Performance Equations

Point of view paper

Leading During a Downturn:
Will your business be ahead of the game?

One of the great business lessons of the last recession was that those companies who were nibbler, more flexible, more creative and more focused on the customer where able to achieve two things: when the economic upswing came about they were able to come out of recession more quickly and ahead of their competition; they were also able to create clear water between themselves and their nearest competitor that was difficult to bridge.

Recessions are inevitably a time of retrenchment for many companies. Batten down the hatches and survive. But recession also provides lots of opportunities for organisations to improve their operational effectiveness, build employee engagement and customer loyalty. As dramatic changes in financial markets begin to impact the real economy, senior leaders' natural reaction is to face down their difficult choices: cutting prices to maintain market share, begin to manage redundancies, cutting costs across the board. Recessions are a real test of leadership. Recessions have also provided real lessons in managing key customer relationships, creating greater organisational collaboration and effectiveness, and developing a climate of employee commitment to addressing difficult issues and finding creative solutions.

In a recession cash becomes king more than ever. Having the reserves to survive become even more important, so companies scrutinise spend more acutely. As cost-cutting, rather than investing, comes to the forefront of the leadership agenda, those who manage this badly will cut costs in ways that negatively impact of service quality. Immediately this has a detrimental effect on customer perceptions and choice. As they become more demanding, so too they become more discerning, ever hungry for a better deal.

Some leaders cut costs aggressively only to find with the economic upturn that they have cut the very capability required to sell and deliver their business proposition. Successful businesses develop an organisation-wide understanding of how they provide value to their customers. They then set financial priorities based on that clarity.

Companies that grow during a recession also engage with their customers to better understand their needs and improve their value proposition which contributes to building customer loyalty. Successful companies utilise the information to streamline and prioritise their operations and service, increasing their differentiation in the market. Here, focused leadership is required.

By gathering and analysing customer insight data and examining gaps, successful leaders can re-energise employees around a priority strategic focus, pro-actively targeting a few areas where improvements would make the biggest difference to customers, then communicating a clear line of sight between employee contribution and the company's goals for surviving the downturn.

A 2003 study by consultants PIM Associates, that looked at business investments in recessions since the 1970's, found that investment in R&D, marketing and customer perceived quality had a higher rate of payback than investing in capital, manufacturing and administration. These findings were supported by a study conducted in 2002 by Bain and Co., entitled "How to Bounce out of a Recession", which indicated that hunkering down and not investing until the downturn was over is not the best approach. A recession is a good time for bargain hunting. With downward pressure on costs, businesses can acquire assets for less. Good talent may also be available since other companies may be overly aggressive in cutting their workforce.

Strategically managing and retaining talent during a recession can also have a major impact on a company's ability to emerge from the downturn ahead of the competition. A study by the Hay Group in April 2008 showed that ensuring the most talented employees in high-impact roles were retained and not susceptible to being poached by competitors was a top concern among senior leaders.

Redundancies are typically one of the most obvious methods of reducing costs during a recession. However, poor implementation of downsizing strategies by unprepared and unskilled managers, working in a vacuum, makes the experience worse than it needs to be for those involved. And for those 'left behind', survivor syndrome can set in. Very often it leads to loss of productivity as employees are distractedly looking over their shoulders for the next wave of redundancies. A study conducted by Stephen Appelbaum of Concordia University, Montreal, found that while many businesses achieved an immediate spike in their share price after announcing redundancies, more than two thirds then fail to meet their profit and production goals.

Leaders who succeed in a downturn employ a range of methods to aggressively managing costs down in which the burden is shared. These leaders are also extremely successful in communicated the downturn strategy in ways that provide clear information about financials, customer data, and how the strategy will impact on work processes and performance expectations. This 'involving' approach has further benefits.

Rather than making all the cost cutting decisions locked away behind closed doors leaders who manage the potential negative impact of recession on employee morale and productivity, successfully engage staff and discover new and creative solutions further down the organisation.

This is illustrated by an incident in the US Navy. Captain Mike Abrashoff who turned around a poor-performing US naval ship to become the best-performing ship in the Pacific fleet in just a few months, got his sailors to suggest to him ways of saving money. They did the job, he reasoned, so they were best-placed to suggest how to do it better and cheaper.

One nineteen-year-old suggested using stainless steel rivets instead of iron ones. Abrashoff used the ship's credit card to buy them from Home Depot, because the US Navy's own procurement people couldn't supply them. The new rivets, and other initiatives suggested by the crew, saved so much money that in his first year in charge, Abrashoff returned to The Pentagon $600,000 of his $2.4 million maintenance budget and $800,000 of his $3 million repair budget. That year he operated on 75% of his allocated budget. And his ship's performance figures went through the roof.

Aligning employees behind key goals is paramount. Studies such as that conducted by strategic management consultants, Smock-Sterling, in 2003 have shown that when alignment behind key goals is missing, there is a corresponding higher probability of lower performance.

Managing the organisational climate is a key feature of creating this employee engagement and alignment. By admitting, as Captain Abrashoff did, that they don't hold all the answers, and by encouraging employees further down the organisation to share their ideas and thoughts, leaders can build a climate of trust and working together to succeed through the recession.

At the same time leaders need to acknowledge openly to themselves and to others that the economic and business environment creates uncertainty and stress. While recessions often call for strong leadership, acknowledging the challenges they face is ironically not a sign of weakness. On the contrary, this acknowledgment authentically communicated builds trust among followers and provides an outlet for followers' own feelings as they struggle with similar challenges. Leaders should not underestimate the impact of managing the climate during a recession. When the business challenges are faced in a climate of collaboration and participation, employee morale and performance actually improves.

Ultimately, leaders who are highly effective in managing their business recession do so with a clear sense of vision about how to get through to the economic upturn. Communicating that vision clearly and positively, they create a collaborative spirit in which new and creative ideas can emerge. They provide focus and clear direction about how the new business priorities will deliver greater value to their customers, and look for new ways of exploiting customer needs and loyalty. Above all, they provide moral boosting determination and inclusion, combining hard-nosed decision-making with sensitivity in execution.

The upshot is more than recession survival. The outcome can be a better, stronger, fitter company with much stronger relationships with customers and employees, stealing a march on their competition.

about the author

Joe España is Managing Director of Performance Equations, a specialist organisational development and change consultancy. Performance Equations helps companies and individuals become more competitive by directly linking strategy to people and business performance. Their areas of focus are: Organisational culture & change, Leadership development, Team development and Service excellence. Joe and his team provide measurable solutions that are bespoke to particular needs, and that deliver performance where it matters most; the bottom line.

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