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Crisis Management

Leading Through Uncertain Times

When times are uncertain, whether because of human actions or natural catastrophes, executives face challenges that can be managed best by advance planning and preparation. While September 11 was catastrophic, many other events have significant effects on businesses. The Northridge earthquake in Southern California in 1994 resulted in total business and residential insurance claims of \$12.5 billion and an estimated total cost of almost twice that. Hurricane Andrew's insurance claims totaled \$15.5 billion. And even a significant economic downturn causes sustained, if not direct physical, damage to businesses. Companies that prepare for uncertain times fare significantly better than those that do not.

Since September 11, U.S. and global business environments have become dramatically less certain. Now the risks to businesses are much higher. So what should business leaders do? Take drastic steps, do nothing, conduct political risk assessments to divine what is next for the geopolitical world? A few companies may need to take draconian measures and a few companies may have the luxury of business as usual. But for the overwhelming majority of companies a set of well-analyzed, prudent basic steps must be implemented rapidly.

Companies that were generally prepared for downturns fared much better than companies that weren't after September 10. Cantor Fitzgerald, despite unmentionably awful losses of people, was able to get back in business within days because of its cash position, its computer backup, and its profitable track record, all of which encouraged lenders and suppliers alike to extend credit terms. By

contrast, Swissair, which incurred no direct damages, filed for bankruptcy. It was significantly overextended in terms of debt and complexity of operations. When U.S. air traffic halted and then came back only slowly, Swissair couldn't stand the revenue downturn. It had not prepared for the worst of times; it had only prepared for the best of times.

Savvy executives know they best serve their constituencies by profitably growing their companies, employing workers, and paying taxes. Living by this maxim in almost any challenging economic time requires that companies pursue two basic goals: build cash reserves and husband capital.

The geopolitical risk introduced by September 11 or the potential of natural disasters in California (earthquakes) or along the East Coast (hurricanes) requires that these two basic principles be augmented by a third element, detailed contingency analysis and planning. Companies that do not conduct rigorous analysis, develop disciplined strategic and operational plans, and take decisive action to implement these plans place their uncertain future at certain risk.

Build Cash Reserves

Cash is king in times of crisis. It allows companies to survive downturns and to take advantage of new opportunities. There are four basic tenets of building cash reserves: (1) Set monthly cash goals based on scenarios of revenue and expense; (2) conduct a systematic review of expenses, reducing or eliminating non-income generating expenses; (3) improve receivables management; and (4) reexamine payables management.

Focusing the whole company on these goals is more important than ever. Planning with line management is critical to ensure that expectations are clear, to increase buy-in, and to encourage departments to contribute to building cash reserves. Customers and vendors will also be seeking ways to build cash reserves by lengthening or shortening their payment cycles. Executives must be sure to communicate with vendors and customers to confirm that everyone understands the credit terms. Tightening credit terms for at-risk customers may also be necessary.

Making informed decisions about where and how to make cuts will require an investment in short- and long-term efficiency projects. It's important to reevaluate business processes regularly. Now is the time to redouble that effort and trim the least productive activities. USAirways has been cutting back service at hub airports and on routes where profitability is lowest. The airline, which was already in trouble before September 11, is fighting for its survival through a combination of smart analysis and decisive action.

Conserve Capital

Corporate executives need to set priorities for all capital and study alternatives closely. They need to assess each capital project and set realistic projections for likelihood and timing of demand. This is an absolutely vital time to match expense dollars and capital dollar budgets. Capital projects supporting growth initiatives should be adjusted to match any expense reductions in those initiatives' budgets and vice versa.

Many companies do not have strong enough balance sheets to enable them to secure significant equity or debt capital, especially in times of crisis. The Chinese word for crisis is comprised of two characters: the first, danger; the second, opportunity. Bankruptcies among the ill prepared will present rich opportunities for those with the cash,

the strategic and operational plans, and the guts to act decisively.

Develop a Contingency Plan

Comprehensive contingency planning involves designing a head-to-toe assessment of business risks and developing a plan to conserve generally and to spend resources judiciously on the most critical and vulnerable areas.

Contingency planning prepares companies for a range of unforeseen disruptions, whatever their source and whatever their magnitude. Many companies have reflected that the type of

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planning they did for Y2K contingencies is similar to the type of planning they should be doing in the wake of the September 11 attacks. Indeed, these threats are of comparable magnitude and require a similar amount of planning.

In these times, companies should immediately examine four areas: sourcing, insurance, international exposure, and competitive impact. In parallel, they should develop a more comprehensive contingency plan covering all major business areas and update that plan at least quarterly.

Sourcing. In almost all catastrophes, transportation is disrupted. During the OPEC oil shocks in the 1970s, rapid price escalation acted much like a catastrophe in disrupting transportation. In such situations, companies must quickly reconfigure their logistics routes and increase their inventories as a buffer. They must identify alternative delivery mechanisms for production inputs and outputs, as well as alternative sourcing providers.

Insurance. Many insurance and reinsurance companies are hit hard by major disasters. After major events, businesses should expect a sharp increase in premiums. Beyond the price increase, businesses should review the fine print of their policies

(and any recent and proposed addenda) to be sure policies provide the coverages needed to offset a catastrophic event.

International Exposure. Initiatives also must address a company's exposure throughout the world, not simply in the U.S. With regard to the current War on Terrorism, the impact in the U.S. is likely to be most significant in the oil sector because of the U.S. dependence on foreign oil. And the possibility that future attacks against U.S. interests may take place abroad, perhaps in Europe, for example, should

be of immediate concern for companies with multinational operations.

Competitive Impact. Companies should analyze what impact the catastrophes have on the competitive landscape. How will a natural disaster affect a competitor's nearby manufacturing or distribution facility? Or how will the disaster affect demand in that region? Regarding terrorist activity, how will increased security at borders affect the supply chain? How will the new tone of the marketplace be reflected in marketing campaigns, product positioning, etc.?

While significant natural catastrophes and the events of September 11 leave us shocked and numbed, executives have a responsibility to their companies, shareholders, and employees. Life must go on. For executives, that means a disciplined return to a simple set of economic principles, and an aggressive commitment to contingency planning. To succeed, business leaders must remember that investing in the planning, analysis, and preparation process is as important as the implementation. ♦

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