



For further information please contact:

Simon Katalin
Tel.: 887-6676
Fax: 887-7201
e-mail: katalin.simon@kpmg.hu

Budapest, 20 March 2009

Crisis of confidence

*Further two years required to escape from
according to Managing Partner of KPMG*

According to Robert Stöllinger, Managing Partner at KPMG in Hungary, we are no longer in the grips of a credit crisis. Instead, he maintains that we have moved on to something far more difficult to escape from; a crisis of confidence. Governments, the media and employers alike all have a role to play in restoring that confidence. In the meantime, he believes there's a huge amount of work required to address the excesses of the past five years – and that alone could take a further two years, Robert Stöllinger says.

“Two years to undertake all the corporate restructuring work which should have taken place from 2003 to 2008. That's my standard answer at the moment when people ask me how long I think this crisis, this global recession, will last”, explains Robert Stöllinger.

We need consumer confidence to return and we need a stable corporate base. Neither of these things will appear overnight. At the heart of it all though is job security. Businesses should never under-estimate the effect that redundancy – or the fear of redundancy – can have on consumer confidence. Sadly, with businesses shedding jobs left, right and center, it will be hard to rebuild that confidence.

So, why are so many businesses struggling to come to terms with this crisis? Quite simply, they're struggling now because they should have been restructured years ago. In the five years up until 2008, far too many businesses were refinanced when they ran into trouble, when I believe that what they actually needed was some rather more severe medicine.

The reason? Because the money was there to do it. As a result, businesses which should have been overhauled – or even wound up – were rewarded with yet more cash. Now we are confronted with the fall-out of those decisions. Too late to be restructured or saved, businesses are going to the wall and the unemployed totals continue to climb.

There is no magic trick to restore confidence across whole societies. What I think is needed is an extended period – again, probably a couple of years – of stability; a period characterized by a lack of further, catastrophic corporate surprises; a period during which people can again feel secure in their employment. Only then might we see consumers making the sort of big ticket purchases which signify that confidence has returned.

This lack of confidence also affects those businesses which are well run, which have adapted their strategies and models accordingly and which – crucially – still have cash. On its own, even the most well run business cannot affect confidence and stimulate demand - and is suffering accordingly.

On the plus side, many senior management teams are about to receive an incredible injection of concentrated experience in managing through a downturn. That shot of experience should hopefully, give us a generation of business leaders well equipped to drive things forward. At the moment though, such experience is very thin on the ground. In the West, virtually no senior manager under the age of 50 is going to have any experience of working in anything other than benign economic conditions.

Returning to the point about redundancies, smart businesses should be considering how they can reshape their business in line with current economic conditions, whilst avoiding the costs and stigma which can come with initiating redundancy programs. With this in mind, and in the interests of maintaining confidence, I believe that it is far better to employ five people for four days, than to employ four people for five days.

When asked what businesses should focus on in the short term, I advise they look at the three “Cs”; credibility, cash and communication:

- Credibility means having credible plans and forecasts for the business going forward. You cannot underestimate just how bad things can get at times like this, so any future scenario planning should be credible.
- We all know that cash is king – but even more so now. You can actually run an insolvent business for years. Being insolvent won't necessarily put you out of business but running out of cash will.
- As for communication, that's about avoiding future nasty surprises for your stakeholders, creditors, employees, unions etc. Manage the message, make sure it's credible and get it out there in an organized fashion.

I think we'll also see a changing of the dominant skills sets represented at Board level. No company will be able to afford to just have sales people and M&A specialists running the business. Risk expertise should become one of the most in-demand skill sets as the composition of a typical Board changes to offer a more well-rounded blend of skills and experience. Even they will not be able to engender an improvement in consumer confidence though. For that, we'll all have to sit and wait – for a couple more years yet, Robert Stöllinger added

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 144 countries and have 137,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

KPMG in Hungary employs more than 600 people - KPMG Hungary Ltd. offers audit services, while KPMG Advisory Ltd. offers comprehensive advisory services to Hungarian and multinational companies, government bodies and foreign investors.

© 2009 KPMG Hungary Ltd., a Hungarian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.