Leadership in the Era of Economic Uncertainty
The New Rules for Getting the Right Things Done in Difficult Times
by Ram Charan

In times of economic adversity, what is absolutely the worst thing that could happen to your business? Think about it. No, really think about it. Because it just might happen, and the only way you are going to survive it is by planning for it. Right now.

In fact, if you haven't already been thinking about it, you're behind the curve. Since the appearance of the earliest indicators of the current economic decline, many business leaders have sprung to action. Some had their plans in place and in execution part way through 2008. And some, perhaps the most perceptive, activated crisis programs that have existed for years.

But, if your plan is not yet in place, all is not lost. Business strategy expert Ram Charan has pulled together the essential processes for leading and managing through recession that can help companies emerge smarter and fitter on the other side.

These are urgent steps. There is no time to waste hoping that things will soon get back to the way they were. Make no mistake; they won't, he says, although we may not know what the other side looks like from here, it will be vastly different from how it is today.

This is a short and timely book, completed in December 2008 and published just weeks later. It cuts straight to the chase, with two key messages:

1. Cash is king. Your priority is to vastly strengthen the cash base of your business, taking whatever tough actions you need to do so.
2. Management by watching and directing is no longer enough. It is a much more intense, hands-on process. Roll up your sleeves and dive in.

To show us how to get there, Charan draws on his experience as a consultant and coach to some of the world's most successful companies and their CEOs, and the incisive analysis and guidance he has produced in ten previous leadership books including the best-sellers Execution and Confronting Reality.

The Six Essential Leadership Traits for Hard Times

To underline the urgency of his call to action, Charan begins with the story of DuPont CEO Chad Holliday's epiphany in October 2008. Visiting a major customer in Japan, the boss of that customer company explained he was worried about his cash position and had ordered his executives to conserve cash in case the looming financial contagion spread.
DuPont already had a Corporate Crisis Plan, which it uses when emergencies, or unforeseen events and situations, threaten its performance. As soon as Holliday returned to the US, he activated the plan, calling on top leaders and specialist teams in the company to review the business horizon and come up with firm contingency plans within four days.

Within 10 days, every employee in the company, worldwide, had had a face-to-face meeting with a manager and had been tasked with identifying three things he or she could do immediately to help conserve cash and reduce costs. Bold and sweeping actions were swiftly implemented, including, for example, the replacement of most outside contractors with lower cost internal resources.

"Chad Holliday answered the call for leadership," says the author. "He stared into the face of uncertainty and accepted the change he saw coming. Neither fear nor uncertainty paralyzed him. He took charge, pulled people together and took decisive action. That is what every leader must do now."

The author identifies what he considers to be the six essential traits leaders must demonstrate if they are to succeed in a mission to secure the future of their businesses:

1. Honesty and credibility. When there’s so much uncertainty, you can’t pretend you know all the answers. Rather, demonstrate you understand the issues and know the probabilities and their implications. Facilitate others’ understanding.

2. The ability to inspire. Work with your top team to toughen their resolve and show them how to inspire others. Develop a realistically optimistic vision that will turn their light bulbs on, generating creativity and ideas.

3. Real-time connection with reality. In a volatile economy, reality is a moving target. Continuously monitor and update your picture of it. Gather information from as many sources as possible. Don’t get locked into one way of doing things.

4. Realism tempered with optimism. Few problems are insoluble. Focus on a vision of what is possible and energize others to search for actions to achieve it.

5. Managing with intensity. Dig deep into your company and its operations. Personal involvement will give you vital intelligence to share and discuss with your team as well as the ability to act with speed. Be interactive, listening as well as explaining.

6. Boldness in building for the future. Resist the pressure to short-change the future in your pursuit of near-term solutions. It will take guts to place strategic bets for the longer term, but they are critical.

Charan then proceeds to provide a function-by-function set of processes and
actions in which to practice these traits.

**At the Helm: What CEOs and Business Unit Managers Must Do**

There are two dimensions or realms of the CEO/Business Manager's job. First, there is leadership — inspiring and motivating people to go beyond their fears and painting a believable future. Second, there is operations, the daily nitty gritty of doing business successfully.

In terms of leadership, your role is to recognize reality, convincing employees that the situation is serious while, at the same time, presenting a compelling argument and a credible plan to show problems can be surmounted. Your actions have to be bold, not tentative; offensive, not just defensive (for example, being ready to act if a competitor stumbles).

Now, too, you must reallocate your time. By becoming more hands-on you will gain an unprecedented grasp of reality from both global and ground levels. This will mean more time in the business, less outside the company. And what time you do spend outside should be with customers and suppliers.

Your priorities at the operational level include the need to sharpen and strengthen the core of the business, being prepared to drop those assets and even customers that don't fit. You must reassess your team, weeding out the indecisive and the sufferers of analysis paralysis. You must strengthen and constantly reinforce the flow of communication and be visible at all levels of the business. Pay special attention to those of your people who interact with customers, partners or suppliers.

A vital component of this management style is a firm finger on the pulse of the business. Numbers like cash, inventories and margins should be tracked daily. You need to set shorter-term milestones, quarterly, monthly or even weekly rather than the usual annual targets. Crucially, your goal is to take decisive action to reduce the cash breakeven point of the business (the minimum amount of sales required to contribute to a positive cash flow). This may mean downsizing your operations, your headcount and even your customer and supplier base.

"Most companies accumulate a lot of excess in good times, whether product lines, personnel or costs," the author explains. "The downturn is the time to clean out the attic and pare the company down to its fighting weight."

**On the Front Line: Sales and Marketing**

The economic shakedown changes the entire game plan for sales and marketing executives who, by nature, are normally optimistic. Goal-driven psyches will suffer, last-year's targets may not be matched, and the headcount may be cut. Remaining staff must be motivated with an eagerness to meet the challenges in the face of this adversity. Here's what Charan says sales and marketing leaders must do to help a company to survive and thrive:
• Evaluate the organizational structure, looking for opportunities to reorganize and combine. Retraining may be needed so that sales people know how to help customers succeed in these difficult times.

• Create intelligence agents. In line with the drive for a closer and real-time understanding of what is happening in the marketplace, sales people must become “the company’s eyes and ears, providing timely ground-level intelligence” for strategic decision-making.

• Help determine which customers to drop. Who is likely to decrease orders, face difficulty paying on time, or emerge from the recession in bad shape? How much does each customer cost in terms of holding inventory or materials?

• Give input concerning product decisions, which product lines or distribution channels should be strengthened or dropped. Are there ways to create better value propositions (for example, repackaging items into smaller units for consumers who are living paycheck to paycheck)? Link your people to R&D to create cost-effective solutions to customer problems.

• Set and reward realistic goals. Lower sales may mean lower commission and thus lower motivation. Reset targets and consider other incentives such as rewarding sales people for calling on customers and collecting cash.

• Know where to put your advertising dollars, both in terms of media and geographical location, according to where it is most likely to be effective in a downturn.

• Cut costs wisely. Don’t take actions that reduce face-to-face contact with customers. And don’t do anything to sacrifice or devalue your brand.

And lastly, since properly trained sales people are your frontline of ground level intelligence gathering, it’s important that you set up mechanisms to feed the information they acquire through to senior management.

Mind Over Money: The Chief Financial Officer

Charan’s identification of liquidity as the priority for weathering the economic tsunami puts the Chief Financial Officer at center stage in a company’s survive-and-prosper strategy.

"You need to concern yourself with practical matters — specifically improving the overall quality of your company’s business and instilling a new financial discipline throughout the company," he explains.

"You can’t panic and you can’t afford to have a bunker mentality. You need to get out of the office, meet the troops outside the finance function, and inspire them by telling them the facts and laying out the reality."
Naturally, as trustee of the company's finances, the CFO must "know the numbers" and analyze both the demand and supply chains, evaluating the effects of the slowdown on each link. Again, the most important metrics relate to cash — generation, flow, collection and usage. Among other things, this means keeping a close tab on customers and suppliers for early warning of potential defaults.

Budgets will need to be redone more frequently, perhaps monthly, exploring critical issues such as the allocation of resources between competing needs and whether to halt projects, even those in progress.

Interpersonal roles are also crucial. This involves not only informing and guiding the CEO and the board, especially about deviations from expectations — and their implications — but also training management about the lesser-understood elements of the balance sheet, like accounts receivable and inventories. At the same time, CFOs should use the opportunity to evaluate their own executives' response to the intensifying pressures and to provide training where necessary.

**Making It All Work: Operations**

Whether you are in manufacturing or services, your goal as a leader in the operations section of your business are to reduce operating costs, improve efficiency or resource usage, lower working capital and conserve cash. All this, of course, while continuing to meet the usual demands for quality and on-time delivery.

Achieving the lowest cash breakeven point ahead of falling revenues is your top priority. Decide now how you will cut capacity, for instance by reducing the number of shifts, closing entire plants or consolidating production, and be prepared to act fast.

The quest for cash should prompt a re-examination of planned capital spending but don't abandon long-term expenditure without thinking carefully about the value of each project. Those with high strategic importance or involving critical technology must continue.

Other actions you might take include: simplifying product lines — you need fewer and better products; considering outsourcing, but keep work that contributes to your competitive differentiation in-house; manage inventories more tightly — they are a cash trap; and reviewing the way you utilize organizational capacity — are people underemployed or misdirected?

**Refocusing Innovation: Research and Development**

"Although some cutting is doubtless appropriate and proper, too much or the wrong kind of cutting can cripple your company, leaving it vulnerable to the competition when conditions begin to return to normal ..." the author warns.

Using zero-based budgeting (where all expenditures, rather than just increases,
must be justified and approved from scratch) shows clearly which projects are critical and which can be sacrificed. Deliberations should be made in the context of the changing economic landscape, taking particular account of the competition, and where competitors have shown innovative strengths and weaknesses in the past.

It’s a mistake, Charan cautions, to focus solely on research to improve existing products, which is what tends to happen in downturns. You must be ready to make quantum leaps by focusing on new products, while your competitors, perhaps lacking liquidity, may be unwilling to take risks.

Since your budget is likely to be under pressure, it is important to ensure you are making the best use of your limited resources. One way to do this is to consider what you would do if your budget, rather than being cut, was doubled. This will immediately identify your priorities, which can then be applied to your reduced circumstances!

Re-evaluate your people, of course, identifying those who have failed to keep pace with the changing world. At the same time, valuable employees working on abandoned projects should be moved into other research.

**Tying It All Together: The Supply Chain**

While it is important to critically re-evaluate your customer base, equal sharpness of focus should be directed to the supply side of the business, both in terms of the chain that feeds components, materials and services into your business and your own process of delivering your product to your customers.

Supply chain management has a tremendous impact on cash flow and customer service, the author stresses. Taking account of the increased risks in a shaky economy and the volatility of exchange rates, you might want to look for opportunities to simplify or shorten the linkage, for example relocating manufacturing closer to markets.

Closer working however extends beyond just physical proximity to a more intimate relationship involving a strong two way flow of information between you and your suppliers and customers. That way, you ensure each sees the same reality.

Identify which partnerships you want to sustain along the supply chain. Are they the most effective and efficient under the new conditions? Are there too many? Solve this by scoring your suppliers on a scale on 1 to 10 for the extent to which they are key in the development of new products. Less than 8 and you may need to eliminate or replace them.

**Supporting the Team: Staff Functions**

In this section Charan switches his focus to the departments that support the internal functioning of the company and its relationships with the outside world —
human resources, investor relations, communications, accounting, legal services and information technology. He offers the following insights on the priorities for managers in these functions:

- **Human resources**: Headcount reductions must not be done on a piecemeal basis but as a single, bold process that is clearly seen as part of an overall plan to reshape the company. This reshaping will define different goals both for individuals and the company as a whole. HR managers must ensure employees fully understand this and how they will be compensated relative to these goals. (Normally, compensation is linked to profit but in the downturn the author suggests it should be based on some combination of cash, operating profit, working capital and customer satisfaction).

- **Public relations and investor relations**: Communicating the company's new strategy to internal and external audiences helps maintain credibility even in the face of lower results. Transparency is the key. Any misstep that hints at cover-up will be disastrous.

- **Legal counsel**: Lawyers have a crucial role in renegotiating and drafting contracts in rapidly changing conditions. Workforce reductions should be carefully overseen to ensure the dismissal process does not conflict with issues of diversity by disproportionately affecting older employees, women or minorities.

- **Information technology**: Although budgets likely will be cut, IT managers must defend the continuance of technology projects related to compliance, including those designed to serve the board, the auditors and the CFO. A second priority will be maintaining projects that underpin the day-to-day operations of the business — "things that keep the lights on and the processes running."

**The View from the Top: The Board of Directors**

As ultimate guardians of the business and shareholder interests, directors have the challenge of getting management to face up to whatever painful changes must be made. The author witnessed several instances where board members had to persuade their CEOs to assume a worst case scenario when his/her forecast seemed too rosy. Conversely, he says, the board can help a CEO see past the gloom and doom and go on the offensive.

"This is the time for boards to motivate management teams to confront the new reality and win in spite of it," he declares.

It is easy for managers under strain to go into "bunker mode," he notes, and become fixated on survival rather than longer term planning. Directors might invite 20 or so managers from different levels in the business to dinner or cocktails the night before a board meeting not only to gauge their psychology but also to inspire them to action.
A corollary of this will be to adjust compensation packages to take account of the likelihood that targets set a year ago probably will not be met. They should consider how much of a compensation package should be switched from variable to fixed elements in the current climate.

Targets, whatever they may be, must be closely scrutinized to determine if they are realistic and if they work together. In addition to familiar metrics like revenues, margins and capital expenditure, new targets should be added with special focus on cash and the breakeven point. The board should seek a management presentation on how it intends to get the company to the lowest possible cash breakeven point in the coming year.

Ultimately, of course, the board must ensure it has the right leadership in place to achieve those targets, giving the CEO their full support as long as he or she is earning it. If not, well, there will be plenty of casualties of this economic downturn and more than a few CEOs among them.

"The tendency is almost always to act late on evidence that the CEO's performance is declining but any delay in making the difficult decision can place the company in grave jeopardy," he says.

**Conclusion**

Ram Charan explains that he kept this book short and to the point because managers' time is precious. The abiding themes threaded through each page are of the need for decisive action, boldness tempered by realism, and a constant eye for opportunity even in these times of hardship.

This will be achieved by a level of management intensity that penetrates the day-to-day operation of a business to a level rarely seen before.

"Roll up your sleeves and put the tools and ideas to work right away," he says. "Remember 'hands on, head in' is the guiding principle. Adjust your mindset, gather your people and tackle the problem squarely. If you're a capable leader you will have a stronger business after the downturn than you did before."