

Raincoat for the Financial Storms

Financial Truth or Delusion! Financial Truth or Dare!

By Steven B. McKinney



The Storm Is On

The financial storm has hit our beaches and shores with mighty force. We may not have made it, but we have to deal with it. How we deal with it will be different for each of us, of course. Each company out there will have its own solution to the problem of navigating the storm safely.

As always, however, one thing will be constant - We must face the truth with courage or we risk making more bad decisions and worsening our problems rather than fixing them.

Actually, the credit crisis has been kicking up dust and rocks for at least a year. One of the first early indicators or high waves of the storm brewing was the loss of the global stock markets between

December 2007 and February 2008. The Dow Jones was down 9%, London was -12%, Tokyo was -16%, NASDAQ was -16%.

The second wave could be seen if you consider the losses of the global stock markets between December 2007 and August 2008. The Dow Jones was down 43%, London was -25%, Tokyo was -29%.

A recent Watson Wyatt survey shows that 68% of US companies had prepared for the storm with contingency plans while 32% were ill prepared. In addition, the data shows that some countries took the warning signs more seriously than others. For example, French companies surveyed reported 100% preparedness, with Germany at 87%, Ireland 85%, Italy 82%, UK 79%. The US came only slightly ahead

of Spain which reported 57% of their companies were prepared for the storm.

The Way Forward

The real casualty of all this turmoil has been trust. Trust between companies, trust between financial institutions, trust between companies and the financial institutions they had done business with for years, and trust between the people and all of the above plus government.

Since trust is the lubricant of capitalism, the lack of it causes friction which greatly slows down the machinery of the economy. The less we trust each other the less business we do. Contracts are nice, but frankly, the law doesn't protect us, trust does - we don't make contracts with people we don't trust. We don't lend them money and we don't ship them goods without up front payment. We absolutely do not stick our necks out in long-term investments and ventures.

We have to follow the old investor's adage, "Action is taken. Confidence is restored." You've probably seen the strange phenomenon of a company's stock price going up when the company chooses to write-off bad assets, begins restructuring, or announces it is firing its leadership.

*Okay, now we know
the birds and the
bees of doing
business:
trust - good,
lack of trust - bad.
So how do we get
back the trust
we've lost?*

When there is a lack of trust between investors and management, bad news sometimes is good news. Investors react positively to signs management is willing to deal with its problems instead of denying they exist and attempting to sweep them under the rug. The investors already believe they know what is required to



About the Author

Steven B. McKinney is Founder and President of McKinney Consulting, the South Korean partner of IMD International Search Group. He is widely acknowledged as one of South Korea's most trusted search consultants. He is an executive coach, speaker and recognized writer on leadership issues. With more than 10 years experience in the executive search industry, Steve places senior executives in the consumer goods, industrial, automotive, IT and financial services sectors for multinational companies. Prior to establishing McKinney, Steve worked in senior global positions within Adidas and Reebok. He holds a BA in Education from Mars Hill College, NC and his Certified Master Coach from the Behavioral Coaching Institute in NY.

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make progress, and they are cheering the fact that management has shown the courage to come to the same conclusion, publicly, without any attempt to hoodwink all those with a stake in the healing process. A step backwards may be the fastest (or only) way forward. "Thanks for telling us the truth," the investors are shouting, "Thanks for dealing with the problems. We know you are in bad shape and we aren't happy about it. But at least we trust you again."

Action Is Taken Confidence Is Restored

Now, companies are applying a variety of cures to heal their wounds from the storm. Through the remedies chosen we can see a snapshot of what makes each company a

little different from each other. Each company's chosen cure is based on how serious management thinks their own particular problems are, the market they are in, their long-term business philosophy, and how truthfully they've been in facing the need for change.

~ Toyota's prescription is to not lay off employees but rather use the excess time that the employees have for training purposes with a goal of improving quality and productivity. One could also deduct that this is an employee morale booster and a prescription that could pay off in the short and long-term via greater productivity, quality, and employee retention.

~ On the other hand, Google leaders have decided to put

their hiring on ice and hold off on their expansion plans.

~ Merck's solution will be to cut deep and cut quickly.

The move forward is the challenge. Choices made and decisions taken will directly affect how individuals and companies will weather this storm. There is no single solution that works for every company. Careful study of your company's position is required. During this phase we should look at all of our options and hopefully determine what works best for us.

The Free Market Is Dead. Long Live The Free Market.

There is no question that when all the dust settles we'll have a new set of leaders, be they companies or

countries, and capitalism will begin to build again. That's the never-ending, very necessary, process of creative destruction. This wasn't the first bubble and bust, and it won't be the last. Governments and companies can't delude themselves into thinking it will be.

Historically, we have one bad economic year for every ten good years. So, capitalize on this transition year and come out swinging stronger for the next ten years. The truth is very powerful even if getting to it is sometimes slow and painful.