

Excerpt from Progress Magazine Top 101 Issue...

Positioning for the recovery



Employers need to show true leadership and make some tough calls in order to weather economic downturns
by, Andy Cutten

We know that we are in a recession and we know that there will be a recovery. Historically, successful companies survive the “bad times” and thrive in “good times.” Company owners and executives cannot effectively manage on hope or in panic and survive these turbulent times. Now is not the time to abandon a trusted vision but is the time to reassess the reasonableness of goals and objectives and associated strategies, to adjust the economic model, and to protect core competencies while streamlining the organization. And never has it been more crucial that effective internal and external communications are undertaken in a consistent and constant manner.

Earlier in this decade, Canadian exporters lost the international marketplace advantage of a weak Canadian dollar. The resetting of the Canadian dollar at par with the U.S. greenback exposed a lack of productivity in this country. In order to retain all or a portion of these global revenues, companies were forced to revamp operational processes and/or accept lower margins and profits. It was a very painful experience. The current situation arguably is worse because the need to further improve productivity is required for the domestic market as well and the recession is shrinking the global marketplace. Enhanced competitiveness will not necessarily translate into additional or even retained revenue streams.

However, this turmoil is creating incredible opportunity for those companies that not only survive the downturn but also position themselves properly in their chosen markets. The auto industry will continue to be one of the dominant economic sectors but, as we know, the major players will be different and some familiar names will cease to exist. The same is happening in world financial markets. There is a strong likelihood that the same chaos is impacting your sector.

Now is the time to focus on future opportunity while coping with the financial and operational stress of today’s environment.

Vision, goals, and strategy

Typically, a company’s vision at a selected point in time reflects its existing marketplace position, as well as the aspirations and determination of the owners and leadership team. If nothing else, the current recession will likely have an impact on marketplace position—and for companies that do survive the downturn, there is a strong likelihood that the competitive landscape has changed and possibly improved. However, vision timeframes may have to be extended to reflect both the impact of the economic slowdown and a sharpened focus on tactics for the short and medium terms.

A firm’s goals and objectives will have to be reassessed and milestones and benchmarks recalibrated as warranted by the slowdown. Objectives oriented to cash and liquidity may

appear for the first time in years. Goals associated with new products and services as well as new geographic markets will definitely have to be reevaluated.

Strategies are typically created as the best means possible to deliver on the goals and objectives. A large number of organizations have strategies that are all about new revenue streams, and it would be a travesty for the long-term viability of the enterprise if such growth-oriented initiatives were to be abandoned. They should certainly be revalued but not shelved. And this is not a time to deviate dramatically from productivity improvement strategies.

What would be most appropriate would be the addition of an incremental short-term oriented strategy that is completely focused on ensuring a proactive response to tackle the impact of the recession. The associated action items would include cost eliminations, cash and financing optimization, communication plans, and the need to have the fingers constantly on the economic pulse of the organization.

Economic model revision

It is time to emphasize the fundamentals, especially the balance sheet. A prolonged and deep recession places an inordinate importance on liquidity and cash. Cash is not just king, it is the kingdom. We are fortunate in Canada to have financial institutions that have weathered the recession in an impressive manner and are still in the lending business, albeit with an emphasis on acceptable risk fundamentals—hence the importance for a borrower to have a short- and long-term plan in place.

Companies will be trying to speed up the collection of receivables while extending payables where possible. Capital expenditures will be pared back to those items that are critically required and lease vs. buy will often be the preferred option as long as the credit is available.

But working the balance sheet and utilizing cash reserves may be insufficient to offset the declines in revenue and companies will need to reduce costs in order to maintain profitability, working capital, and retained earnings—fiscal viability. Companies must determine what the critical survival metrics are and ensure that they are accurate and visible on a continuous basis with corrective action and alternative plans ready when required.

Companies typically target “discretionary costs” right at the outset of trouble. But what truly are those discretionary costs? Marketing, donations/community support, and training budgets are often slashed. In order to position the company for longer-term success, companies can't afford to cut the lifeline to the future. Perhaps some staff positions are more discretionary than program costs.

Staffing costs

The costs associated with human resources are usually the single largest expense category a company has, so staffing levels and benefits must be looked at. All too often a recession forces management to make the tough calls that could—and maybe should—have been made previously. The key is to focus on positions and not on individuals who are often friends, long time employees, and so on.

I believe that the first step a company should take is to look at the organizational structure. When identifying redundancies, what can be done to change how you do things while making sure you protect the future? Business survival allows for no sacred cows, and a deep recession means cutting capability.

There are primarily two avenues to reduce salary and wages: reduced workweeks or staff reduction, as well as a combination of the two. In either case, I personally feel very strongly that this decision is made only after the non-performers have left. Employees will accept a reduced work week much more willingly if that activity has taken place. Done properly, an across-the-board reduction may improve the morale and culture of an organization but it fits best when a reinstatement date has been set and there is a sense that there will be a reward down the road. It is very difficult to do an across-the-board reduction twice.

Staff reductions when there is no fat left in the company are often brutally tough to make. You would really like to keep the “newbie” but there is little severance and if we let a veteran go the severance is just too much. What is the best decision for the company to make now for when the recovery has begun? Don’t do the reductions a little at a time if you want to maintain any positive morale. Determine what needs to be done, given your outlook for the near future, while protecting key strategic endeavours. Get it done all at once, and communicate that fact. You can’t promise that there won’t be any more cuts but people hate waiting for the other shoe to drop.

Leadership and communication

Guiding a firm through a recession requires the ability to see through the recession and to position the company to blossom in the recovery while making the tough tactical decisions to ensure survival. Two requirements of the leadership stand out in my mind: crisp informed decision making, and excellent honest communications.

There are processes that the leadership must undertake and there are decisions to be made throughout. It is not about consensus and it is not about always making the right decision. Once it is obvious a wrong decision has been made, make a better-informed decision and move on. Employees will respect and rally around an effective decision maker—“The boss is leading this organization forward through the recession and I buy in.”

It is when times are tough and the outlook is dismal that the need for effective communication is paramount. A recent excellent example is the superb communication from president and CEO Michael McCain of Maple Leaf Foods during the Listeria outbreak. On the flip side, there are examples of poor communication from leaders of some of the American automotive and financial companies seemingly lost in the economic turmoil.

There are three states of communication: good, bad, and none. The latter is by far the worst scenario, as a lack of communication creates a void that soon becomes filled with rumour and uncertainty.

The leadership team must communicate regularly and consistently to employees and their families, as well as to critical external stakeholders such as their lenders, suppliers, customers, and communities. Be explicit on the issues and what is being done about them and cover results to date. Implicitly, the audience will hear that the company is doing more than just coping—it is preparing to participate fully in the recovery and enjoy a bright future.

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