Resist the reflex to cut back in tough economic times

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The latest economic data paints a grim picture for local businesses with the South African Chamber of Commerce and Industry (Sacci) Business Confidence Index dipping yet again to 93.7 index points after decreasing steadily from the 99.7 of January this year. The biggest impacts were made by the poor rand, lower retail sales, higher energy costs and a decrease in the value of building plans passed.

“For CEOs and business leaders this is undoubtedly a challenging time,” says University of Cape Town Graduate School of Business (UCT GSB) academic, Paul Maughan. Investec as well as UK-based economic research firm Capital Economic have adjusted their GDP forecast to only just over 1% growth for 2018.

Fuel prices are higher, business confidence is lower and the Absa manufacturing purchasing managers index (PMI) fell to its lowest level in three months in June 2018. International ratings agency Fitch revised its predicted economic growth to 1.7%, down from 2.3%.

Maughan says this puts a lot of extra pressure on CEOs, financial managers and business leaders. He gets his fair share of exposure to senior executives as convenor of the Executive Development Programme (EDP) at the UCT GSB.

When times are tough many companies and organisations instinctively want to tighten their belts – and this often means cutting down on executive training and marketing spend. “There is a tendency to want to hide and ride out the storm,” says Maughan, “But history tells us that those companies that do well in tough times are often those that do the unexpected.”

Research by Bloomberg after the 2008 recession, for example, found that many thrived by resisting the customary corporate reflex to contract.

There is almost always opportunity in a recession for those who are able to spot it and act on it, comments Maughan. Netflix, for example, profited from the 2008 recession because it was able to stand in as an alternative to cable and satellite TV services, which were more expensive; a well-timed pivot that has seen the company grow into a global powerhouse. In 2017, Netflix brought in more than $11bn in revenue and had its first full year of turning a profit in international markets. Back in the States, the company now has 125 million subscribers.

“When change is getting faster, your responses need to get faster and surer,” says Maughan. “Your competitors could come from anywhere, and you need to have a whole new way of dealing with that.”

The key is in ensuring long-term resilience, through both hard skills – like finance, innovation and marketing – and softer skills, like talent management, relationship-building, negotiation, executive wellness and self-leadership. And, for long-term growth, nurturing inclusive innovation.

“How do you grow in a time of uncertainty?” asks Maughan. It’s this question that should motivate senior executives to focus on developing strategic capabilities that can weather unpredictable environments, or facilitate innovation when resources are limited or during times of change.

“Breaking bad habits, changing leadership styles and approaches, and unlearning unhelpful strategies are instrumental to maximising a business leader’s impact in difficult economic times,” he says. “Building personal resilience is key. Burnout is a very real factor at the top.”

He adds that the importance a leader can play in terms of business success – or failure - is clearly illustrated by the recent example of Marcus Jooste, who resigned in December 2017 and plunged Steinhoff into one of the biggest corporate scandals the country has ever seen, with the global company losing $17bn off its market value and fighting for its survival.

On the other hand, there are many other examples of single individuals who by force of their personality and style of leadership have had great successes in challenging times and business landscapes. He quotes the example of Mark Barnes, also called “Mr Fixit” for his turnaround of the South African Postal Service.
“It is not an exaggeration to say a good leader can make or break a company. That is why investing in executive education will always pay off for companies.”

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