tapestry NETWORKS

European Growth Audit Network

EGAN SUMMARY OF THEMES

Navigating a slowdown

August 2024

Rapidly growing companies often face the challenge of sustaining their growth momentum. When progress stalls, nonexecutive directors play a crucial role in steering the company back on course to high growth.

On July 2, 2024, members of the European Growth Audit Network (EGAN) met online to discuss strategies for navigating a slowdown, including timely identification, swift response, and effective communication. Members were joined by Falco Weidemeyer, EY Global Turnaround and Restructuring Leader.

For a list of meeting participants, see Appendix 1 (page 4)

This *Summary of Themes*[1] highlights key themes that emerged in the discussion:

Acknowledging a slowdown calls for honesty and courage

Responding promptly reduces damage

Understanding whether the slowdown is temporary prevents an over- or underreaction

Independence may delay nonexecutives in identifying a slowdown but is important in managing it

Transparent, honest, and timely communication helps maintain trust

Navigating a slowdown

When a company has grown rapidly, even a small reduction in growth can be challenging for its leadership. Mr. Weidemeyer outlined recent contributors to such slowdowns; these include geopolitical tensions, the technology and artificial intelligence (AI) boom, evolving work dynamics, developments in sustainability, a volatile economic landscape, and sector-specific phenomena.

When growth decelerates, nonexecutive directors can play a pivotal role in helping the company return to faster growth. Key themes discussed include:

- **Acknowledging a slowdown calls for honesty and courage.** It can be hard for a management team accustomed to rapid growth to admit that the pace has dropped. Mr. Weidemeyer said, *"Acknowledging a slowdown is probably one of the most difficult things that the company can do because it's basically coming from a winning streak. The company is growing, it's developing, and it's capturing new opportunities and then all of a sudden, the development stalls or even starts to decrease a little bit, and that is super difficult to accept."*
- **Responding promptly reduces damage.** One member pointed out that wishful thinking can be a natural response, one that is difficult to change. She said, "*For some leadership teams, it's much easier to bury the head in the sand and hope the issue resolves itself. As a board member, how do you help navigate these circumstances when there is this sort of mindset?"* Another member agreed, noting that even when management acknowledges a slowdown, they may be reluctant to act on it, especially when the company is performing well on many metrics: *"To make people take action, you need to show them the urgency. This is very difficult if the business is still operating successfully. For example, if growth falls below double digits, management might say that an 8% or 9% growth rate means the company is fine. Conveying the need to pursue new frontiers in such a situation is a very difficult task."* Mr. Weidemeyer underscored that a timely response is crucial: *"The sooner you react and understand the extent to which the situation requires structural adaptations, the less value will be destroyed."*
- **Understanding whether the slowdown is temporary prevents an over- or underreaction.** Assessing the situation to identify whether the issue is temporary or longer term is crucial to guide the right response. Mr. Weidemeyer said, *"If the slowdown is due to a structural issue, it's important to respond as soon as possible. Making changes takes time. Delaying necessary structural adaptations wastes resources and trying to buy time would be underreacting. Conversely, if the slowdown is due to a temporary issue, such as a volatile market or a response from a client, there is no need to restructure the company. That would be an overreaction."*
- **Independence may delay nonexecutives in identifying a slowdown but is important in managing it.** *"One of the challenges in identifying a slowdown is that the financial data is usually a backward-looking indicator. By the time we even look at the data, it's already a month past the quarter,"* said a member. Mr. Weidemeyer explained that having the right key performance indicators (KPIs) can help nonexecutives identify a slowdown quicker. He advised, *"As a board member, ask yourself, 'What are the right KPIs to properly see a slowdown coming? Is a quarterly snapshot enough? Or is there something else I need to detect those developments early enough?'"*

Distance from day-to-day management can equip nonexecutives with emotional detachment that management may lack. This can help with responding to a slowdown. As Mr. Weidemeyer put it: *"Nonexecutive directors are one step further away from the information, making it harder to identify a slowdown due to a filtering effect. However, this distance helps nonexecutives to be emotionally detached, which makes it easier to react to the issue. There may be a delay in discovering the slowdown because management might blame it on competition, for example, but once the trend is clear, nonexecutives can call it out without emotional hesitation."*

- **Transparent, honest, and timely communication helps maintain trust.** A slowdown can be concerning for all stakeholders. Clear and consistent updates are vital to retaining their confidence. Mr. Weidemeyer provided the following advice:
  - **Don't keep employees in the dark.** Honesty builds trust, a critical factor when managing a performance stall. *"Never underestimate the employee,"* said Mr. Weidemeyer. *"You need to be honest about the facts. You don't need to be alarming, but you must be confident while being honest."* He added, *"Explain the situation clearly: 'This is what has contributed to the slowdown. This is what the external environment has imposed on us. This is how we will react, and this is how we will keep you updated.'"*
  - **Be careful not to over-commit.** Slowdowns create uncertainty, making it important to provide regular updates. Providing facts and being cautious about communicating deadlines can help manage expectations. *"One of the most common mistakes in communicating a slowdown is what I call the 'promising reflex,' where you tell people about changes as if they've already happened. If things are delayed, need adaptation, or if the situation worsens, it creates problems,"* said Mr. Weidemeyer. *"My advice is to provide regular updates, preferably biweekly, to a relatively large audience. These updates should be curated, with varying levels of detail, but should always include facts and decisions. Inform them that you are addressing topic XYZ and working on a solution, but avoid promising certain actions in a specific timeframe, for example, six weeks, when the situation is currently still uncertain."*
  - **Regularly communicate with the external auditor.** EY's Hermann Sidhu said, *"It's critical to involve external service providers and auditors throughout the process to avoid any late surprises. It comes down to continuous communication. Make sure there's context setting so there are no surprises at reporting deadlines."* Mr. Weidemeyer agreed, *"In a disrupted environment, communicate more with your auditors. You should be constantly exchanging and evaluating events and views. It's important to avoid sharing merely the success stories; this should be an honest and open exchange."*

Appendix 1: Participants

The following members participated in all or part of the meeting:

Nadja Borisova, BlaBlaCar and Pomegranate Investment AB
Sandip Kapadia, VectivBio Holding, Molecular Partners, Passage Bio
Brenda J. Eprile, Atlantica Sustainable Infrastructure plc, Westport Fuel Systems, Inc.
Christoph Hütten, Brockhaus Technologies
Sandra Stegmann, Bechtle AG

EY was represented by the following in all or part of the meeting:

Ombretta Cabrio, EMEIA Assurance, Accounts & BD Leader, EY Private
François Langlois, EMEIA Assurance, Managing Partner, Markets and Business Development, EY
Suwin Lee, EMEIA EY Private Leader, Transaction Tax Partner, EY
Hermann Sidhu, EMEIA Assurance Leader, EY

Tapestry Networks was represented by the following in all or part of the meeting:

Beverley Bahlmann, Executive Director
Jonathan Day, Chief Executive
Todd Schwartz, Executive Director
Hannah Skilton, Associate
Abigail Ververis, Project and Event Manager

Endnotes

[1] *Summary of Themes* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn directly from members and guests in connection with the meeting but may be edited for clarity.