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MANAGERS MUST FACE REALITY AND GET BACK TO BASICS

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By now it should be clear that extreme volatility will continue to be a feature of the global business environment. At the same time, there's growing consensus that world markets will stay in a funk for as long as five years. South African managers should get ready fast for much tougher conditions – and for a long and bumpy ride into the future.

Many local firms are producing good results. But the impact of three rate hikes so far this year – and the possibility of another one before year end – are yet to be felt. While retailers have been bullish, consumers cannot keep spending when their costs keep going up. They will put on the brakes.

Companies that rely on exports will also take strain. So far, consumer spending has held up well around the world. Now, there are signs that it is slowing. Executives everywhere are worried about a “profit drought” in the latter part of this year, and many see tough conditions lasting well into 2003.

One CEO confident he can keep delivering is General Electric chairman Jeff Immelt. He and his team started preparing for an economic downturn early in 2001. They are still cautious about the outlook, but focused on executing the basics of their many businesses to perfection.

The same cannot be said of many South African CEOs. For one thing, they are unrealistic about what lies ahead, and reluctant to hear that things may not keep going their way. Second, they do not know what the basics of their businesses are, so waste a lot of time and effort on the wrong things. And third, their execution is sloppy and slow.

Take, for example, their response to the HIV/AIDS crisis. Recent reports have warned that its impact will be much worse than was thought just a short time ago. A huge chunk of the population will get sick and die. Customers who were expected to keep shopping will stop. Buying power will erode as money goes into health care and funerals. Markets will contract. Debt defaults will rise.

At the same time, it's estimated that 20 – 24% of employees will be infected in the next ten years. Employers will face rising costs as productivity falls, people stay away from work, and medical and counseling expenses explode.

Yet even today, after a great deal of noise about this tragic issue, relatively few firms have policies in place to deal with it. Even more astonishing, several retailers were recently reported as saying that HIV/AIDS would have little impact on their fortunes.

The same lack of urgency has been demonstrated with regard to black economic empowerment, affirmative action, training, safety and environmental issues. And as to corporate governance – well, the reaction there by many companies and captains of industry has been laughable.

These challenges have all been on the radar screen for years. Ignoring them will not make them go away. To put them on the back burner while doing “more important things” is not a strategy for success.

Other critical matters such as cost control, quality, productivity and customer service, demand equal attention. Any of them can make or break a company. Taken together, they either add up to a brew of crippling disadvantages or an arsenal of unbeatable strengths.

The pressures for performance in all these areas will grow rapidly, as will the penalties for denial or delay. So tackling them fast, aggressively and creatively is the smart thing to do.

The firms that will fare best in the future are those that look reality in the eye and understand clearly what few things they must do to make the maximum difference. They know precisely what their basics are, and work at them ferociously. Their “strategic conversation” focuses efforts and attention, and ensures that all their people pull in the same direction.

This sounds so logical as to be not worth saying, but this clarity is missing in most of the firms I work with. Instead, there's a new agenda every day, different people have different views of what's important and what the priorities are, and long lists of “spray and pray” activities cause resources to be wasted.

It is little wonder, then, that execution is a major problem. Without focus on just a handful of key issues, a clear and shared sense of the priorities, and tight deadlines and robust reviews, even the most competent people are sure to be ineffective.

The outlook for business is uncertain and the challenges are daunting. Innovation is essential to capture tomorrow's markets and profits. But first come the basics. First come the foundations that underpin competitiveness. Get these right, and good things will surely follow. But get them wrong, and failure is assured.

Some basics are operational functions to do with marketing, logistics, administration and so on. But no firm can forget the development and well being of its people, workforce diversity or affirmative procurement. These are not only building blocks for the future, they are keys to being in business in the present.

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