



An OAD LLC Article

Leading During a Recession

When the Economy Improves, Will Your Business Be on Top?

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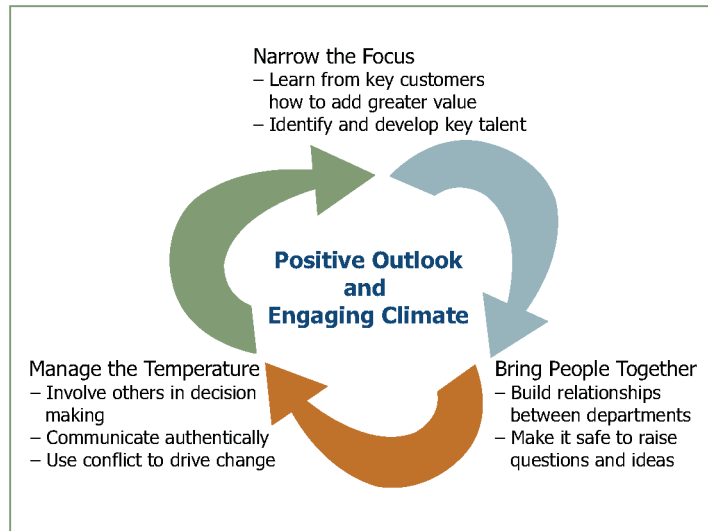


As dramatic changes in financial and energy markets work their way through the economy, senior leaders face difficult choices in confronting higher expenses and news of a global downturn: Should we cut prices to maintain market share? How deeply can we cut costs? What about layoffs? As a leader, how can I mobilize my employees to address the looming threats in the economic environment for the good of my organization? How can I discourage defensive internal politics that protect others' narrow interests? How can I lead my company to emerge from the end of the downturn on an upturn?

Leadership tests can be severe during downturns, and there are no easy answers. Past recessions have taught leaders to:

- **Narrow the Focus** to provide the greatest value for key customers by ensuring that resources and capabilities are efficiently deployed
- **Bring People Together** to counter the internal competitiveness and defensiveness that often accompany belt-tightening efforts
- **Manage the Temperature** to establish a climate in which employees address difficult issues that may have been hidden in easier days

Applying these lessons promises a tremendous upside: uncovering new competitive opportunities that result in a stronger business when the economy improves.



Narrow the Focus

Relaxation in good times and desperation in bad times can lead to losing focus. Taking a disciplined approach clearly makes a positive difference. Research on past recessions confirms that businesses that move quickly to reduce costs and control spending weather a downturn more effectively. Winners in a downturn narrow their business portfolios, focusing in areas where they can develop a clear lead. They also walk away from bad business—while losers chase unprofitable sales in an attempt to hold market share. Forum's research has discovered that leaders in highly profitable growth organizations often suggest focusing on the "critical few priorities."



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Set Priorities Based on Customer Needs

In tough times, leaders know they need to cut costs, and they often do so aggressively. Trimming costs is important, and selecting what to cut is have cut the very capability required to sell and deliver their business. For example, in 2007 electronics retailer Circuit City cut the jobs of 3,400 of its top-paid sales associates just prior to undertaking an effort to transform its customer experience and revive sales. But lacking the knowledge and experience of these key employees, the transformation fell flat and the company declared bankruptcy in 2009. By contrast, a Circuit City competitor, Best Buy, added specially trained staff during this period and increased its profits 52 percent.

Successful businesses develop a collective understanding of how their organization creates value for their customers—and they set operational and budget priorities based on this understanding. Winning organizations also reach out to their customers to better understand their challenges and improve their value propositions. Acquiring this type of knowledge can help streamline operations and increase differentiation in the market.

How might a leader focus priorities on customer needs? A senior leader in a large bank realized that, to revitalize her department, she must create a sense of urgency. She quickly deployed her staff to collect data about the department's customers—market data as well as customer satisfaction data. By examining the gaps in the data with her staff, the leader proactively targeted a few areas in which improvements would make the greatest difference to the department's customers. The department's performance and profits improved dramatically and quickly.

Invest Carefully

While it is prudent to trim costs, simply hunkering down and not investing until the downturn is over usually isn't successful. A downturn is a good time for bargain hunting. With downward pressure on costs, businesses can pick up assets for less. Good talent may also be available, since some other businesses are likely overly aggressive in cutting their workforces. But do invest carefully. A study that looked at investments of many businesses in recessions from the 1970s to the 1990s found that investing in R&D, marketing, and customer-perceived quality indeed paid off, while investing in working capital, manufacturing, and administration did not.

Plan for Workforce Capability

As Circuit City's issues illustrate, it is important to plan how to manage your workforce capability. A top concern among employers has been "ensuring that the most talented employees in high-impact roles were retained and not susceptible to being recruited by competitors." Identifying and developing high-potential talent and leveraging employee engagement efforts (see below) can help. Developing high-potential talent by encouraging rotational assignments and providing select development experiences has been shown to increase retention of key players by more than 15 percent.

Whether or not to lay off staff is often the hardest question leaders face in a downturn. They need to balance the positive and negative aspects of downsizing their workforce. Benefits of downsizing include a short-term spike in the bottom line, as it reduces compensation paid, increases efficiency in operations, and realigns resources who can improve products and services. One study shows the majority of corporations that downsize are "badly" off or "not well prepared," and are not anticipating the kinds of problems that can develop afterwards. On the other hand, unexpected workforce repercussions include increased distraction, burnout, health problems, and additional attrition of "survivors." While many businesses experience an immediate boost in their stock price after announcing layoffs, more than two thirds of them then fail to meet their profit and production goals.

Many businesses find successful strategic alternatives to making layoffs, such as cutting management bonuses, freezing salaries, and reducing compensation options. Companies can increase employee engagement by providing clear information about their strategy, including financial and customer data, and how the strategy will impact work processes and performance expectations. They make a plan and communicate it effectively.





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Bring People Together

When budgets are tighter, it is not uncommon that employees become defensive, territorial, and competitive. Negative politics intensify at all levels, sapping valuable energy and focus. Employees begin seeing internal groups as threats, and so fail to meet the challenge of facing looming external threats from competitors, customers, and suppliers. The “keep your head down and keep your boss happy” mentality only serves to feed the rumor mill; it doesn’t allow for increased learning about the workings of the company, its customers, or the issues it faces in delivering quality—learning that could provide significant advantage.

Align for Efficiency and Differentiation

One way to streamline operations and increase differentiation is to improve the coordination and alignment of departments. A design change in a product might result in increased customer satisfaction and reduced production costs—but only if the change and the expected costs are coordinated in the departments involved. Leaders need to orchestrate the process by framing an agenda and meeting with key stakeholders to gain support and build commitment to overarching goals and values. Studies in strategy execution indicate that, when alignment on key goals is absent, there is a higher probability of lower performance.

Make It Safe to Raise Questions and Ideas

If leaders are to access the best thinking in the organization, their people must feel safe to ask questions and share ideas. Leaders who are genuinely curious and open to seeing things differently model their openness to learning, demonstrating their interest in their people’s input as they strive to arrive at the best decision. By admitting that they don’t have all the answers, and by asking for their people’s thoughts before they share their own, leaders can empower their people to contribute their best ideas.

In one of the earliest texts on leadership, Xenophon, a Greek military leader in 400 B.C.E. described the value of making himself accessible to even the lowest ranks of his men: With the Athenian army in danger of imminent attack—and its back to a raging river—two of Xenophon’s foot soldiers managed to locate a river crossing that would allow the army to escape. They went directly to Xenophon with their reconnaissance. Because of the trust between the leader and his followers, Xenophon took immediate action, and the army succeeded in escaping.

Manage the Temperature

In times of crisis, followers often expect “strong leaders” to make the tough decisions necessary to protect them and the organization. Leaders are tempted to take things into their own hands and begin legislating change themselves. This does lower the “heat” temporarily, making everyone feel more comfortable.

But it is often a mistake: Leaders required to make a strategic decision rarely get a complete picture if they lack a supporting analysis of the situation. Neither do they make the decision alone; to enable wiser decisions and increased buy-in, it is necessary that leaders secure the cooperation and support of many others. Building coalitions to move things forward has indeed been found to improve organizational performance.

Organizations can sometimes cool things off too much, and suppress conflicts and challenges they ought to work through in order to move ahead. As a senior leader, you sometimes do need to heat things up, drawing people’s attention to an issue that may indeed generate strong emotions—but one that also needs to be addressed, in order to create alignment. Effective leaders choose their actions.



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Communicate Authentically

A turbulent environment creates a climate of uncertainty and stress. While it is important that leaders manage their own stress, acknowledging the challenges they struggle with is ironically not a sign of weakness. In fact, acknowledging them builds trust among followers and provides an outlet for the followers' own feelings as they struggle with the same challenges.

Use Conflict to Drive Change

Research shows that leaders in high-growth businesses are more likely to identify "challenging the status quo" as an attribute of their success. Bill George, former CEO of Medtronic, states, "If you want good decision-making, contention is essential. You must acknowledge and thank those who disagree by telling them that they made the discussion—and hence the ultimate decision—much better. You try to create tension inside because the outside challenge is so great."

Effective leaders observe and monitor conflict, to ensure that it doesn't get too hot. Pacing the tension that people can realistically handle is a valuable action that leaders can take. They must listen carefully, watch for signs of distress, and know when to persevere and when to back off; in essence they need to be active learners. Effective leaders get clear early on about the process they'll use to make a decision—taking this step alone can increase buy-in.

Coming Out on Top

Research shows that motivation and performance improve in the right climate—one in which employees are engaged in addressing significant challenges that face the organization. Leaders who monitor and enhance the climate in their groups retain and motivate talent, even when compensation options are reduced. But perhaps the most important thing leaders can do in a downturn is creating a positive outlook and attitude—while acknowledging the real challenges. Indeed, downturns present opportunities for organizations to gain ground against their competition. Businesses at the top of their markets often fall, while "sleeper" companies jump to the top in a recession. When leaders exercise discipline and focus by mobilizing employees to respond to customers' interests and values, they increase the chance that, when the downturn ends, their company will come out on top.

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