

Exit Strategies

Recession and downsizings bring exit risk management to the fore. By Peter Humphrey.



The management of a Japanese appliance factory in Beijing recently gathered all their employees and passed on the news that they were going to make hundreds of layoffs which they attributed to the economic downturn. Things quickly turned nasty. The workers surrounded the managers and effectively took them prisoner amid angry threats of violence. Somehow during a lull in the confrontation many hours later they managed to escape through a back fence and fled to safety.

Elsewhere, executives from a foreign-owned refrigerator factory in Hunan Province organised a similar assembly and announced they were shutting down the factory completely and liquidating it. Within minutes they were taken hostage by the workers, who raised all kinds of demands

for material compensation. After two days of captivity, the executives were released as a result of a directive from Beijing and local government intervention. The authorities placated the workers with a promise to take care of their welfare.

Apart from the common thread of a downsizing sparked by the global recession, resulting in a domino series of factory closures, there was another trait that these two incidents shared: the foreign multinationals involved didn't have a plan. During the last recession in Asia – caused by the regional financial meltdown of 1997 – similar things happened and in the worst known cases factory executives were severely beaten up and some liquidation auditors were even murdered. Companies without a plan would do well to remember that.

The point is that it is not only on the way into a country – in market entry, factory set-up, acquisition and new JV partnerships – that basic risk management and due diligence measures are required; but also on the way out – when handling downsizings and shutdowns that involve massive job losses. A kind of “exit due diligence” mentality is required that embraces a spectrum of concerns ranging from security and the law to social concerns and corporate reputation.

Every multinational company that contemplates a downsizing should remind itself of the cultural differences and economic and social polarisation that sets it and its expatriate executives apart from poorer local colleagues and employees. The reality is that there is already an “us versus them” syndrome, and it does not take much to turn it into a “getting even” syndrome that makes multinationals vulnerable when they try to rationalise their business operation.

This may give rise to physical threats to the company’s physical assets and senior personnel. It may also lead to some customers trying to avoid paying their bills, leaving you with a receivables problem. It is not unlikely, also, that the downsizing or departing multinational may uncover long-running frauds when they do the exit workout on their business operation. This may become an additional source of tension, when the company tries to pursue money lost in a fraud, and the fraudster on its staff decides to stir up trouble with the soon-redundant workforce to build a smokescreen around his crime.

Economists have been predicting as many as 25 million Chinese may lose their jobs in the present downturn, so there is a sure chance that many situations like those described above in Beijing and Hunan will happen again and again in the coming months. To avoid creating a crisis, companies should adopt a comprehensive exit risk management strategy. Much of the work can be done through sensible planning in-house, while the rest can be achieved by engaging reliable third parties specialised in dealing with such situations.

What is required ahead of a downsizing is intelligence, threat assessment, legal risk review, preparation of positive sweeteners for the affected workforce, a detailed action plan for the fateful day and a PR plan to protect the company’s reputation.

Intelligence

Companies should gather intelligence to take the pulse of the workforce and surrounding community before any shutdown or major downsizing. Expect your local managers and the official trade union to work against you, so find out what they are thinking and what they are planning. Find out, too, the likely attitude of the local authorities to your exit.

Security Audit

This intelligence should be considered alongside the results of a security audit identifying physical assets and people in need of protection when you break the news. Valuable equipment could be vandalised or stripped; senior executives could be targeted for a thrashing (expatriates and their family members are particularly vulnerable), or worse. These risks need to be clearly identified and factored into an action plan.

Legal

You need to take legal advice from qualified counsel on the labour issues associated with your downsizing, as well as the procedures for liquidation, de-registration and disposal of assets, the handling of tax and customs

bureaus, the Administration of Industry and Commerce and other regulators. The latest labour law has created very tough conditions for employers to lay off staff.

Action Plan

You need a well-considered plan for the day that you announce the downsizing. Who is going to be in the team? HR, Legal, Government Relations, Senior Executives, PR? Engage a security team who can help protect key assets and people

and liaise with the local police if necessary, and who later can lock down and guard your premises and assets while due process is under way. Remember that such situations make you vulnerable to theft of plant, intellectual assets and trade secrets, along with sabotage and embezzlement. Where do you keep your vital documents and chops? Are your computer systems vulnerable to attack?

Public Relations

Well-crafted public statements will be needed to demonstrate that you are behaving responsibly despite your exit, that you have contributed much to the community over the years and that you will honour all legal and social obligations. Try to leave in good odour.

All of these measures should be worked through well before taking action, to avoid an unpleasant backlash. Lacking intelligence and the right Plan B is like being up the creek in a canoe without a paddle. And there’s no excuse. ■

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