

# News Release

## UK Companies Confess: Wrong Strategy for Downturn

- 51% of businesses admit to having the 'wrong strategy' for economic slowdown
- Companies ill prepared for both downturn and upturn
- Brown's "Boom Generation" leaders lack recession experience

British business has been caught out by the economic downturn, a new study from global management consultancy Hay Group today reveals. The report, *Fight or Flight?*, exposes a startling lack of forward planning for changing economic cycles by British business.

### Caught out

According to the research, firms have been preparing for a slowdown for just ten months on average – the point at which the credit crunch hit.

Over a quarter (27%) of business leaders confess that they have only been preparing for the past 6 months, whilst close to a fifth (18%) admit they have only just begun their preparations.

The impact of this lack of planning is stark: UK business leaders forecast that the slowdown will hit profits by 1.3% on average over the current financial year (2008/9) – a fall equivalent to £900 million across the economy.

Larger companies with over 1,000 employees expect to be hardest hit, with profits predicted to slump by 2.2% on average.

### Strategic misfits

The research highlights not only a lack of planning, but also an ill-conceived strategic response to the current downturn by British companies.

The findings reveal that more than half (51%) of business leaders admit they have the **wrong strategy** in place for current economic conditions. Over a quarter (26%) have made no changes whatsoever to their strategy in the light of the new climate.

Of the fifth (18%) of companies that *have* developed a strategic response to the economic turmoil, nearly half (46%) concede that their company will be too slow to implement it.

### Heads in the sand

Despite a clear awareness of the need to adapt their business strategy (78%), UK businesses are not taking steps to do so.

The majority of business leaders agree that the current economic situation will fundamentally change the business environment: more than half (61%) forecast slower growth in Western economies. Close to half (46%) predict a shift in economic power to emerging markets, while a significant minority (19%) believe that the UK economy will be radically different after the current downturn.

Yet despite these concerns – and the fear that they have the wrong strategy in place – over two thirds (68%) of business leaders have *no plans to change their strategy*. A simple readjustment of performance targets (41%) has been the most common response to the economic slowdown.

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## **What goes down must come up**

As well as being ill prepared to weather the current economic conditions, business leaders admit that they are not in a position to capitalise on the subsequent upturn.

Of the third of business leaders (32%) who *had* created a new strategy for downturn, a paltry 13% have formulated plans for when the market recovers.

Russell Hobby, Associate Director at Hay Group, comments: “British businesses have been caught out by the downturn - and now risk missing the recovery too. Business leaders must recognise that it will not be business as usual after the current economic strife. Planning for the recovery starts now.

“Economic turmoil can reward aggressive strategies. Only firms with agile business models will stay competitive in both downturn and recovery. Now is the time to acquire talent, market share and customers from weakened competitors, and maintain bullish investment in R&D to leapfrog those who have lowered their sights.”

## **Short sighted short-termism**

Hay Group’s research also points to several barriers to business effectively preparing for the changing economic climate, including an inability to know what to prepare *for*: 42% of business leaders believe their firm cannot accurately forecast economic cycles.

Business leaders also cite pressure for short-term results from shareholders (49%) and an overly risk-averse board (24%) among the factors impairing their firms’ long-term strategic response to the slowdown.

Russell Hobby, Associate Director at Hay Group, comments: “The greatest challenge faced by Britain’s business leaders is *executing* the right strategic response to the downturn. The keys to execution are intangible: talent, relationships and knowledge – and so are the first to suffer from knee jerk responses to economic uncertainty.”

## **Brown’s boom generation**

A lack of leadership experience and vision is identified as one of the primary reasons for UK companies getting their response to the downturn wrong.

Having witnessed the longest period of economic expansion on record, Gordon Brown’s generation of ‘boom’ leaders confess they lack the experience required to lead in a bear market.

Close to half (46 per cent) of business leaders cite their leadership team’s lack of experience of managing in a downturn as a serious threat to their business. A similar proportion (45 per cent) confess to lacking the vision required to lead companies through economic turbulence.

Russell Hobby, Associate Director at Hay Group, comments: “Business leaders need to be finely tuned to a constantly changing environment during downturn, and ready to react accordingly. “Conditions can change overnight; clues and signs about customer behaviour are found in the strangest places.

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“A keen market antenna, combined with decisive action and a cool head, is essential if UK business leaders are to ensure their firms survive the downturn and thrive when the economy picks up again.”

*ends*

## **For further information**

For more information, an interview with Russell Hobby or a copy of *Fight or Flight*, please contact:

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## **Notes to editors**

**Please note:** this study should be credited to ‘global management consultancy Hay Group’, and not ‘Hay’ or ‘Hays’, which are separate and unrelated organisations.

## **About the research**

Hay Group commissioned independent research among 120 senior business leaders in UK companies, 40 of whom were from the financial services sector. Additional economic analysis was provided by The Centre for Economic and Business Research (cebr).

## **About Hay Group**

Hay Group is a global consulting firm that works with leaders to turn strategies into reality. We develop talent, organise people to be more effective, and motivate them to perform at their best. With 86 offices in 47 countries, we work with over 7,000 clients across the world. Our clients are from the public and private sector, across every major industry, and represent diverse business challenges. Our focus is on making change happen and helping organisations realise their potential. For more information, please visit [www.haygroup.com](http://www.haygroup.com)