

## Addressing CEOs on Recession

# Coping with Recession

*Prof. Poonam Kumar, Chairperson, Mega Ace Consultancy delivered an address at the CEO's Talk – How to Consolidate during a Market Recession" organised by the Indo-French Chamber of Commerce and Industry in Mumbai on May 20, 2009.*

Prof Poonam Kumar made a presentation on the subject of how to cope with the current recession at a function organized by the Indo-French Chamber of Commerce and Industry in Mumbai on 20<sup>th</sup> May 2009. The theme of her presentation was on long-term issues that needed resolution rather than the usual prescriptions of how businesses should protect margins, cut costs and try to sustain business volume in a receding market. As such, her message to the private industry was to develop a new management paradigm that enabled their businesses to have a 'shock' absorbing capacity.

The long-term issues related to the policy framework at the micro level as well as the policy at the level of the business unit. With regard to the former, Prof Kumar pointed out that all major recessions of a global dimension had been associated with

paradigm shifts in the global policy framework of economic management and regulation.

In this context, she traced the origin of the current global recession to the 'sub-prime' crisis in the US, which threatened the sustainability of the financial system and hence of the 'real' system. She pointed out that the current crisis should not be treated as an accident with the one time solution of boosting

capital of banks. She argued that Central Banks should, like in India, focus on 'micro-regulations' which spread risks of bank assets and make them financially strong despite the business cycle. She pointed out that the fundamentals of Indian banking were strong because of enforcement of 'micro-regulations'. There

was, therefore, a need for universalization of 'micro-regulations' in the financial sector.

One major long-term issue for private business houses was to how they regulated or conducted their



activities as they experienced booms or entered new markets. A second critical issue was how they expanded their activities as they experienced booms or entered new markets.

As far as the first issue was concerned, the major need was to institutionalize good corporate governance, which has remained an unfinished agenda for the private sector since the Enron Scandal. The sub-prime crisis, to the extent, it had been created by private banks, was not merely a regulatory issue but also that of a corporate governance failure as 'public savings' were put to





excessive risk in the quest for greater profit. Greater short-term profit usually meant greater returns for top executives, but in the long-term compromised on share-holder value by creating risky assets for banks.

As far as the second issue was concerned, business expansion had emerged over the last two decades with the WTO regime in place. Thus, in India we have seen international business offices swiftly being opened, often beyond the need justified by business opportunities, and closing equally swiftly. This has generally been the outcome of inadequate homework being done and giving up of the traditional path of commencing operations with small representative offices, which explored the 'new market' and chalked out a strategy of entry. A major aftermath of such a hasty entry has been the infusion of a 'hire and fire' environment.

A major social concern in India is the creeping in of an environment of 'hire and fire', which does not fit in with the traditional culture and is to an extent inhuman in the absence of 'social security'. With such a

background it is the responsibility of businesses to grow in a manner that is sustainable over the long-term. Thus, the tendency to 'over expand' in the boom phase has to be avoided, which should automatically provide most businesses with the intrinsic strength to avoid shedding 'excess' employees during recession.

An Important aspect when planning a business is that of adhering to the KYC tenet or 'Know Your Client/Customer'. It is this understanding that is useful in planning a realistic expansion, so that major shocks are avoided. The focus of 'KYC' would vary from business to business or industry to industry. Thus, for banks it would be important to deal directly with customers and ascertain their 'credit rating' rather than 'outsourcing' the work of marketing loans as many foreign/private banks in India indulge in. Similarly, different industries have a typical trend pattern of expansion, which would be important for businesses dealing with such industries to understand. Moreover, it is important to reflect on changes in behavior pattern of

consumers, which requires constant market research.

While no business can plan so effectively that it always faces absolute stability and extinguishes uncertainties, the adverse impact on business may be made sublime by adhering to the principles discussed above.