

Leaders' Insights

Chapter 2 / Version 2.0



The Second Tsunami - - Corporate Liquidity

Despite glimmers of hope on the economic horizon, it may be too soon for corporate managers to expect that the shocks are over. Of particular concern is the possibility of a second inbound global tsunami involving corporate liquidity.

With all the tough decision-making required to navigate the global economic meltdown of the last months, too many corporate leaders have failed to invest enough time to be adequately prepared for a potential second wave. We believe it is likely we will soon be facing a crisis involving the need to renew lines of credit, and renegotiate short term debt and covenants, in a market that is still far from "normal."

In the recent past, when short-term debt seemed perpetually renewable, many companies loaded up on leverage, both expecting markets to keep rising, and wary, lest they seem insufficiently aggressive. Normally, bankers were friendly and loan terms and covenants were generous. Unfortunately, some of today's staggering corporate debt reflects those more forgiving times.

Traditional lenders, from global giants to regional banks and insurance companies, have either disappeared or they have curtailed lending. Trusted, longtime banking relationships are often strained as friendly faces are replaced by strangers with very different priorities.

Compounding the problem, many companies lack effective models for valuing their assets in current markets. Real estate holdings that appreciated 10 percent a year have declined by 30 or 40 percent. Many are illiquid.

Declining sales makes it both painful and difficult to value inventories. The stark truth confronting many companies is that their old foundations for valuation and growth have to be replaced with new approaches that reflect a brave new world where cash, rather than credit, is king.



John McCreight

We publish *Leaders' Insights* periodically to encourage a dialog among senior leaders - including C-suite executives and their senior leadership teams, board directors, and government agency leaders.

We invest in developing and publishing *Insights* chapters to share the lessons we learn during consulting engagements, supplemented by our ongoing research.

Our readers are encouraged to pass this *Insights* chapter along to others, or contact us for additional copies. Copies can be downloaded from our Web site.

This *Insights* chapter would have been impossible without the dedicated efforts of two alliance partners.

We are indebted to Matt Walton, (mwalton3@gmail.com) for his insight and analysis. Matt was the first alliance partner, or client, to encourage us to focus on the likelihood of, and the shape and severity of, the "*The Second Tsunami...Corporate Liquidity*."

As always, Mark Schneiderman, (www.chernoffdiamond.com) has been a trusted colleague in terms of his perspectives on change management and enabling compensation initiatives.



STRATEGY IMPLEMENTATION CONSULTANTS

HERE ARE SOME SUGGESTIONS:

ACT NOW - - BECAUSE CASH IS KING... No matter the size of the company or government agency, it must have enough cash to meet payroll, pay taxes, make loan payments, and invest in critical initiatives. To raise money, as cash availability dwindles, the best assets are those that can be conserved, sold quickly without adversely affecting the core business.

Arguably, we may need to reach back for lessons learned, to 1993 and the last broad-scale recession with a roughly comparable liquidity crisis, to recall the dilemma faced by Lou Gerstner and his board. Emerging from the recession of the early 90's, IBM faced the prospect of missing payroll.

Gerstner and his board made a strategic decision! They sold a number of assets, the largest being the IBM Federal Systems Group. For the next decade, IBM became a marginal player with the federal government.

Gerstner had severed a least damaging piece of the company. He sold an asset that he could sell quickly and, though important, it represented a market he felt IBM could return to after a period of self-imposed exclusion, which IBM successfully did.

ENGAGE THE BOARD OF DIRECTORS... Forge a new relationship with each member of your board of directors. In this time of crisis, ask board members for their help and advice. Use the directors as in-house resources. Encourage them to play a greater role. Board members have valuable insights, insider information, and a fiduciary responsibility to shareholders. Directors may also be more effective than outside consultants.

Engaging directors will encourage them to become allies rather than adversaries. Encourage directors to partner with one another and with C-level executives. If the directors can't engage corporate officers in their role as directors, not management, you may have the wrong officers, or the wrong directors.

ELIMINATE SELECTED "C" AND "D" LEVELS FROM THE ORGANIZATION... Over the last twenty years, corporations have added senior C-level management functions run by technical specialists. While effective, many have also spawned expensive and sometimes ineffective bureaucracies.

Rather than making across-the-board cutbacks that are rarely sustainable, the current crisis presents an opportunity to prune, either by eliminating, outsourcing, or restructuring certain of these C- and D-level technical specialties.

It continues to be critical that leaders communicate tirelessly and credibly. As we highlighted in *Leaders' Insights*, Chapter 1. Be visible, listen, and speak the truth. For change to be effective, leaders, employees, investors, customers, and suppliers must be engaged and energized. Words alone are not sufficient to effectively communicate complex strategies and changes.

In his book, *Who Says Elephants Can't Dance*, Louis V. Gerstner notes, "In a crisis it's far easier for the company to emerge intact if the CEO makes sure that all the employees know there is a crisis, what management is doing about it, and what everyone must do to help."

Unlike recent years; today, Gerstner's step one should be simple - few in today's workforce do not understand that we are in a significant crisis. That understanding helps make an enterprise ready for change.

The following is a partial list of the clients:

Criminal Justice and Public Safety:

- Boston, Mayor's Office
- Detroit Mayor's Office
- FBI
- Indiana, Governor's Office
- Michigan, Governor's Office
- Montreal, Police
- New Haven, Police
- New York, Mayor's Office
- New York, Police
- San Francisco, Police

Healthcare:

- Connecticut, Emergency Medicine
- Henry Ford Hospital
- Graduate Hospital
- Greenwich, Connecticut, Emergency Medicine
- Johnson & Johnson
- Metropolitan Washington Regional Medical Association, Emergency Medicine
- US, National Institutes of Health (NIH)
- Yale-New Haven Health Systems



Examples include Marketing. In the last twenty years the function has grown larger, more specialized, and very expensive. Many have not been cost-effective. Outside, full service firms should be considered as alternatives for essential services. Outside resources are a variable, not fixed cost.

IMPLEMENTING NEW FORMULAS FOR COMPENSATION... A fourth area for change is compensation. Just as the present crisis challenges the need for large, expensive, and complicated Marketing bureaucracies, it also encourages leadership to reconsider sacred cows involving compensation. We are urging that our clients consider:

- converting to "flex time," with reduced hours,
- returning "merit" to the merit-salary increase plan, and
- eliminating or restructuring staff and middle managers' bonuses.

These compensation policies should be examined with the goal of preserving valuable talent while improving shareholder value. Also, reconsider stock awards for employees and executives. Have these awards been truly effective in motivating critical talent?

Another area to examine is stock option plans that are under water as a result of poor performance and, in some cases, the plunging market. Here, again, corporations might take advantage of today's unprecedented stock prices to redefine and restructure option plans, making new grants that could be of significant value to true performers when the company and the economy recover and the value of these undervalued assets can be realized.

ANTICIPATE THE SECOND TSUNAMI BY TAKING ACTION... Risk mitigation begins with acknowledging that the risks are probable.

Implementation is the simpler second step.

We welcome the opportunity to collaborate, or partner with leaders focused on designing and implementing their organizations' roadmaps for sustainable success - through one, two, or many tsunamis.

Please keep us posted by e-mail (roc@implementstrategy.com) or phone (203.594.7300). We welcome your perspectives and insights.

Information and Education:

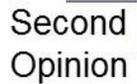
American Express
Applied Minds
Bank of America
Citigroup
Connecticut Council for
Education Reform
Covisint
Credit Suisse
Detroit Public Schools
Deutsche Bank
Greenwood Publishing
JP Morgan Chase
Kauffman Foundation
LexisNexis
New York Public Schools
Reed Elsevier
Stamford Public Schools
The New York Times
TheStreet.com
The Washington Times
University of Pennsylvania

National Security:

CIA
Deputy Secretary of Defense
FBI
NGA
NSA
ODNI
Presidential Commission
TASC

Technology and Energy:

Alcatel-Lucent
Amtrak
AT&T
Avaya
Bell Laboratories
Boeing
Chrysler
Ciena
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EF Johnson Technologies
Getronics
IBM
Kellstrom Aerospace
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National Grid
Northrop Grumman
Telcordia
UIL Holdings
United Illuminating
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Varian Semiconductor
Verizon
Xerox



STRATEGY IMPLEMENTATION CONSULTANTS

Our Firms

McCreight & Company and our three sister firms, Board Effectiveness Partners, the CIO Group, and Second Opinion, partner with clients worldwide, to ensure the successful design and implementation of strategic, large-scale change.

Our Experience

Our consulting practices are built on decades of experience partnering with some of the world's most respected leaders and organizations . . . implementing complex, and often intense change.

How We Add Value

- analyzing and refining strategy
- defining implementation initiatives with timelines and milestones
- defining implementation roles, accountabilities, and resources
- monitoring implementation progress and identifying and assisting to mitigate roadblocks
- ensuring strategy is sound, sustainable, scalable, and successfully implemented, on-time, on-target, and on-budget. We partner with clients in designing and implementing strategic change, including: global growth, leaders' boards' and directors' effectiveness, business or mission restructuring, new business or mission launches, mergers, acquisitions, joint ventures, and alliance partnerships.

Our Goal

- Partner with our clients worldwide to ensure their competitive superiority.

Our Vision

- To excel in leveraging experience, technology, information, knowledge, and evolving best practices.
- To exceed the fast-changing performance standards established by our clients, alliance partners, colleagues, and the community leaders we serve.

Our Values

- Being leaders and visionaries, anticipating and pragmatically addressing the needs of our clients, our alliance partners, our profession, our colleagues, and the communities where we live and work.
- Making big contributions – “leave footprints.”
- Attracting and nurturing the best-of-the-best: clients, colleagues, and alliance partners.
- Contributing pro bono consulting to public and non-profit entities.
- Bringing out the best of every member of our firm in an environment that engenders respect, trust, and teamwork. And, have fun along the way.

Our Clients' Focus

- criminal justice and public safety
- healthcare
- information and education
- national security
- technology and energy

Our Alliance Partners

Our firms nurture relationships with over 150 partner-level professionals as Alliance Partners. They complement our competencies, exemplify preeminence in their fields, and bring to engagements a depth of experience dealing with many difficult business, governance, information, and technology challenges.

Our Research & Operations Center Professionals

We focus daily on understanding lessons learned and emerging best practices, to ensure our firms' professionals are informed, competent, proactive, and responsive, and that we bring immediate value to our clients.



STRATEGY IMPLEMENTATION CONSULTANTS

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