareholder value. Corporate governance too must be improved within the company as those that are more transparent and adhere to business ethics will regain investor confidence and ultimately recover faster.

The tough times ahead will also test the resolve and capabilities of our CEOs. Many CEOs are good at managing and leading their companies during boom times. Few CEOs know how to manage well in declining markets. Hence, this is also a testing time for Malaysian CEOs.