CEO’s message: Fix Europe, Or Else

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Ian Cheshire's job is to help millions of European customers repair leaky roofs, replace faulty lights and paint their homes.

But these days, the chief executive of U.K.-based Kingfisher PLC, the world's third-largest home-improvement group, has a problem that no amount of do-it-yourself labor can fix: His company derives nearly half of its profits from continental Europe.

Mr. Cheshire and his shareholders, half of which are in North America, are passengers in the runaway train of European disunion, uncertain of whether it will derail and crash or get back on track and keep moving.

"The outcome is very binary," Mr. Cheshire, told me at the World Economic Forum in Davos, Switzerland, last week. "It's really up to politicians".

Minutes later, Angela Merkel unwittingly proved his point. In the marquee speech of the Davos jamboree, the German chancellor dashed investor hopes she would loosen her opposition to more financial help for Italy, Spain and Portugal, calling instead for more Teutonic-style austerity in those struggling countries.

Torrents of ink have been spilled analyzing the financial markets' reactions to this live experiment in how not to run a currency union. The tweetosphere and blogs are chock-full of accounts of the social consequences of the euro-woes. But surprisingly little has been said about a key constituency of the European economic compact: companies and their shareholders.

If this crisis were taking place in the U.S., you wouldn't be able to turn on the television or open a newspaper without bumping into a pundit or a business calling on politicians to unleash the Great American Entrepreneurial Spirit.

In Europe, it is telling that the debate has failed to focus on the High Streets and boulevards where the real economy happens, remaining confined to airless rooms in Brussels and the dry charts of capital markets' geeks.

Yet, it is impossible to have a healthy macro economy without the micro economy powered by businesses ranging from large multinationals to the small enterprises of Germany's Mittelstand and Italy's piccole imprese.

That is where Mr. Cheshire comes in. For the past few months, this soft-spoken 51-year-old has added another task to his to-do list. In addition to overseeing a business with some £10 billion ($15.7 billion) in annual sales and more than 900 stores spanning from the U.K.'s B&Q to Castorama in France and Brico Depot in Spain, Mr. Cheshire has been dabbling in war games.

Kingfisher is doing fine despite the market conditions. But it has copied the banks and "stress-tested" its business, drawing up contingency plans for nightmare scenarios in the euro zone.

The U.K. group isn't alone. The European business leaders I corralled in Davos all said that they have to prepare for the worst.

The "what ifs" Mr. Cheshire is looking at are unusual for a purveyor of paint brushes and screwdrivers.

Instead of forecasting, say, housing starts or disposable income, Kingfisher's brightest minds are trying to gauge how the euro-zone payment systems would react to the ejection of one or more countries, the resilience of the company's funding should its banks get in trouble and the state of financing conditions for myriad suppliers.

"We just want to make sure that, were it to be a problem, we would still be able to move money around," Mr. Cheshire said. That also is a key concern of many investors in European companies.

"It's tough to evaluate companies if you don't know how bad it will get," a U.S. fund manager with interests in Europe said last week.

When I asked Mr. Cheshire about the attitude of his U.S. investors—which include fund giants BlackRock Inc., Brandes Investment Partners and Thornburg Investment Management—toward European events, he paused.

"Mystified impatience," he replied—an apt epigram for the world's view of the euro zone's goings-on. "This is the topic of conversation for multinationals with U.S. investors."

But it is more than just talk. The convulsions of such a vast economic bloc are forcing companies into deeper changes. An Italian corporate chief told me recently that, given the bleak economic prospects, his company—one of the cornerstones of Italy's industrial base—is considering shifting production away from the country.

At Kingfisher, Mr. Cheshire is looking at changing the bonus system for the staff—a crucial part of their pay—to account for the unpredictability of markets. Instead of linking bonuses to absolute sales targets, he wants to tie them to the difference between stores' performance and the overall market. That way, even modest growth would be rewarded as long as it beat the pack.

European governments should take note. Given that everything else has (pretty much) failed, it might be worth linking politicians' pay to their countries' economic growth. They would at least have an incentive to do a better DIY job on Europe's faulty single currency.