



# DARRYL COOKE ON LEADERSHIP

**THE RECESSION WILL PRODUCE WINNERS AS WELL AS LOSERS. DARRYL COOKE CALLS ON LEADERS TO EMBRACE INNOVATION TO MAKE SURE THEY JOIN THE WINNERS**



## Novelty value

**N**o-one can or will be able to predict accurately the end of the recession. However, one thing for sure is that there are good opportunities emerging from the ashes.

Companies that will emerge from the recession stronger than their competitors are the ones now seeking out such opportunities. A recession is not a time to bunker down. Strong leadership should now be questioning the strategic rationale for non-core assets, the fundamental assumptions of their business model, their M&A strategies, and the innovation process of their companies.

Conventional wisdom suggests that consumers return eagerly to their old attitudes

ask the question how will this help us to reach market share targets? Or how will this impact on our growth rate? Or, how will this affect our immediate share price?

What is really important is how will this acquisition help us to meet the needs of our customers and our target customers in ways that cannot be readily matched by our competition?

If that question can be answered satisfactorily then real value can be created and not destroyed. The only question to be answered then is whether the price is worth paying. And, if it is, then you have a company that is capable of changing the landscape.

It is therefore crucial to have at the

Tom Peters writes that, "Business is about 'Creativity and Invention and Growth and Service'." It's about Adam Smith's "hidden hand". And Nobel laureate Frederick Hayek's "spontaneous discovery process". And economist Joseph Schumpeter's "gales of creative destruction".

Innovation can be a thousand different things. A client of mine refers to his R&D department as "rob and duplicate with a touch of improvement".

Jack Welch led GE for two full decades. He changed the rules. He destroyed bureaucracy, he went after quality, he developed a value-based organisation. Each time he launched a major assault on one of the largest companies in the world.

A new economy is emerging, new business models, a changing consumer demand. The companies that are best placed to respond will be those with innovation and change at their core. Innovation can mean understanding your customers, working with and responding to their needs or it can be developing products and services that not even your customers know they want yet.

Increasingly, companies are discovering the advantages of collaborating with a range of outside organisations such as suppliers, customers or universities. The benefits are obvious, from cost sharing to knowledge co-incidence.

Innovation does not start and stop with product development. It challenges every aspect of a business and every service from manufacture to delivery. It's not just about the "new" but learning from the best and doing things better today than you did yesterday. It's about challenging every department in your organisation to find better ways of doing things.

The management maxim "if it ain't broke don't fix it" is medieval and has in all successful companies been condemned to the refuse. Should you make the mistake of following it, you can watch your competitors as they pass you by. ■

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and behaviour once a recession recedes. The theory is that pent up demand during a recession is unleashed once consumer confidence returns and credit becomes more readily available.

It is absolutely the right time therefore to plan an M&A programme. Private equity firms are aware from the experience of many cycles that the companies they buy now will give them some of their best ever returns.

It is also right, however, to be more considered and understand why so many acquisitions in the past have failed to add value. M&As in past decades have, on average, destroyed value for the acquirers' shareholders.

Acquisitions have been marketed as a value-creating tool but most companies have failed to add value through acquisitions, or at least in terms of shareholder value. Reasons often cited include too high an acquisition price or a failure to deliver on synergy potential.

However, often the real root cause is that managers come from the wrong paradigm when they undertake their commercial and financial due diligence. Too often managers

forefront of everyone's mind the need for real value creation. The key performance indicators developed to assess this on their own can be misleading. These can include share price, earnings per share, market share, customer satisfaction etc – all very valuable but considered alone they can provide the wrong impression.

At the same time, acquisition managers, CEOs and finance directors need to ensure that they maintain independent thought from their advisors, whose primary interest is to ensure the transaction takes place and not that value is created.

Buyers also need to be patient. Recessions usually mean that acquisitions take longer and are more difficult. However, if the value creation questions are positive then persistence is a small price to pay.

Value-creating mergers and acquisitions are one way of emerging from the recession stronger and fitter. Another is through innovation. There is a compelling argument that business has been too easy and that it's only when we really have to, when our backs are against the wall, that we will see real innovation.