The effect of the global financial crisis on Singapore has thus far been limited to the financial sector and to investment losses by individual and institutional investors. However, it is unlikely that the Singapore economy will escape the effects of the crisis. Tight credit, firms conserving cash to hedge against uncertainty, and consumers deferring spending because of the declining value of their assets, will all reinforce the financial sector's decline.

The financial crisis will inevitably become a real economic crisis. How should firms react?

Strategies designed for a high-growth environment are unlikely to be equally effective in a slowing economy. Firms should review their strategies. However, many appear to have a different approach: reduce costs, particularly in training and travel, don't change course unless necessary; and hope that the crisis passes quickly!

A strategic approach will be more effective and would allow corporate leaders to exploit that age-old wisdom: crises offer opportunities. Businesses should act at two levels: operational and strategic — and at each level, for both the short- and long-term. Crisis management is a priority but an incomplete response, as even actions to deal with the immediate effects of a crisis may have long-term operational and strategic consequences.

Short-term operational actions, commonly termed crisis management, focus on immediate challenges, like the preservation of cash and assets. AIA’s efforts to reassure policy holders, and its subsequent reinstatement of cancelled policies without penalty, was an example of crisis management.

Long-term operational management focuses on long-term but not necessarily strategic issues, such as ensuring major assets or inputs are preserved, redployed or expanded. Barclays Bank’s recent consolidation of operations in Singapore, China and India, though probably planned for some time, had long-term cost and efficiency implications. Share buybacks during a bear market or hiring top talent from failing rivals are other operational actions with long-term impact.

Short-term strategic actions relate to disposing assets or other measures to raise resources for firm-survival, or more positively, bargain hunting for strategic assets. Examples of these would include Goldman Sachs and General Electric obtaining funds and highly valued votes of confidence by selling stakes to Mr. Warren Buffett; and Nomura obtaining a rare asset by taking over Lehman Brothers’ European and Asian operations.

Long-term strategic actions relate to major actions designed to enhance firm-survival and performance over an extended duration. Goldman Sachs converting itself into a commercial bank and Wachovia Bank’s merger with Wells Fargo are examples. Temasek Holdings and the Government of Singapore Investment Corporation’s (GIC) recent investments in financial institutions are other examples of long-term strategic actions with substantial potential upside, even if they might have been undertaken too early.

These examples illustrate that in crises, firms must balance dealing with immediate challenges and preparing for future success. Because Singapore firms are well-capitalized, they will be able to overcome the immediate difficulties. The challenge would be to use the crisis as an opportunity to acquire strategic assets to build a base for future growth.

In evaluating strategic and operational changes, corporate leaders should address three main types of restructuring: financial, portfolio and organizational changes.

Financial restructuring aims to modify a firm’s capital structure in response to changes in the availability and cost of finance. Portfolio changes aim to modify the mix of assets a firm owns or the areas in which it operates so as to adapt to changes in markets and asset values. Organizational changes refer to structural leadership and IIR adaptations.

How likely are Singapore firms to react appropriately to the crisis? A study I undertook with the National University of Singapore Business School colleagues of how Singapore and South Korea firms reacted during the 1997-98 Asian financial crisis is indicative.

Singapore firms did not undertake substantial restructuring during that crisis. Korean firms did. Singapore firms focused more on organisational changes - particularly on layoffs, retirements, pay cuts and other employment changes - while making relatively few changes to senior management. In contrast, Korean firms undertook broader restructuring, though often with less positive impact on performance.

Singapore firms must adopt a more strategic approach to the coming economic slowdown. Failure to do so may result in missed strategic opportunities or in hasty investments that prove to be costly.

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