

Are you ready for recession?

Strategies for staying on top during the next downturn

INTRODUCTION

ARE YOU WATCHING the gathering storm clouds and thinking “recession”? It almost seems a certainty. *The Economist* writes “the policy dilemma facing the Fed may not be a choice of recession or no recession. It may be a choice between a mild recession now or a nastier recession later”. Further, “Joseph Schumpeter argued that recessions are a process of ‘creative destruction’ in which inefficient firms are weeded out.”¹. Your challenges are how well you ride out the storm and thrive.

Since the 1990s, many businesses have pursued initiatives that increase efficiency, reduce cost and enhance productivity. Whether you are a large, far-reaching organization implementing wall-to-wall technology systems, outsourcing non-core and back office business processes, developing off-shore capabilities, or a medium-sized company focusing on streamlining core processes and optimizing systems and processes, we’ve all been restructuring to make ourselves more “lean”. While the economy has flourished, we’ve had the opportunity to invest in methodologies, tools, innovation and continuous improvement. But if – *when* – a recession comes, how will we continue to improve?

We think the big differentiator is people: how you engage, motivate, enlist and capitalize on their talents and knowledge. People are the next lever in the dogged pursuit of effectiveness and efficiency. Per the pundits, it’s the ability to work smarter not harder. Doing so means organizations must tap into what their people know about the current challenges and get them involved in imagining the response and recovery plan for a scenario called ‘recession’. Invest in understanding where your people see opportunities to work differently and more effectively. No matter how intensive past restructurings and productivity initiatives have been, people in the business always see more opportunities. Recession is particularly illuminating; problems previously too insignificant or difficult before are now front and center.

Major steps to approach a recession:

Prepare. Thrive. Accelerate.

PREPARE

PREPARED FOR THE DOWNTURN means first figuring out where you are now. We’ve created a simple diagnostic to help assess how well your organization is prepared. Based on that result, you can create and execute a Recession Plan. Just as you have a disaster recovery plan for

vital systems infrastructure, a Recession Plan lets you and your leadership teams think ahead, prepare response strategies and mount a cohesive execution.

Our experience suggests four critical capabilities or organizational competencies are required during recession:

- *Exercising Flexibility* – the ability to flex people’s skills and the surrounding organizational structures to recessionary dynamics
- *Thinking and Acting* – tandem requisites for managers and staff to perform well
- *Sharing Information* – vital in a fast flowing environment and where people throughout the organization need to make rapid, accurate responses
- *Demonstrating Savvy* – tapping into people’s experiences of managing in adverse conditions.

Our diagnostic defines how well your organization currently performs in these four areas (*see next*). Complete the survey as a leader or better still, as a leadership team.

PREPARE:

- Diagnose today’s position
- Develop your Recession Plan

THRIVE:

- Execute the Plan
- Monitor your environment
- Adjust your responses

EMERGE & ACCELERATE :

- Identify the signals of recovery
- Match your responses
- Catch the updraft

¹ *The Economist*. Economics Focus, August 23, 2007, ‘Does America need a Recession?’.

Diagnostic: Are you ready for Recession?

EXERCISING FLEXIBILITY

1. How quickly can individuals expand their skills to excel in the adjacent job/role?
2. How quickly can you dispose of non-performing businesses, products, or services?
3. How quickly can you establish rapid-response redeployment, resourcing, reorganizing and re-skilling processes?
4. How quickly can you suspend or delay non-essential initiatives and programs?
5. How quickly can you reorganize units, teams and individuals to capitalize on opportunities?

SUB-TOTAL

THINKING and ACTING

1. Do managers habitually enlist employees to resolve operational issues?
2. Do employees believe your leaders can lead when the 'going gets tough'?
3. Do employees have the right knowledge, tools and training to rethink how to conduct business?
4. Do employees feel that this is their company and their future?
5. Are key managers able to think strategically but be 'hands on'?

SUB-TOTAL

SHARING INFORMATION

1. Are decision-making accountabilities and authority levels clear... right to the front line?
2. Are decisions clearly and quickly communicated to all stakeholders?
3. Are there effective, two-way communications, up and down and across the organizational boundaries?
4. Is pulsing the health of the business a routine and accurate process?
5. Does reporting support effective and timely decision making?

SUB-TOTAL

DEMONSTRATING SAVVY

1. How many of your current managers have managed through a recession?
2. How many of your top talent are proven or being tested in key roles today?
3. How many of your staff is experienced in continuous improvement, 'lean', and problem solving techniques?
4. How many of your staff know which levers improve performance in their units?
5. How many of your managers can run multiple functions?

SUB-TOTAL

TOTAL SCORE

Total your scores at the sub category level and to reach an overall total score.

IMMEDIATELY
(Assign 1 Point)

WITHIN 2
QUARTERS
(Assign 0)

WITHIN 4
QUARTERS (Assign
minus 1 Point)

ALWAYS
(Assign 1 Point)

SOMETIMES
(Assign 0)

NEVER (Assign
minus 1 Point)

ALWAYS
(Assign 1 Point)

SOMETIMES
(Assign 0)

NEVER (Assign
minus 1 Point)

ALL
(Assign 1 Point)

SOME
(Assign 0)

NONE (Assign
minus 1 Point)

How did you do? Are you ready?

THRIVE

THRIVING IS ABOUT FRAMING the challenges and engaging people in understanding the issues, identifying the relevant responses and equipping them to successfully make those responses when the time comes. Some guidelines:

A positive score suggests you are somewhat prepared for a recession. It suggests that you have established an agile and fluid organization, supported by clearly articulated and well understood governance. Your leadership knows what to do, when and how – and has sufficiently demonstrated this so that your employees believe in them. In effect, you've "captured the hearts and minds" of your workforce, which means you are more likely to keep their good faith in more stressful times. They'll ride out the storm with you and most importantly, have the skills to both execute effectively and remain energized by the challenge. Further, your core business offerings and assets are flexible, easily adaptable to market conditions and capable of outpacing the conditions or the competition.

In this context, what is thriving? Firstly, hit the ground running; revise your current Recession Plan, or create a new one based on the results of the diagnostic. Identify specific areas you can improve. Identify the required investments – in people, strategy, programs, assets, or process. Secondly, thriving means:

- Ensuring your operations and market facing reviews help you to monitor leading indicators so you know when it's time to act.
- Strengthening core businesses and rationalizing (e.g. find buyers for noncore businesses before the recession hits and while prices remain attractive).
- Deploying your people ahead of the recession (e.g. moving managers with recession experience into particularly vulnerable areas now; continuing to develop your consistent performers).
- Reviewing the effectiveness of decision making and communications on key governance processes such as: project prioritization, resource deployment and new business and product development processes.
- Assessing the appropriateness of current scorecards on areas vulnerable to recessionary impact, such as customer satisfaction and retention, demand and supply reconciliation and employee morale.
- Evaluating options for outsourcing, partnering, or off-shoring non-core activities.

This combination of identifying the actions, executing, and monitoring effectiveness is fundamental to your Recession Plan and will help you to both survive and thrive during the downturn.

How do you thrive if you scored zero or negative?

Then, it's about building a foundation. Use the diagnostic outcomes to identify which aspects of your business will be most impacted by the recession and think about timing to set priorities for your attention.

Construct a foundation by:

1. Creating your Recession Plan, relentlessly focusing on enlisting people.
2. Highlighting your critical leverage points to improve efficiency and effectiveness. Identifying options to partner with others to achieve efficiencies more quickly.
3. Training front line staff in how to treat customers' needs and issues proactively.
4. Giving your front-line the knowledge and tools they need to manage inventory levels.
5. Pushing decision-making to the front line by providing clear roles and a framework for making decisions.
6. Focusing on people by:
 - Assigning managers and leaders who are experienced in dealing with recession to the most vulnerable parts of your business;
 - Assigning your most consistent performers directly to the 'hot spots';
 - Continuing or expanding development programs for most employees;
 - Addressing poor performers;
 - Ensuring employees are trained and able to utilize their toolkits;
 - Increasing the freedom that front-line teams have to negotiate responses;
 - Ensuring people are 'sitting in the right seats on the bus' (as Jim Collins asserts);
 - Ensuring untested, 'high potential' employees are tested – move them to proving grounds;
 - Enlisting staff on key operational issues or market opportunities as they emerge;
 - Overhauling your communications processes and assigning roles to manage the process;
 - Recognizing imaginative and remarkable performance.

Whether or not you scored well on the diagnostic, it becomes your baseline measure. You can test your progress by re-running the diagnostic at regular intervals. Making this assessment part of an ongoing leadership and operational review educates your people – and lets them become responsible for addressing 'negative scores'. Enlisting your people means that they can make better judgment calls, develop appropriate contingencies and contribute their best efforts. After all, your success will depend on how well your people can anticipate and rise to the challenges.

ACCELERATE (OUT OF A RECESSION)

THE MENTAL DISCIPLINES, actions, and behaviours that helped your organization to thrive are the same qualities that will accelerate you through the recovery period. Your role as a leader is to identify the signs of recovery in the marketplace – and time your responses to catch the updraft, pulling out smoothly and quickly. While macroeconomic indicators of recovery focus on employment levels, consumer spending, and output, industry level signals also exist closer to home. For example, increased spending on IT and capital projects, increases in demand, throughput, and distribution movements, etc. As a leader, your role is to decipher which areas are in recovery. The trick: match your organization's response to the signals in your industry to capitalize on your organization's honed capabilities. Rerun the diagnostic. Identify how to increase acceleration, then direct effort to what's important, use your communications processes to reassign your resources and investments to direct post-recession success.

SUMMARY

WHETHER WE SUFFER a 'mild' or 'nastier' recession period, you can be better prepared to move through and then out of the downturn. We believe people make the difference before, during and after recession; the extent to which and how you engage and cultivate their goodwill and skills are paramount to success. Our diagnostic can be customized to more readily fit your business, but essentially it will arm you with the information you need to engage people in preparing and managing through the downturn and by directing critical efforts to improving your position in the upturn. The focus, skills, and attitude cultivated during recession will become the bedrock for sustainable, performance after the recession.

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