*Investors looking at **computer screens showing stock information** at a brokerage house in Fuyang, Anhui province, China, recently. **China's economic slowdown** has affected growth rates worldwide.*
Reuters pic

Navigating new economic realities

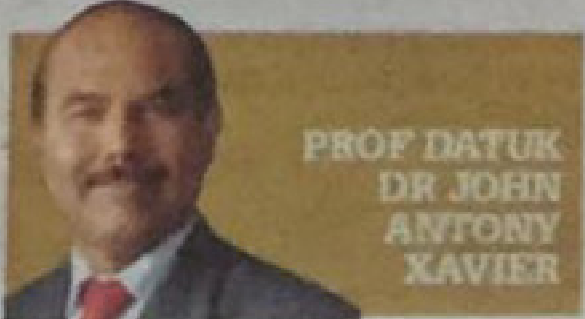
TOUGH TIMES: Automate, invest in R&D, retain talent, eliminate unprofitable activities, work with competitors and export more

WORLD markets have seized. China, the world's second largest economy, has posted a dismal growth of 6.5 per cent — the lowest in 25 years. Emerging economies are struggling to grow. So are Japan and the Eurozone. Credit growth and private consumption has slowed as Malaysia, Thailand, South Korea and China, for example, are laden with private household debt — some as high as 89 per cent of the gross domestic product. The subdued global demand will impact our exports.

The world is drowning in oil as prices fall below the US$30 (RM128) trapdoor, injuring the revenue position of the government. Continuous outflows of capital have reduced liquidity in the financial system, while depressing the ringgit's value. A narrowing current-account surplus and a cut to its credit rating add to a further erosion of investor confidence in the local economy.

The expected United States interest rate rises this year as well as the rising local loan-to-deposit ratio will raise the cost of financing. That will compound the difficulty of getting bank loans for company operations. Firms will have to contend with increased wage costs due to a tight labour market as evidenced by the fact that half of our workers changed jobs in the second-half of last year, compared with a third in Hong Kong and a quarter in Singapore.

> **Companies have to retain talent** *through greater job satisfaction. Ranstadt, a recruitment service provider, reports that* **only three-quarters of the Malaysian labour force are contented with their jobs.**



Working-capital imports will cost more because of the depreciated ringgit. Firms down south stand to lose skilled and unskilled labour to Singapore on account of better wages that they can't match.

Firms reliant on government contracts will have to cast their eyes elsewhere as the government scales down its budget. The same applies to oil and gas companies such as Petronas slashing RM50 billion off its budgeted expenditure over the next four years. And, digital technology — artificial intelligence, robotics, big data analytics, Internet of things, 3D printing, virtual reality — is revolutionising company operations.

A recent Singapore business survey found that the uncertain global trends have impacted negatively more than half of its companies. The same must be said of Malaysian firms. The monthly increase in the industrial production index last November was a paltry two per cent.

The cocktail of threats makes it imperative for firms to restructure their operations. American author Ralph Waldo Emerson once said: "Bad times have a scientific value. These are occasions a good learner would not miss." And Paulo Coelho, the Brazilian novelist, declared in his book *The Devil and Miss Prym*: "Life sets us a challenge to test our courage and willingness to change."

Here are five ways firms can navigate the new reality. First, they have to boost productivity through greater mechanisation. Some 40 years ago we went into large-scale industrialisation. That made us rely on unskilled labour as the driver for manufacturing. Now, with the democratisation of tertiary education, entrants to the labour market are more educated and shun unskilled and menial work. We have to import foreign labour to compensate for the shortfall in local recruitment.

We cannot keep on relying on labour to run our factories if, as our national economic transformation plan requires, we are to move up and push higher on the value chain. Even markets such as China are recalibrating their economies to rely less on labour. Foxconn Technology Co, a Taiwanese contract manufacturer for Apple, plans to automate its Chinese factories by as much as 30 per cent come 2020.

Admittedly, automation is easier said than done. Every time technology or product design and specifications change, the system will require tweaking at great cost. Notwithstanding, this is one major trend that we cannot avoid. Over the long-term, the productivity boost should pay for the increased maintenance costs. Firms must step up their R&D and manufacturing capabilities. Companies have to retain talent through greater job satisfaction. Ranstadt, a recruitment service provider, reports that only three-quarters of the Malaysian labour force are contented with their jobs.

Second, firms must scour their value chain with a fine-tooth comb to seek out savings. They have to evaluate every activity in their value chain to identify those that cost more than the value they add. Firms should either outsource that activity or eliminate it without any detriment to company operations.

Third, and in like manner, firms will have to assess their portfolio of business units, products or brands to see which produce positive cash flows. Firms need to eliminate those that are a drain on resources. This is necessary as firms need to have a strong cash position to sustain themselves during tough times and be ready when the economy recovers. This is what the Edge Media Group did by divesting The Malaysian Insider from its portfolio of businesses. However, firms must ensure that this hiving off is not indiscriminate; for, even if a unit or product hoovers up a lot of cash, it may be offering synergy for the better efficacy of the other units or products in the portfolio.

Fourth, firms can cluster around a location to collaborate with competitors to share resources and technology. That should help reduce overheads, while contributing to sustainable resource use. Think Uber and Airbnb (a website for people to list and rent lodgings) to fathom the extent a sharing economy can reduce costs and prices.

Fifth, firms can hedge to protect themselves from the vagaries of the exchange rate. As a depreciated ringgit makes our exports cheaper in foreign exchange terms, firms can tap businesses with great export potential to cash in on the cheaper ringgit.

If we resist the move to consolidate and build up our technological capabilities to boost productivity, we will lose our competitiveness in the marketplace. We can take comfort in the 14th Dalai Lama's remark: "To remain indifferent to the challenges we face is indefensible."

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