

Tony Featherstone discusses how smaller companies can build up their arsenal, draw up their war plans and harness their troops to take on the downturn.

Some entrepreneurs learn their skills on the job. Others do fancy courses to get an edge. Dan Duggan, MAICD, learnt his business skills landing a Harrier Jump-Jet at night on a US aircraft carrier off the Persian Gulf. That experience may seem a world away from running a small Tasmanian company but Duggan, a fighter pilot who spent 12 years in the US Marine Corps, says his military career provides valuable lessons for business owners battling recession.

"I remember getting woken up in the middle of the night and being told I had two hours to leave for a new mission and that the briefing was in 10 minutes," says Duggan, founder of Top Gun Tasmania, an adventure flight and corporate training enterprise. "You soon realise the importance of a clear strategy, knowing how the mission fits within that strategy, and understanding environmental factors influencing the mission. The mistake many small business owners make during recession is losing sight of overall strategy and not paying enough attention to environmental factors."

Weather, terrain, the enemy and political issues were some environment factors influencing Duggan's mission planning. For small companies, they could just as easily be the economy, spending trends, suppliers and customers. "Too many small businesses spend too much time reacting to events rather than trying to anticipate them and planning accordingly," he says.

"In the marines, you spend a lot of time considering the current and future environment, planning missions and having a contingency plan if things go wrong. You learn to adapt if the environment is not what you anticipated. And, the strategy is clearly communicated and there is a debrief after every mission. How many small business owners sit down with staff and assess how a new initiative went?"

Few small companies have the resources to plan every move in detail or meet before and after each move. But Duggan's experience provides useful insights for business owners dealing with recession. Core issues such as strategic clarity and planning, anticipating the trading environment and communicating effectively are areas too many small business owners overlook in volatile markets.

Common errors such as poor payment collection policies, under investing in marketing and culling too many staff are in many ways symptoms of deeper strategic problems. Directors must also consider how

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Dan Duggan

entrepreneurial founders might react to a recession and if they are still the right person to run the enterprise if the strategy has changed considerably. It is a new experience for many directors after 16 years of economic expansion.

Dr Tom McKaskill, a global authority on entrepreneurship and university professor, says entrepreneurs often create their own problems in recessions. "The big mistake is not making hard decisions early enough," says McKaskill. "Entrepreneurs by nature are optimistic and positive. They don't want to let good staff go and don't want to get tough on loyal customers or suppliers. They hope things will turn around, but by delaying the hard decisions, they then have to cut four or five times deeper."

Duggan's fighter-pilot training taught him how to make quick decisions in the context of strategy. "When times get tough, too many small businesses throw long-term strategy out the window," says Duggan, who started his venture in 2005. In true military fashion, Duggan met his wife in Sydney when his US aircraft carrier came to Australia on its way home from the Persian Gulf.

He saw a niche to develop an adventure flight company at Hobart International Airport and quickly leased two planes. The business grew rapidly and Duggan, 40, who enjoyed his service time, did not miss undertaking the dangerous missions he flew in between the first and second Gulf wars.

If Duggan has one frustration, it is an overly negative Australian media. "Such short-sighted hype only spooks consumers, as it clouds their view on the big picture. The fact is that Australia is probably one of the best economically positioned countries in the world to weather this global recession. The danger for small business owners with this never-ending media doom and gloom is paying too much attention to it and having kneejerk reactions that kill long-term strategy," he says.

"You need to look at the facts, not just opinions, and make your mind up about environmental factors affecting your enterprise. You can't change course every time you read some new opinion or somebody tells you something." cont. p35



In downturns, smaller companies should:

- Review the battle grounds carefully
- **Update their combat strategies**
- Anticipate where dangers may emerge
- **Make hard decisions early**
- Work smarter than the enemy
- **Use lulls to train the troops and improve products**
- Have a Plan B if things go wrong

The top issues

TO CONSIDER IN A DOWNTURN

Here is list of 12 issues to which directors of small and medium-size enterprises (SMEs) should pay extra attention during recession. Many directors handle these issues as a matter of course in strong and weak markets; others only think about them when it is too late or not at all.

1. AVOID GETTING IN MANAGEMENT'S WAY

A mistake is suddenly becoming more involved in the organisation or abruptly changing behaviours when times are tough. If poorly thought out, this can send signals to staff that the board is losing confidence in management and it can erode executive authority.

2. STAY THE COURSE

Sometimes, the hardest thing to do is nothing at all. Good boards stay the course. They change strategy and management when needed, but never over-react to short-term events. Too many companies decimate stakeholder value by panicking.

3. GOVERN FOR GOOD AND BAD TIMES

Smart boards, with experienced directors, govern for up and down economic cycles. They resist becoming too aggressive at the top of economic cycles and too pessimistic at the bottom. Inexperienced boards get swept along as the business expands during boom times.

4. SEEK THE RIGHT INFORMATION

Directors should ensure they have the right management information in light of new market conditions. Are there enough "leading indicators" about future trading conditions or is data too slanted towards historical information such as financial accounts? Does the information pack need more qualitative information from customers or other stakeholders?

5. SPEND MORE TIME ASKING THE RIGHT QUESTIONS

Arguably, the best things directors can do during a recession are to spend more time reviewing information, ask the right questions and be diligent about getting answers from management. Directors must ensure they can challenge short-term executive decisions if needed.

6. CHAMPION STRATEGIC CLARITY

Directors add great value by ensuring short-term management decisions are made in the context of longer-term strategy. Too many quick decisions, if left unchecked, can reshape strategy and take the organisation in unintended directions that the board, custodians of strategy, never agreed on.

7. FIND OTHER WAYS TO HELP THE ORGANISATION

In tough times, for-profit directors may spend more time mentoring staff, attracting new business through their networks or communicating with shareholders. Not-for-profit directors become more involved in fundraising. Most important is ensuring new initiatives are agreed on, clearly communicated with other directors and management, and have measurable targets.

8. PROTECT THE CULTURE

Directors should ensure the organisation's true competitive advantage – its culture – is being protected as quick decisions are made. They should check that big decisions are being made and executed in ways consistent with the company's values and mission.

9. PROTECT THE BRAND

Guarding the brand is clearly the CEO's job, but too many underestimate how their actions during recessions damage brands, often seen as something to fix when better times return. Boards have a role in ensuring core brand values remain intact during recession.

10. ENSURE THE RIGHT PERSON IS RUNNING THE ENTERPRISE

If strategy changes significantly, the board should question whether the current CEO has the right skills to execute the new strategy. The same goes for the board itself; does the board need new directors with different skills in light of new strategy?

11. FOCUS MORE ON STAKEHOLDER COMMUNICATION

Many boards are working harder on communications, but so much more needs to be done. Directors of SMEs should pay more attention to how the organisation is communicating with stakeholders such as investors, staff, suppliers and customers. The challenge is communicating honestly and in plain English, while taking even more care wording documents.

12. ENSURE IMPECCABLE GOVERNANCE STANDARDS

It almost goes without saying that directors of SMEs should review their governance procedures during difficult markets and their own duties and performance. At a personal level, they should review issues such as director's and officer's insurance, asset-protection strategies and reputation management if their enterprise could fail.

Not changing course fast enough was an issue for Stephen Bryce MAICD, a Tasmanian entrepreneur who runs Laser Electrical, a successful electrical contractor, in Bellerive. Bryce recently retrenched five staff members – the first time in 15 years he has let staff go due to economic conditions rather than individual performance. “We were coming off a high base last year due to some large commercial projects that helped us grow revenue rapidly,” says Bryce, whose company at its peak was turning over more than \$2 million each year and employing 12.

“Then, like many businesses in our field, we hit a lull. We tried to hang on as long as possible and kept thinking market conditions would change. We kept doing things the same way and lost some business as competitors lowered their prices and service levels. It’s been a painful downturn, but we learned that you have to continually adapt to new conditions and not just hope things will turn around.

“Overall, I’m optimistic about the future and see the current downturn as a good time to re-evaluate our operations. When times are good, anybody can make a living. But now small businesses have to work much smarter and offer a service that is superior to that offered by competitors. And, you have to remember recessions can provide opportunities to grow market share as competitors leave the industry or cut back service. I am seeing more opportunities for this business.”

One of Bryce’s initiatives has been restructuring and rewriting the company’s trade terms.

“Every small business needs to pay more attention to payment terms, especially in downturns,” he says. “It’s not enough having a small note on the bottom of the invoice that says: ‘Pay in 14 days’. You need professionally written terms of trade and a system in place to make sure customers are honouring those terms. In our industry, it’s too easy for one contractor who can’t pay their bills to hurt another and so on.”

Another initiative was disbanding the company’s small advisory board. “I decided to stop the board meetings earlier this year because we needed time to rethink the strategy,” Bryce says. “Boards can be useful for small enterprises, but sometimes you just need to follow your own instincts and be able to step back from the business and review it critically on your own.”

Bryce says the upside to recession is more time for business development. “You can’t just hope work is going to come to you as it often does in good times,” he says. “If there’s not enough work you have to go out and find it, develop new relationships or leverage existing relationships more effectively.”

Cutting back too heavily, especially on staff development, is a big mistake many small enterprises make during

10 mistakes entrepreneurs make in recessions

Lists such as this one usually nominate common mistakes small and medium-size enterprises make during recessions, such as mismanaging cash flow, failing to review trade terms and payment collection policies, and under-investing in marketing and staff development.

All are important issues, yet less considered is the human side of entrepreneurship and problems it can cause during downturns. Of course, it is dangerous to stereotype entrepreneurs but boards of small companies led by founders need to pay extra attention to these 10 issues:

1. Not knowing when to quit

Nobody can begrudge entrepreneurs doing everything possible to save their enterprise and staff jobs. But passion and pride sometimes blind entrepreneurs. They persevere with the enterprise, division or product when the smart decision is to cut their losses and reinvest capital.

2. Exit fear

Entrepreneurs who spend decades growing an enterprise cannot imagine life outside the business. Like many managers, their work becomes their identity and measure of self-worth. “Exit fear” stops entrepreneurs selling or leaving a business when the time is right.

3. No plan B

Not having other options is a key reason why some entrepreneurs won’t leave their enterprise. Too much financial wealth is tied up in enterprise and career planning is often lax. Some do not even have friends outside the business. Smart entrepreneurs always have an exit strategy.

4. The wrong skills

Many entrepreneurs excel in selling, building relationships and motivating staff. But they may lack skills in cost cutting and business re-engineering in a recession and lose interest when fast growth wanes and more detail is needed.

5. Too positive

Entrepreneurs by their nature are positive. There is nothing wrong with that, except when too much positivity stops rational decisions being made. Some entrepreneurs delude themselves that markets will soon return to previous buoyant conditions and defer making unpopular decisions.

6. Staff ties

The entrepreneurial boast of “hiring slowly and firing quickly” often extends only to fringe staff or those new to the enterprise. Entrepreneurs, like most business managers, sometimes struggle firing core staff who were there from the start. Some can lack objectivity in tough markets.

7. Poor communication

Some entrepreneurs who are naturally upbeat struggle to deliver bad news to staff and communicate during recessions. Their charismatic leadership style becomes less effective when staff worry about job security and crave clear information and management skills.

8. Stakeholder inflexibility – part I

Small enterprise owners sometimes underestimate staff willingness to find new solutions to emerging problems. This might include staff working part time, job sharing, or learning new skills so they can work across more parts of the business.

9. Stakeholder inflexibility – part II

The same goes for other stakeholders such as suppliers and buyers. Smart entrepreneurs work with suppliers to find mutually acceptable solutions when times get tough. They spend more time with customers to develop solutions such as new trade terms that suit both parties.

10. Poor scenario analysis

Some entrepreneurs refuse to quit; others keep going because they lack forward-looking information systems. They rely on historical data such as financial accounts or do not do enough financial modelling and best and worst-case scenario analysis. Smart entrepreneurs sense what is coming by spending more time with customers.

‘If there’s not enough work you have to go out and find it, develop new relationships or leverage existing relationships more effectively.’ Stephen Bryce

recession, says Andrew Jenkins MAICD, founder of The Career Coach, a new career consultancy.

“When times are tough the first thing small enterprises cut is the training budget,” says Jenkins, a former general manager of a large independent Tasmanian recruitment company. “It’s understandable, but businesses

can do a lot of long-term damage if they stop investing in their people. The challenge is finding cost-effective, innovative ways to keep developing staff and taking advantage of any quiet periods in business activity to develop new skills in the organisation.”

Jenkins says the other trap is not communicating with staff about the risks and challenges facing the enterprise. “I’ve seen some small enterprises keep staff in the dark about the real issues. They think if they tell staff how bad things are, they will all leave. But often the reverse is true: staff become more committed to the journey, more flexible and more productive. The worst thing small enterprises can do is having idle

staff sitting around wondering what is happening and becoming negative.”

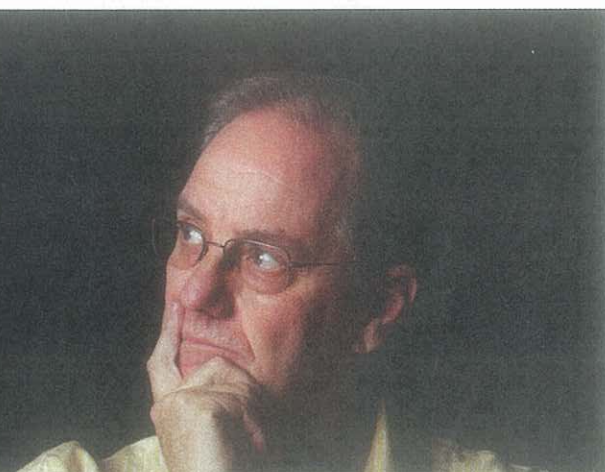
Peter Jordan MAICD, CEO of act3, a Melbourne human-resource consultancy that works with some of Australia’s top companies, says business owners often have false assumptions about staff willingness to change during down markets. “They can tend to think it’s solely up to them to find the solution,” Jordan says. “A week or two of workforce planning may not seem a long time for the CEO, but it can feel like an eternity for workers worried about their jobs who have heard nothing. A better approach is engaging staff upfront on ways to develop innovative solutions that find a compromise between their needs and the organisation’s.

“This could be job sharing, part-time work, nine-day fortnights, taking accrued annual leave or more leave, or any range of initiatives. The point is that people are intelligent and understand times are tough. Staff may have ideas that management haven’t thought about and getting their early buy-in invariably leads to better implementation and ongoing execution of new strategies. Staff members usually appreciate being informed and working for organisations that are

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