

A totally new **business environment**

Global survey suggests that those expecting a return to pre-crisis conditions are engaging in wishful thinking

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Ukraine was one of the nations most severely impacted by the global economic crisis, making it one of the few emerging markets to be as badly hit as the world's developed economies. Expectations are now rising that a sustained global recovery is underway but levels of optimism vary from country to country. A recent global survey entitled 'Planning for Growth' by Ernst and Young found that companies were adopting tailored approaches that differed significantly depending on whether they were operating in developed or emerging markets. Perhaps the most striking finding of the survey, which quizzed CFOs and senior executives in major industries in 15 of the world's largest economies, was the idea that the global business environment has changed forever and that markets will never return to anything resembling pre-crisis conditions.

No going back to pre-crisis conditions

While there is a sense of guarded optimism evident in international business circles, global companies seem to be basing their plans for the next three years on a number of calculations, the most common place being that although the recovery is a global phenomenon growth will not be felt worldwide, with variations by country and by sector widely anticipated. Companies consistently stated that they did not expect the conditions that existed before the economic crisis to return. Almost one in three companies stated that they do not expect business to "return to normal". Furthermore, while it is true that emerging markets can expect

to enjoy stronger performance than developed economies, this is not being viewed as a global movement. The rise of new economic giants like China and India, as well as additional regulation, increased taxes and the potential return of inflation, are seen as factors that will make businesses less profitable unless they are effectively addressed. A consistent theme that runs across the survey results is the expectation of increased volatility and complexity. Markets are expected to see major swings in growth, and both the volume and depth of change are expected to increase.

Ukraine to mirror global recovery trends

The Ukrainian economy is not yet mature enough to support independent trends and the recent credit crunch recession demonstrated the high extent to which Ukraine's economy is subject to the peaks and troughs of global markets. The dependence of Ukraine on the hugely lucrative export market for metal products makes the country largely reliant on markets in both the developed world (Europe and North America) and on demand from emerging markets like China and India. As a result this involves Ukraine in the economic trends of these countries

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a significant degree. We believe that the trends we are likely to witness in Ukraine in the coming months will be closely related to those within the global economy, with a greater responsiveness to European market developments than those occurring in India, China and Brazil. The Ukrainian domestic consumer market, meanwhile, has registered a sharp drop in demand. Given the drastic changes in the Ukrainian business environment over the past two years, we don't expect growth to return quickly. Nor should we anticipate a jump in sales; it seems more likely that we will instead see business dynamics increase gradually over the course of the next few years.

Key differences between developing and developed markets

It is interesting to analyze the differences in estimates of future growth made



by companies operating in the emerging markets such as India, China and Brazil compared to companies working in developed markets. In general, emerging markets have suffered less than developed markets during the credit crunch crisis although Ukraine, despite its status as an emerging market, suffered considerably from the global crisis, as did neighboring Russia. Recovery perspectives among companies in emerging and developed markets differ considerably. For example, expectations of a rapid economic recovery are stronger in developing economies, while the expectations of companies in developed markets tend to be more restrained. On this issue the position of companies operating in the Ukrainian market is closer to the position of other European companies than that of companies in China or India. This is largely because the financial crisis has had less of an impact on emerging economies where lending is less widespread, more companies are state-controlled, and GDP has continued to rise over the past two years (China's predicted GDP growth for 2010 is 8% and India's is 6%). Besides, the concept of rapid change – perceived as a threat to “business as usual” in many countries – is more ingrained into emerging economies' perceptions of what “business as usual” means. For example, it is common for companies in China to expand from employing a handful of people to a workforce of several hundred in just a few years.

Why has everything changed forever?

What makes the international business community think that we will never witness a return to pre-crisis conditions? Opinion seemed to rest on a number of key assumptions. Many respondents asserted that the market has fundamentally changed – customer behavior has altered because of the crisis, with fewer consumers prepared or able to increase their personal debt; this will act as a major damper on some business models. Similarly, there is a greater awareness that there has been a shift in economic power toward the new economic giants such as China and India, which have already demonstrated that they have a different perspective on economic manage-

ment than the West. A minority of business leaders has already initiated internal change programmes. However, although they can clearly see the necessity of adaptation, the majority of companies have not developed their master plan yet. People also expect businesses to be more cautious – this is because of tighter regulations and also mean that business failures are expected; therefore risky behaviour, such as derivatives investment, is now out of favour. This may only be temporary, but it could refocus business efforts onto innovation in product and process, rather than finance. Businesses have now recognised the need to operate more efficiently with a strong emphasis on cost reduction and the recognition of much tougher competition from international rivals. For many, this will raise the threshold as they review their activity portfolio in the post-crisis world.

There are numerous lessons to be learned from the crisis, but there remain significant variations in the lessons that could, or should, be drawn from the downturn. The financial services sector, in particular, has had to learn some tough lessons about responsibility and transparency. Businesses are also being forced to acknowledge the need to become more adaptable to market changes – this factor is applicable to all sectors, but particularly to real estate and retail, where a reduction in credit availability has caused a dramatic downturn.

Stepping stones to a stronger recovery

Some businesses are still coming to terms with the severity of the downturn, while others have consolidated and reduced their cost base so they are now well-prepared for future growth. There are, however, certain reactions to the crisis that most companies share. The normal changes that businesses make in the course of their commercial life have accelerated. As a result, companies will have to think and act more quickly, and make efforts to identify trends and anticipate future changes. Companies now have to be more flexible in their approach to change, which means being quicker to implement and incorporate the changes that they identify as necessary. To achieve such speed and flexibility, companies must concentrate on

building a solid foundation – the most advanced IT systems, a responsive and dynamic HR function and a robust and consistent finance function – to create a flexible and efficient value chain. Importantly, they must support all of this with strong and decisive management.

Lessons for Ukrainian managers

The Ukrainian economy, as one of the region's largest emerging markets, is increasingly integrated into the global economic system. Global processes occurring all over the world have an increasingly important role to play in determining economic processes within the country. Therefore, the recommendations of world business leaders have, inter alia, a practical value for Ukrainian companies. Promptness of decision-making coupled with improved flexibility in attitudes towards change, the use of smart technologies and responsible leadership are all trends which have been well evident on the Ukrainian market as local companies have rationalized their response to the challenges of the new economic reality. However, the underdeveloped financial functioning of many Ukrainian companies continues to be a significant competitive disadvantage. This is a peculiarity of companies throughout the world's emerging markets which are at the stage in development when management is focused primarily on capturing market share and increasing cash flows. During the period of rapid economic growth prior to the credit crunch this policy brought immediate benefits, but in times of instability and economic decline the most forward-looking companies not only focused on reducing costs and optimizing cash flow, but also on building a more efficient internal financial system that allowed them to better understand the financial health within the organization and be better prepared for future growth.



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