

Why you need to focus on Strategy and Risks in a recession

Reassess the forces shaping your business

When massive change occurs, all businesses need to identify which forces are now driving their business. Like an earthquake a global business tsunami cancels, freezes or reverses all previously valid external trends before creating new trends that flow from it's energy and destruction.

In the early days, the difficult thing is to identify these emerging trends. Are they standalone events, linked events, or a genuine trend?

Because of this, it is necessary to frequently reassess external trends and determine the impact they are having on your business.

Sharpen your focus on market elements

What was important to your customers before a significant event will not be the same as after it. The same applies for your competitors - their drivers will change whether they like it or not. It is thus critical to get close enough to existing and potential customers to find out what is truly driving their needs, and to keep a very sharp eye on your competitors activities.

Measure profitability across products, geographies and business units

The future is not all about external events - you must take action to eliminate activities that have become unprofitable and take advantage of new opportunities - applying your resources to the most effective areas.

Maintain strong central control over business direction and delivery

Strong, coordinated central control over any business is essential at all times and not just in time of recession. It is just that in the good times it is possible to perform sub-optimally and still look good whereas in tough times, only the strong performers look good. By strong central control, I am not talking about an inflexible command and control environment, I am talking about ensuring that your company gets the best use out of all it's resources. It is a sign of strength to let the people doing the job make their own decisions, but unfocussed, untargeted and uncoordinated use of resources is not a good way to ensure survival and growth.

Set achievable corporate targets

Every company must have stretch targets, but to make people over-stretch, especially in a recession is counter-productive. Targets must be achievable and must reflect the

economic and business environment. Strategic targets are the first step in realising strategies, goals and plans for your business.

Ensure committed buy-in from field operations

Strategies and Targets are of little use if people do not buy into them. They will not support them, will revert to their old ways and will take pleasure in them not being achieved, with a "told you so" attitude.

By creating Strategies, Goals and Targets with the input of major geographical, functional and business unit personnel, you are building the ability to execute into your plan.

Most people will support corporate goals if they are made party to them and to why they are needed. There will always be a few "sandbaggers" out there, but you will know who they are and also have the power to set compensation plans commensurately.

Break strategies into deliverables

Developing strategies is one thing, but executing them is another. The only way to execute agreed strategies is to know how they will be executed, by whom, and when. Accountability and ownership lead to deliverable strategies. Strategies can be broken into goals and goals should become projects that are fully manageable and deliverable.

Ensure your strategies flow directly into a detailed annual plan

Every strategic intention and detail of execution must flow into, and become part of your annual plan. The annual plan should be one of the many yardsticks you use to measure performance against, and must contain all the elements to make it useful - product sales, P&L and Balance Sheet by entity, geography and business unit. It must be capable of being used in financial systems to compare against actuals.

Embed ownership and accountability throughout the organization

It is critical that every major milestone in the business has an owner and a deadline. By monitoring each small step in executing strategies and plans, you are making your strategic achievement automatic.

Be prepared to rapidly adjust strategies, goals and accountabilities at short notice

As with the best intentions of mice and men, things change. Customer acceptance of new products and services could be greater or less than planned, competitors may release new products that were not foreseen, a trend that you thought was significant may not turn out to be such an influence on the market, or internal delivery capabilities might not match those you had planned on. In all cases when your strategic intelligence tells you that the assumptions underlying your strategies and plans are not being realized, you must re-think your strategies and adjust them. The

changes arising from this exercise will of necessity need to be incorporated in a re-forecast of your business results.

Identify and rank business risks for all major areas

Once your strategic assumptions and annual plan have been developed you can assess what are the significant external and internal risks to your business. It is essential to identify and prioritize those risks so that you can ensure you are doing something about mitigating or controlling them as best you can. You may also have to comply with certain laws and regulations like Sarbanes Oxley or Basel II, and almost certainly will have internal policies that you need to comply with. All these areas of compliance also involve identifying and managing risks, so it is also a major productivity gain if you can manage all your risks through one medium.

Ensure controls are focussed and prioritised on most your serious risks

There is no point wasting energy and resources monitoring and controlling things that are not significant to your business, which is why it is critical to identify the most significant risks in your business and then what controls you have in place. Sometimes one control activity can satisfy many risks, so it is important that you know your risks and your controls and manage them as effectively and efficiently as possible.

Trust but verify – ensure all controls are working as designed

Having controls in place is one thing, but making sure they are functioning as designed is not a luxury. There is nothing more dangerous than thinking you have controls when you don't, so testing of key controls is a must. Testing can become time consuming and expensive if it is not properly managed and it is easy for duplication to creep in. This is another reason why you should have a holistic enterprise risk and compliance program in place.