

Current status and issues of business restructuring for regional headquarters in Singapore

~The key to promoting Corporate Transformation (CX) during a recession-~

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Recently, we had a discussion at Uzabase webinar on how to promote corporate transformation (CX) during the recession. Many participants answered in the questionnaire that they felt the need to review the ways of regional headquarters, so in this article I will explain the basics of functions of regional headquarters.

First, the impact of covid-19 is very different from the “Lehman shock”. This time, the local industries such as the food-service, retail, and tourism were the first ones to be affected. In the global industries represented by the automotive and electronics industries, factory operations have been suspended due to disruption in supply chain and difficulty in securing labor, but these are most likely to be resolved in a few months. The decline in demand expected over the next few years is likely to affect the global industry even more than the covid-19. In addition, the stagnation of the stock market and the increase in non-performing loans resulting from covid-19 will have an impact on the financial system. The order was different from the “Lehman Shock”, which affected the financial system first and then the global and local industries. As corporates strengthen their management by developing business restructuring strategies to overcome this difficult situation, CX will become even more important. In Southeast Asia, it has increasingly become more important for regional headquarters to take the lead.

The regional headquarters established in Singapore mainly serves as a support company and/ or a coordinating company. This is a convincing trend given the history of many companies in Southeast Asia. However, regional headquarters are required to have more than just support and/or coordination function with rapid progression of globalization and digitalization. For example, regional headquarters may be required to manage business portfolios, to make timely decisions on M&A, to launch new businesses, and to respond to emergencies such as the covid-19 impact.

We propose 5 high priority functions from the perspective of business restructuring.

① Cash flow management capabilities

Many companies still manage their profit and loss statement (P&L), such as revenue and operating profit, which indicates the profits of their main business. However, to improve corporate value, it is necessary for companies to switch to management that focuses on the cash flow. Companies should increase current operating cash flow and consider ways to increase future investment cash flow.

Also, in an emergency like this, where the future is uncertain and demand is expected to fall in the global level, corporates should concentrate on ways to increase cash on hand since P&L is not useful at all. Increasing the sales of the long-term accounts receivables to increase sales on P&L can worsen the cash position in the short-term. In addition, even though corporates can make decision on timing of debt payments, incoming cash flow cannot be controlled, so corporates need to manage their accounts in terms of gross income, not in net cash. If corporates are not able to manage the cash flow of each business unit and each offices in the region at this time, corporates should thoroughly develop such system at this time.

② M&A driving force

Southeast Asia’s M&A is not limited to large-scale deals like those in Europe and the United States. However, rather than aiming for large-scale projects, there are many cases where roll-up of the industry with a legacy that is decentralized can be more value-adding. For example in Thailand, there are seven times more F&B companies than in Japan per capita, and in Indonesia, there are thousands of micro logistics companies. If corporates could successfully roll-up by these companies, there will be an

improvement in asset efficiency due to economies of scale. However, there are not that many companies with the human resources capabilities right now. Execution process and effort will be the same for all M&A deals, big or small, and will be a good learning experience for companies. The recession is a unique opportunity for corporates to recruit new M&A talents to gain more experiences.

③ Ability to launch new businesses

To start a new business, corporates will need to go through an incubation period after coming up with a business idea. As we know that most startups in Southeast Asia are local type, meaning they aim to solve local challenges, incubation does not rely on technology, but on persistent efforts on human tactics for expansion. Not many companies have such function at this stage. The next few years will be a good time for companies to hire the best talents from startups, and it can be an opportunity to enhance their organizational skills.

④ Local management skills

In order for the regional headquarters to have the functions described in ② and ③, local management skills are also important when undergoing business restructuring. Decision making is the process of acquiring information, processing it correctly, and making decisions. Local management is the key for quick decision making in Southeast Asia. In addition, increasingly more companies are reviewing their missions, visions and values in the past several years. Nevertheless, companies will also recognize the importance of reviewing daily decisions and routines to check whether all employee are following the corporate philosophy during the recession.

⑤ Group governance capabilities

In order to make business development activities by local management even more effective, it is important to strengthen group governance at the head office and regional headquarters. Regarding group governance, regional headquarters must control and operate based on the global rules established by the head office. Governance does not mean internal audit or research on individual decisions. It should not allow personnel who has not been involved in the business execution to give opinion on individual's decision-making, but the emphasis should be on how to select and utilize local management, and how to dismiss people who were not able to achieve their goals

If you have any questions regarding CX or business restructuring in Southeast Asia, please feel free to contact us.



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