

The Economic Crisis and Its Aftermath: What to Ask the Person in the Mirror



HARVARD | BUSINESS | SCHOOL

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Vision / Strategy



- **Have you developed and communicated a vision for your business?**
- **How often do you articulate your strategy to your people?**
- **If asked, would your employees be able to repeat it?**

Management Task Priority



- **What are the three to five most important management tasks?**

Managing Time



- **Do you know how you spend your time?**
- **Does it match your top three to five priorities?**

Feedback



- Do you provide people with timely and direct positive and constructive feedback?
- Do you tell people things they do not want to hear?
- Do you wait for annual performance reviews to do so?
- Do you have 5 or 6 people who will tell you the truth (whether you like it or not)?

Evaluation



- **How often do you look at your business with a “clean sheet of paper” — ask whether what you are doing still makes sense**

Alignment



- **Is your culture, recruitment, compensation criteria, promotion criteria, and organizational design consistent with the key success factors that drive effectiveness in your business?**

Things We Think We Know

(intended to be articulated at a high level without getting bogged down in the underlying data)

Past 10 years — key economic trends

- Stagnant Real Wage Growth in the United States
- Net savings rate (as a percentage of disposable income) falls to approximately zero
- Consumer spending as a percentage of GNP rises to 70 percent
- Consumer leverage rises to record levels (credit card debt, mortgage debt and auto loans, etc.)

Over the past 20 years, substantially all major money center banks enter the securities businesses — no “pure” large money center banks

- As a result, when securities markets decline, these entities take write-downs which reduce their capital and their ability to make traditional loans.

Things We Think We Know

(intended to be articulated at a high level without getting bogged down in the underlying data)

Financial assets increasingly housed outside the traditional commercial banking sector

- So-called non-bank financial firms (broker dealers, mortgage originators, finance companies as well as hedge funds)
- Lending standards decline at these non-bank financials
- Federal Reserve only regulates commercial banks

Loans are increasingly re-packaged into securities (e.g., through securitizations of mortgage loans, auto loans and consumer loans) and are sold to investors globally. This dramatically facilitates the ability of consumers to increase their leverage

Things We Think We Know

(intended to be articulated at a high level without getting bogged down in the underlying data)

Securities are increasingly “insured” by complex derivatives (“cbs”) which are issued primarily by broker dealers

- This market is not closely regulated by the Fed (as it is outside the commercial banking industry)
- It is estimated that the size of this market may be approximately \$60 trillion (or approximately 10x the underlying debt issuance)
- These instruments are not traded on exchanges — they are counter-party instruments

By fiscal 2007, an estimated 48 million Americans are uninsured. Government debts (including unfunded mandates) reach record levels.

Corporate profits reach record levels (as a percentage of sales) in 2007. Global stock markets also reach record levels during 2007.

Where We Might Be Going

Consumer de-leverages and savings rate rises from 0 to 5-10% of disposable income (culture of “cool to spend” likely to change to “cool to save”?)

Consumer spending declines from 70% of GNP to 60% of GNP?

Financial sector de-leverages (with assistance of federal government)

Substantial increase in regulation of derivatives, non-bank financials as well as commercial banks

Re-examination of role of public company CEO as well as role of public company Boards of Directors

Where We Might Be Going

National and International efforts to de-leverage without destroying GNP

- Leading to massive increase in role of central governments (beyond current “financial system bailouts”)
- Congress passes \$858 billion stimulus package intended to stimulate GNP and preserve jobs — in context of expected \$1+ trillion fiscal 2009 deficit
- Federal Reserve pursues various initiatives aimed at stimulating the economy
- Congress and President agree on extension of tax cuts and other fiscal measures in the late fall of 2010 (deficit reduction to come later.....not right now)

Danger that a) unemployment rate in the United States remains above 9% , b) government deficits and unfunded mandates force action

“New normal” will look different than the “old normal” — Impact of household and government debt levels on GNP growth, financial markets and relative global wealth distribution. Impact on asset allocation.

What Does It Mean for You?

Plan for this to take longer than expected

- Plan for downside scenario — capital structure and expense structure
- Mindset is key

A time for more analysis, homework and preparation

Clean sheet of paper

- Focus on core competencies
- Task force(s), solicit advice, brainstorm

Premium on vision/priorities/leadership

- Over-communication

Behavior under pressure (calm and forward looking)

Take better care of yourself

See this as a time of great opportunity