

Is *Back-to-Basics* Good Enough?

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I have come to detest the 24-hour news cycle and its effects on business and economic reporting, where the tone alternates between the funereal and the hysterical. All the while, there is often more sizzle than steak in the continuous *breaking news*. The public and business owners are the losers for it, as theatrics and repetition crowd out substance at a time when the economy and financial system require thoughtful, data-driven analysis in order to achieve recovery.

I am also annoyed by the amen corner of business commentators preaching *back-to-basics* as the cure for all our economic ills. I suspect this unanimity derives less from a newfound vision of commercial responsibility than from bafflement before a highly complex economic and political situation. Saving a business requires more than hunkering down and waiting for the storm to pass. But, as with motherhood and apple pie, it is difficult to go wrong recommending the fundamentals of good business practice (although the recent case of the octuplets may have managed to raise a question about motherhood!).

Despite the daunting complexity of this economic downturn and systemic stall, we know that the causes include gross violations of what we consider basic business principles: creditworthiness, sound risk management, accountability, and the reasonable use of leverage, as well as prudent investing. It is painfully obvious that those who departed from sound business practices should get religion again; and that those who have wisely stuck to those principles need to continue. However, the *back-to-basics* movement among commentators sounds suspiciously like a safe way to fill air time until a new conventional wisdom asserts itself. The problem is that it may be bad advice. Business can – and must – do better.

Suffice it to say that I am certainly not against the basics. They are indeed *necessary* to business survival, but they are not *sufficient* to ensure it. Growth is the engine of long-term business success; and, growth derives from innovation and its corollary: change. Even under the most severe economic conditions, successful business leaders seek opportunities for growth that expand the business, make it more competitive or, at a minimum, compensate for revenues lost to the economic contraction. It follows then that companies today must pursue a two-stage process of strategic self-examination.

The first stage examines the fundamentals of the business. How strong is the company's cash flow? How well is the company managing its collections and expenditures? Or monitoring the creditworthiness of customers and vendors? Is there enough capital to sustain operations and make necessary business investments? How available is additional capital, if required? What is the state of the firm's bank and investor relations? Is the company's market merely slowing, or is it changing in ways that require a strategic

adjustment? Are the company's products and processes state of the art? Does the firm have a strategic plan in place? Is the plan current and actively pursued?

The next level of examination is strategic and flows from two angles of analysis: on the one hand, the economic environment in which the firm operates; and on the other hand, the specific growth opportunities available to the firm. The economic analysis constitutes a *macro* perspective versus a *micro* or individual firm point of view. The broad economic view has to do with trends in output, employment, capital investment, and other fundamentals rather than the daily ups and downs of the Dow. In a nutshell, it affords the business leader a sense of economic direction: same, better, or worse – with all the implications thereof.

The second angle of analysis relates to the strategic options of the individual firm, considered in the context of the *macro* view. In recessions as in boom times, companies must have an opportunistic dimension to their operations. Capital may be less abundant and demand less enthusiastic, but, ultimately, there is no survival without innovation and growth. A recession may bring fundamental changes to the core market: these are opportunities or threats to which the firm must respond. The business owner may take a variety of approaches to these new circumstances.

Revenue diversification can mitigate the slow-down in core areas of the business, as firms look for new ways to deploy their existing knowledge, technology, and equipment. Such *close in* diversification may entail less investment and a flatter learning curve than more radical diversifications from the core business. Alliances and joint ventures are designed to exploit complementary capabilities and weaknesses between companies that may even be competitors. Restructuring, sales, and acquisitions are serious steps that businesses should undertake only with great forethought. However, in recessionary times, they may provide access to scarce capital, new markets, improved technology and processes, and expanded services.

The successful business leader is a perpetual student of the firm and its potential. In this regard, the basics are essential because they ensure that there is a business to work with, but they do not – in and of themselves – provide the leavening, creativity and growth on which long-term survival depends. In hard times, it is risky to hunker down and forget that *the best defense is a good offense*.

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