
Is it over yet? Businessmen offer recession insight



By Shellie Karabell

These are indeed times that try men's (and women's) souls. But the way forward is not to cut back or sit on the sidelines. According to several business leaders attending INSEAD's Leadership Summit Europe, you've got to keep one eye on the balance sheet, another on the horizon and be mindful of constant change as new circumstances will often hide opportunities in what appears to be trouble.

"We're seeing transactions now beginning to close," says **John Cutts** (MBA '76), CEO of London-based financial managers Pall Mall Capital. "People feel it's better to get the deal done than to wait. I would hesitate to call this a 'turnaround;' I think we're going to have a bumpy ride until the early part of 2011," he adds, "particularly in the eurozone. I think the level of sovereign debt is troubling, and I think particularly the weaker economies in the southern part of Europe have been allowed to over-borrow and I think there will be a lot of civil unrest. We've seen it in Greece and we're probably going to experience it in Spain and Portugal, and that's a difficult environment for people to invest in."

Joe Saddi, Chairman of global consulting firm Booz & Co, is a bit more sanguine in his view of the future. “By now I think we’ve seen the worst,” he says, “but it was blunted by massive government stimulation and there is still a lot to be done to get us out of the woods: we have to tackle public debt, overhaul regulatory frameworks – especially of the financial sector – restructure balance sheets...”

Booz’s Managing Director **Neil McArthur** (MBA ‘90J) has tracked the recession as it marched through the corporate world. “Initially as the recession hit, it was all about maintaining the balance sheet, so there was a lot of working capital reduction.

Since then it’s been a lot of work looking at operating models: cost reduction, transformation; and now we’re back to sort of growth strategies for our clients.”

Out of all this comes a new strategy to be published soon by Booz & Co. “Too often companies will simply define a strategic position – ‘Oh look, there’s a lot of money, there’s an opportunity’ – and not pay enough attention to whether they really have a ‘right to win,’” says **Tom Stewart**, Booz’s Chief Marketing and Knowledge Officer. “A capabilities-forward review of strategy often gives you more effective results.”

“A very practical example of capability-driven strategy – or how to win and where to play – is having a very clear idea about do you want to be an innovator in your industry or a low-cost producer?” adds McArthur.

Booz’s own niche is analytical fact-based consulting, and it has been spreading the gospel around the world more than ever during the recession – opening offices in Moscow and India and other BRIC capitals recently.

Pall Mall Capital does one major capital transaction in Africa per year along with its other business, according to Cutts. The company is involved in big-scale deals, such as telephone operator CellTell. Pall Mall also re-capitalised the Bank of Africa. Cutts sees signs of maturation in these so-called emerging economies.

“In the Middle East, in Abu Dhabi, we are looking at opportunities where Abu Dhabi is investing in the West but also where Western investors are seeking opportunities in Abu Dhabi,” he says. “And we’re now seeing Indian companies buy companies in Western Europe. And I suspect that will

become a much more acceptable activity for the future. Meanwhile, India and Brazil have been able to develop their own internal sources of capital because they have achieved growth. China, too, has achieved very substantial and sustainable growth, and I think they're all looking at the developed economies and wondering whether they necessarily want to follow that model."

It's not all that certain the developed economies want their own models to continue. "There's the whole question of corporate governance and the right way to do it," says Booz's McArthur. "We've clearly had some lessons in what's the wrong way. Then there's the whole role of boards and how they interact."

Getting back on track – indeed, even finding a track to get back on – will not be easy. "There are a number of challenges, says Booz's Saddi. "Global uncertainty, the need to deal with governments – especially in the healthcare and financial sectors."

Booz & Co says it is looking for a few good men and women: "We're looking for intellectual curiosity and strong analytical rigour," says McArthur. "And then the other thing we're looking for is good people skills, to be able to engage with senior leadership of our clients' organisations."

As to what he advises for today's new economic times, McArthur says: "We need to spend less and earn more. So what that means is, we need more GDP growth and to get more GDP growth we need more innovation and we need more entrepreneurship."

Finnish-American **Mika Salmi** (MBA '92D) is just such a person. The former Viacom president for global digital media (2006-2009) now lives in California and sits on several boards while developing a slew of technology ideas. But he is possessed of a healthy scepticism towards his chosen field. "People in Silicon Valley or in technology in general around the world feel that technology will solve all the problems. They say 'look, this is the coolest technology' ... but I think the real question is what your product is and how you adapt it and how you want to make money; and that's going to depend a lot on what platform you're playing in and what your product is."

Success also depends upon staying flexible to keep up with technology. "What I think is hard for a lot of traditional media people to understand is,

technology never stops. It's not like 'Oh, now we've got this screen and for the next 50 years we'll be pushing programming into this thing called a television,' because technology is constantly evolving –literally on a daily-weekly basis there's some new twist on it."

Salmi is no stranger to change nor does he fear it. Herein lies the lesson. "I'm optimistic because change always creates opportunities," he says. "There are opportunities that come with new ideas – how to create products, how to meet consumer needs."

Booz & Co were lead sponsors of the INSEAD Leadership Summit held at the school's Europe campus in Fontainebleau on May 14.

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