

Book Review

LEADERSHIP IN THE ERA OF ECONOMIC UNCERTAINTY

Ram Charan, Tata McGraw Hill, 2009 Edition, pp. 138, Rs. 375/-

The “financial tsunami” is here and now and its consequences inevitably will be with us for a long time now, demanding a seriously different kind of leadership. The liquidity crisis of a few U.S. investment banks in September 2008, spread to businesses and consumers everywhere and by November 2008, virtually every major developed country was either in recession or suffering from a slowdown in growth. Tight credit and the threat of job losses are changing consumer behaviour.

The author is in the best position to guide us through this economic slowdown as he is a world-renowned adviser to business leaders and corporate boards, a bestselling author and an award winning teacher. From what I have read about him on the internet, I would like to refer to him as “the man with wings”, since he is flying all around the world for his meetings with CEOs of top companies and business heads.

Cash, cash... cash and more cash. Cash is the mantra. In this era of contractions and declines in asset values and credit ratings, A to Z of top leadership's activities have to revolve around cash flow, cash generation, cash collection, cash usage, the availability and timing of new financing and the repayment of debt. The author enumerates the three sources of cash that must be pursued vigorously. Elaborate 3 sources Project evaluation can no longer be based on the basis of their ROI (Return on Investment), rather the new basis in these times of economic uncertainty is the amount of cash they consume, generate and how soon cash generation can take place.

At some places, price discounts can help generate cash and at other places it can hurt cash generation. In normal times, the budgeting exercise is done annually, taking some weeks time, whereas now the author prescribes this exercise to be done monthly if possible, taking no longer than two to three days. The author makes sure to mention clearly that it is not just the operating budgets but also the capital budgets that the CEO needs to be concerned with, fully taking into account, the changes in the composition of the global economy and the changes in competitive patterns. Capital expenditures have to be under the lens, projects that have an earlier cash return despite having lower ROI than other projects have to be given higher priority, some projects should be outsourced or shifted abroad.

Managers need to be trained about the balance sheet on the lesser focussed areas such as accounts receivables and inventories, capital expenditures and return on those expenditures by using company's real numbers and showing what can happen in the future under different scenarios such as how the company's debt rating from AA to BB can affect operation, marketing and selling, pricing and the cash breakeven point.

All functional heads should ensure they receive ground intelligence more frequently, particularly in between the board meetings. The author suggests that senior managers can speak with five to six

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ground level people every week. He even goes to the extent of recommending the evaluation of the customer's and supplier's balance sheets and financial conditions to determine those that are most likely to falter and what effect that would have on the company. If a customer needs to be dropped, you can work with that customer to help it liquidate inventories of your product or you may elect to take them back under certain conditions and place them elsewhere.

According to the author, this shift in the economic environment will be most painful for the sales and marketing executives, as the global slowdown erodes their normally optimistic outlook and changes their entire game plan. Salespeople will undoubtedly suffer, if they don't see how they can repeat or improve their achievements, of last year. In previous years, the sales and marketing staff were mainly focusing on capturing as many customers as possible and making every sale that was possible whereas now the focus has to be shifted to making those sales that are more profitable, having more economic value and making quality customers. Earlier, slowly rising costs could be recouped through productivity gains, cost controls, and supply chain efficiencies instead of higher prices and some of these benefits could be passed on to the customers as price discounts to win a sale, thus maintaining good relations with existing customers.

In the times of economic expansion, the size, salary and ranks of sales and marketing managers was growing. Now that those halcyon days are gone, the author recommends adjusting to the new reality, meaning cutbacks, from the top down. Although these cuts shall be dispiriting, they should be done in one stroke and focused on those employees who do not show the aptitude or the attitude required in this new environment and thus the sales department can become more efficient through consolidation of regions and accounts, and the remaining salespeople will have the aggressive eagerness to meet the challenge.

As a leader in sales and marketing, the need of the hour is to get the salespeople focused and trained on what they need to do for the customer and against the competition, not only for the moment but for the future. In essence, the sales force has to figure out ways to help your customers succeed in these trying times so that you and they are truly in a win-win relationship. For this, the salespeople have to become more analytical and know more about your customers such as their psychology and cognizance of the reality of the economic situation and how it is affecting their decisions about their own forecasts for sales volume, product lines, advertising, promotion, pricing, etc. This will help your company in understanding the customer such as its viability, financial or competitive strains, leverages, cash flow, ability to pay in a timely manner, etc., and if possible, your company can help the customer in some ways. Some customers may have to be dropped on the basis of this analysis, and for this the salespeople should work with that company to help ease that transition.

To motivate the sales team, the author recommends setting up new realistic goals and incentives, possibly on a monthly basis. He gives the example of a company that created new incentives for sales people to call on customers and collect cash that is owed by the company. Not only this helped improve the cash flow, it also got the salespeople to make more calls.

There is so much more packed into this thin book for CEOs, Country managers, Boards of Directors and top leaders that is more practical action-oriented than theoretical and can be executed immediately. The author covers the areas of Sales and marketing, Operations, Research and Development, Supply Chain, Staff functions, etc., in a manner that would definitely help make the right decisions in these times of economic slowdown and uncertainty.

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