



Slade Partners Executive Briefing

Two years on from the collapse of Lehman Brothers, for many the event that came to represent the beginning of the *Global Financial Crisis*, business leaders are reflecting on the actions that helped them weather the storm - and what they might have done better. Slade Partners' latest in our series of boardroom luncheon events focused on the issue of *what we learned*, and *what will we do differently next time?*

Complacency in Boom Times

As late as July 2008, BIS Shrapnel published a 15-year outlook for the mining sector that included the prediction that Australia's booming resource sector would make our economy "recession-proof" for at least the next five years, underpinning consistent growth of between 2.5 and 4.5 percent.

Whilst the Australian economy did manage technically to avoid recession, our experience of the past two years brings the above prediction into sharp relief. BIS weren't alone, with 17 years of consistent economic growth and Chinese and Indian growth expansion fuelling ever increasing resource demand, even governments were happy to call us immune to disaster. A generation of now senior managers - Generation X - had never experienced such a downturn during their years in management when suddenly, a mere two months after the above BIS report, Lehman Brothers filed for bankruptcy.

If we accept that only a minority predicted and were prepared for the downturn, what can we learn from how we reacted?

One point consistently raised throughout the series was the fundamental importance of ongoing good management practices which helped to obviate the need for rushed, unplanned responses to the GFC once it hit. This takes many forms, but participants pointed specifically to items such as the enduring importance of good internal controls, contingency planning, performance management and exception reporting, detailed budgeting, forecasting and reporting processes.

Whilst these obvious truths were laughingly referred to as '*Good Management 101*', the painful truth is that many of these fundamentals were victims of the euphoria and complacency of boom times.

A number of our guests commented that they had remembered the realities of the 1990/91 recession and avoided letting too many good staff go, appreciating that the reality of skill shortages will always be with us.

The Importance of Retention

Another consistent theme for discussion was the need to invest in and find ways to hold on to good, productive staff, even (and especially) in difficult times. Participants were keen to stress that this effort should extend beyond the most obvious 'top performers' and stated that, in a 'rerun' of the GFC, they would do more to identify individuals with skills and experience that were not just important, but particularly difficult to replace. The McKinsey chart below is highly relevant.

Fig. 1 - The Importance of Retention

During a reorganization effort, one company found that 44 employees critical to the company's success were likely to leave.

Risk heat map for European industrial company, figures indicate number of employees in category (total = 497)



A complementary observation was made having regard to the ageing workforce with many participants agreeing that companies should not overlook the value of experience and knowledge that staff in their 50s and 60s provide and that with the focus on Gen X and Y moving into senior management roles, it is important not to *throw the Baby (Boomers) out with the bath water*.





Making the Most of Opportunities

Covering a broad range of businesses, participants had many *war stories* and resulting pieces of advice from the last two years. It is pleasing to be able to share these more broadly:

- Stick to your proven strategy if at all possible despite short term pressures from financiers
- Stay close to your customer base and tailor your product to their needs and financial realities – i.e. acting tactically to retain the customer relationship and cash flows
- Improve your talent pool - hire staff strategically (e.g. Australians returning from overseas) and invest in those employees critical to the company's success
- Continue investment in brands and training - often amongst the first items to be cut
- Cost control – aggressively attack all costs and discretionary spending. It all adds up
- Use up Balance Sheet provisions

Two comments worth repeating in terms of overcoming what came to be known as the GFC: - "... never waste a crisis'... and "...keep focusing on the way out..."

A recurring issue was striking the right balance on talent acquisition and retention, given there remain significant softness in the economy exacerbated nationally by the two-speed effect of the resources driven states (WA and QLD) and its flow-on effect to wages growth. Put differently, companies are finding it difficult to align workplace plans with still muted business investment plans and confidence levels. There is clearly a debate over being pro-active and investing in talent against a degree of understandable caution left over from the GFC.

Reaction and Judgement - Roundup

Stimulus

Inevitably the Government's stimulus package was much discussed. Reactions varied with both praise and criticism.

"The education revolution generated tight and small margins but at least kept our heads above water in very difficult times."

The China Factor

The elephant in the room for most of this series was the importance of China to Australia and the future significance of "Brand China" and how it is itself managed. Obviously key to Australia's booming resources sector and our overall economy, a more micro economic impact might be seen in tourism where there is an expectation of a boom of visitors from China, forecast to grow from under 400000 currently to more than 1M by 2015, with the vast majority earning \$30-40k pa and as such requiring appropriate product to be provided.

Communication

Throughout the series, communication was cited as either the most important item that management used in keeping morale and productivity up during the GFC, or the most specific self criticism from those who say that in retrospect they could and should have done more.

Advocacy

A last noteworthy self criticism was that those with an ability to influence policy and Government thinking should have prosecuted the case better for major visionary and strategic focus more and attempted to avoid what came to be seen as waste – e.g. rather than just criticizing the cash hand-outs as excessive and non productive (35% used it to pay down credit card debt), greater advocacy could and should be used to refocus the way it was spent.

Acknowledgement

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