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IMPORTANT STRATEGIC QUESTIONS FOR RECESSIONARY TIMES

By Paul Aucamp and Jene' Palmer

Is your business equipped to survive the pressures of a rapidly changing business world, which is being exacerbated by the growing uncertainty presented by South Africa's re-entry into another recession? To ensure the sustainability of the organisation, this critical question needs to be asked of South African boards of directors and senior executives alike.

In today's difficult economic times, the focus of shareholders has sharpened, raising a key question for the board: *how can the organisation satisfy its shareholder's financial expectations if it does not fundamentally rethink its business?* Recessionary times typically prompt a renewed focus on cost reductions which often meets with varying degrees of success. The reality, however, is that shareholders (and indeed all stakeholders) are increasingly realising that "more of the same" strategies is just not going to result in sustainable positive change.

Essentially, new strategic thinking starts with the "fundamental truths" of the business. Surely, a different outcome cannot be expected if the underlying premises on which the business is based are not clinically scrutinised? Instead of only focusing on what costs can be reduced, important strategic questions should be asked when organisations don't perform financially. These include:

- What business are we in? Are we still in the right business?
- Is our business model still appropriate? Do we have an integrated value proposition or a portfolio of disparate businesses?
- How can we more effectively compete in a market that is contracting? Do we need to reposition the organisation to attract higher margin business?
- Who will be our new competitors?
- How have we differentiated ourselves as a business in order to compete nationally / internationally?
- Do we have the right skills and experience to drive the organisation forward?

Extracting more value from business operations is at the heart of all these questions, and it is imperative to recognise that business improvement and cost reduction initiatives can only take a company so far. Indeed, experience has demonstrated that performance improvement initiatives are often limited by structural constraints, which are the result of antiquated business models.

The creation of a global, connected, 'always-on' world, driven by the rapid and constant evolution of technology, has created a business environment in which consumers are far more enlightened than in previous times. The swift progression of the Fourth Industrial Revolution is being characterised by a fusion of technologies resulting in a convergence of the physical, digital and biological spheres. The possibilities for

and impact on business processes, the labour market, distribution channels, supply chains and legislation have not yet even begun to be fathomed. Not only do scientific advancements in artificial intelligence, nanotechnology, biometrics, the Internet of Things -- to name but a few examples -- present opportunities for improving efficiencies and productivity, they are also presenting fundamentally different ways of doing business. Consumer expectations are changing and product development and delivery mechanisms will need to keep pace. A strong emphasis on innovation and collaboration is required and organisational structures will no doubt need to adapt to this new business environment.

In a world where consumers have unlimited choices of tailored and enhanced products and services on unlimited virtual shelf spaces, differentiating a business has become increasingly difficult. The same approach that proved successful in the world of standardised products and limited choices is no longer viable, and clinging to these outmoded strategies leads to a downward spiral in profitability and ultimately sustainability. If you cannot adequately satisfy the needs of the consumer, it is highly likely that they will take their business elsewhere.

Companies should not measure their success or sustainability by the number of years they have existed, but instead by their ability to adapt to market dynamics and continuously create stakeholder value.

A turbulent economy, fluctuating exchange rates, political, social and legislative pressures can cripple cash flow, making corrective action difficult when things go wrong. In addition, legacy business structures, systems and management strategies often result in poor information gathering and a reactive approach to change. To remain relevant in the era of the Fourth Industrial Revolution, information represents power. Some organisations are already gaining a distinct competitive advantage by sharing, tracking and using consumer consumption and personal information to inform product development and marketing initiatives amongst other opportunities.

"As early as 1848, the revolutionary socialists Karl Marx and Friedrich Engels wrote in the Communist Manifesto that the "constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation" distinguished the current time from earlier periods (Marx/Engels, 1969). Underestimating this uncertainty can be hazardous. At worst, it leads to strategies that are unable to protect the company against threats. At best, it leads to strategies that ignore the potential opportunities inherent in uncertainty."

Source: The challenges of strategic management in the twenty-first century

The speed of innovation is also impacting on workforce requirements. Not only is automation and digitisation displacing jobs, but there is an increasing requirement for highly skilled labour to work on converged technology platforms.

An amalgamation of the demand and supply side of the value chain is forcing business to question who their new competitors will be in this disruptive technological world. Whereas historically, collaboration may have been perceived to be a sign of weakness, the new order dictates that boards and investors seek opportunities to work together in order to unlock value.

Given the multiple challenges facing organisations today, and considering the fact that business variables change rapidly and constantly, a robust strategy alone is not sufficient to ensure success. Every member of

the organisation needs to be motivated, persuaded and managed into sharing the same vision - this requires strong and consistent strategic leadership. As such, board composition and the skills and experience of the senior management team must also be re-evaluated to ensure that the right leaders are in place to lead the organisation to sustainable growth.

Whether an organisation is gearing itself for growth, or battling for survival; strategic leadership is essential in developing the agility and sound decision-making capability which is required to build and maintain a competitive edge.

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For further information contact:

Jene' Palmer (CGF: Lead Independent Consultant)
Tel: +27(11) 476 8264 | Cell: +27(82) 903 6757
E-mail: jpalmer@cgf.co.za
Websites: www.cgf.co.za | www.corporate-governance.co.za

Paul Aucamp (CGF: Lead Independent Consultant)
Tel: +27(11) 476 8264 | Cell: +27 (82) 570 4678
E-mail: paul.aucamp@palstrat.co.za