Eight Ways for Boards to Combat Inflation

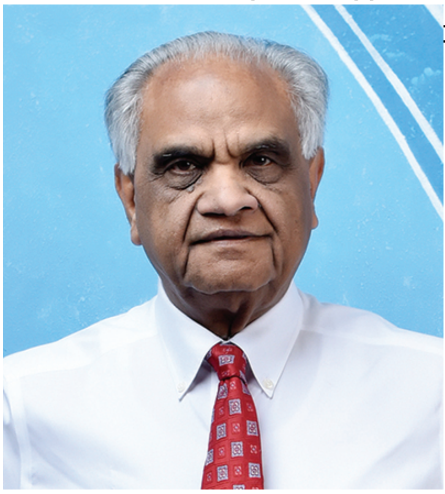
By Bill Hayes

Ram Charan notes that most senior managers have never seen or dealt with hyperinflation.

Ram Charan is worried about inflation’s effect on business.

Therefore, boards should be worried about it, too.

According to Charan, a prominent business consultant for companies like Toyota, Bank of America and Fast Retailing, higher inflation can be expected to stick around for three or more years. And, worse, factors such as fear of future price increases, rising energy costs globally and the war in Ukraine may turn the



ion, a state that Charan describes as “insidious.”

For Charan, author of 33 books, including his latest, *Rethinking Competitive Advantage: New Rules for the Digital Age*, the forthcoming *Leading Through Inflation* and four bestsellers, boards can protect their companies from inflation by carefully monitoring the information and recommendations they get from management.

Boards must broaden their perspective and see the longer-term picture when considering whether the company is sufficiently protected from inflation. A three-year outlook for inflation’s impact is almost mandatory because cumulative cost increases over this period could be 20% or more in some industries.

The fact that most, if not all, in management have never experienced a phenomenon like hyperinflation makes the situation even more dire.

With that in mind, Charan provides eight actions that boards should be undertaking immediately to lessen risks caused by high inflation. They must keep in mind that actions they take now will also help prepare for a recession, as well as the enormous opportunities that will come in the future.

Actively learn about inflation. The board should continually seek to update its knowledge base on inflation. Work to gain a 360-degree view. Search independent sources so you can anticipate new surges and watch for emerging practices to deal with the problems that arise. Expanding your knowledge about inflation will allow you to ask incisive questions of management and make quick, decisive judgments on leadership actions and performance. Timing and magnitude of price increases, for example, is critical.

Search for understanding on additional factors. Realize how inflation converges with other external and impactful factors, such as ESG, building of infrastructure, war-caused shortages, rising wages and the continuing battle with COVID. The board must continually study the actions of other industries for a diversity of thoughts, assumptions and biases. Some industries portend what is to come for others.

Establish metrics. Boards should monitor performance on an inflation-adjusted basis, altering goals, KPIs and strategies accordingly. Create dashboards, monitor competitive data and keep an eye on qualitative narrative psychological trends. These steps are useful for both boards and management, as it is essential for both groups to be on the same page during a period of inflation.

Adjust capital allocation. Allocation at this time should be based on a three- to four-year horizon. Make explicit assumptions based on the concept of cumulative inflation and compounding of risk.

Undergo cash flow planning. When conducting this step, make sure to keep in mind currency exchange issues globally.

Be prepared to change your business model. In a period of heightened inflation, you may have to adjust your business model. Be aware of consumer behavior, and do not hesitate to rethink your company’s strategy and business model. One such example Charan presents is Volkswagen, which recently announced its intention to stop “chasing volume and market share.”

Says Charan, “Volkswagen decided to do that based on shortages and inflation numbers they were seeing. Existing growth-oriented KPIs were not taking the company in the right direction. A focus on their ‘cash gross margin’ should strengthen the company even though they will lose some market share. They said, ‘We need to focus more on the higher-end electric vehicles that are coming along.’ They’re trying to create better market positioning.”

Consider new topics for executive sessions. According to Charan, there are several topics that boards would be wise to discuss during executive sessions. For instance, who are the critical people for the business during a time of higher inflation? Are they willing to increase prices? If they do not have the courage to raise prices, do they need to be removed or replaced? Another topic that should be up for discussion during alone time: management goals and compensation challenges.

Weigh the worst-case scenario. Know what your approach will be if high inflation becomes hyperinflation. One step recommended by Charan would be to establish a special committee composed of the chairs of all other board committees for a focused discussion of all possible considerations, obstacles and impacts.