



Book Nuggets: Leadership in the Era of Economic Uncertainty

White Paper
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Leadership in the Era of Economic Uncertainty

The New Rules for Getting the Right Things Done in Difficult Times

Ram Charan, © McGraw-Hill, January 2009

“Book Nuggets”

The “nuggets” contained in this document are “full-credit” bullet-point excerpts from Ram’s book and are arranged in order within the chapters they appear. I offer you this summary to provide a quick review of items which might strike a strong chord with where you are and what you might be contemplating in your organization during this period of economic uncertainty.

The nuggets might also provide a new thought or perspective you may have not already considered as you set your strategic course. In any case, Ram continues to show his keen grasp on organizational and market dynamics currently at play. The best option for learning is to read Ram’s book and explore the details behind the nuggets.

For the sake of understanding the flow of this summary, Ram’s book starts with an overview chapter and then proceeds to give guidance by 8 functional areas of a typical organization: CEO, Sales and Marketing, CFO, Operations, Research and Development, Supply-Chain, Staff Functions and Board of Directors.

I hope you find these nuggets helpful as you journey through this year.

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Chapter 1 -- The Challenge of Managing in a Toxic Environment

- Leaders must be prepared to make strategic, structural, financial and operations changes -- many of them drastic, in a hurry and with information that is at best incomplete.
- One Word – CASH – Protecting cash flow is the most important challenge most companies face. Pursuit of revenue growth must give way to understanding the cash implications. Three sources of cash - earnings from operations, working capital (inventories and receivables) and the sale of assets. Manage conservatively, lowering your cash breakeven point as rapidly as possible for the worst case scenario.
- You will need ground level intelligence -- get out in the field and observe. Only by synchronizing people on a company-wide team can you obtain focus speed, urgency and flexibility
- Urgency comes when you ask questions and help people overcome obstacles
- Aggressive measures and decisive actions build optimism and confidence. Your own and others spotting opportunities and pursuing them aggressively will inspire people and change their fear to realistic optimism.

Six essential Leadership Traits for Hard times

1. **Honesty and Credibility** – Level with people, tell them how you see the world, ask them for their own views
2. **The Ability to Inspire** – Start with your own team, it is they that will inspire the rest of the organization
3. **Real-time connection with Reality** – You have to keep updating your view of it
4. **Realism Tempered with Optimism** – Focus your people on a vision of what is possible and energize them to search for actions to realize the vision
5. **Managing with Intensity** – Your hands-on participation is essential in these times
6. **Boldness in Building for the Future** – Resist the pressure to shortchange the future, use imagination and guts to place strategic bets

Chapter 2: At the Helm, What CEOs and Business Unit and Country Managers Must Do

The Need to Lead -- Focus only on what is necessary, leaders need to reprioritize their allocation of time. The CEOs job -- it is helpful to divide it into two realms: leadership and operations.

Recognize Reality -- Many people will go into denial and some may even become fearful. Looking in the rearview mirror serves no purpose and can distort you from the challenges ahead. There is simply

no question that you and your company will be different two years from now. If you don't believe that, you are condemning your company to the ash heap.

Change your Company's Psychology -- Gather your senior people and get their best thinking on the issues facing the company and develop a solution that not only addresses the crisis for the moment but sets a course to take the company through the tough times.

Be Bold -- Your actions have to be bold, not tentative, if you are going to convey confidence. Make offensive moves, not just defensive moves such as cost-cutting. Any sustained economic downturn creates opportunities for those who are ready to seize them.

Be Constantly Aware of the Sudden Availability of Talent -- The best and brightest will always be mobile and you will stand a better chance of attracting those people if they can see that you have a plan to emerge from the crisis.

Reallocate your Time -- The time you spend outside the office, can best be dedicated to customers and suppliers. You must interact with subordinates much more frequently, so there are no slipups in execution.

Protect the Core -- Look for ways to sharpen or strengthen your core and drop the rest

Reassess your Top Team -- This is a time that requires superb cooperation among people who are both bright and ambitious. Business decisions must balance and integrate functions to meet the new priorities for cash, costs, margins and revenues.

Be Transparent -- You have two major responsibilities that must be met through communication: information flow and motivation. You have to establish mechanisms to communicate more intensely and more frequently to your top executives.

Be Visible -- You need to align everyone with the company's goal of preparing for the worst and looking for long-term success. You need to be listening to people at all levels in the organization to discover what is on their minds, what they are worried about and what new ideas they have for doing something better.

Know the Daily Numbers -- Dashboards should be simple, reliable, revealing and provided to all those who need the information.

Manage for Cash -- Very different from managing for profits or revenues, you almost certainly will be required to give up some customers or products. Cash can be found in outsourcing, in contractual terms with suppliers, reductions in overhead and by combining functions.

Reduce the Company's Cash Breakeven Point -- There should be no sacred cows, setting the tone starts at the top. Rethink what needs to be centralized, outsourced or decentralized. The objective is to cut costs before revenues decline and to get ahead of the curve. Timing and speed matter.

Pare your Customer and Supplier base -- More than ever before, you have to take the initiative to be proactive toward your best customers. The mood now is for customers to ask suppliers where they can help and co-share some of the risk.

Know when to Change your Strategy - Check your current strategy to make sure it is viable in the shifting landscape. Many will be eager to change strategy that may not need to be changed.

Set Shorter-term Milestones -- Work with a shorter time horizon, demonstrating flexibility and agility in setting targets on a quarterly, monthly, or even weekly basis.

Chapter 3 -- On the Front Lines: Sales and Marketing

- **Create Intelligence Agents** – Salespeople provide timely ground-level intelligence to serve as the basis for decisions on strategy and tactics
- **Do not Sacrifice the Brand** – Brand identity is extremely valuable to your company as the long-term differentiator
- **Target Advertising and Promotions** – Understand regional patterns, upturns and downturns
- **Adjust Pricing Fairly** – develop the right pricing strategy for the volatile markets
- **Cut Costs Wisely** – Manage travel costs but realize the investment of face-to-face time to gather intelligence
- **Link Salespeople to Operations and R&D** – Creative and cost-effective solutions to customers problems often emerge from discussions among people with different knowledge bases
- **Link Salespeople to Senior Management** -- Make sure what your sales people learn in the field gets to senior management ...you will find that discussions between sales people and senior management can be a motivator. Everyone becomes more vigilant and curious.

Chapter 4 -- Mind over Money: The CFO

- **Set the Tone**
 1. Exude the honest conviction that the company will come through the storm successfully
 2. Present the facts and details about financial health under different scenarios of future demand and market conditions
 3. Be constructive and very specific about demonstrating how resources have to be redeployed
 4. Interact with other leaders in other functional areas and train others further in the organization to do the same
- **Know the Numbers** – Most important metrics concern cash – cash flow, cash generation, cash collection, cash usage, availability and timing of credit lines, timing of new financing and repayment of debt.
- **Advise the CEO** – With your command of the numbers and grasp of the value chain, you will be the advisor of last resort to the CEO and the board...laying out your evaluations and recommendations.
- **Guide the Budget Process** – Find a way to redo the budget (both capital and operating) more frequently, perhaps monthly so it reflects reality. It will no longer be sufficient to measure on ROI alone, you will have to dig deeper to see how projects will generate cash flow and the timing.
- **Advise about Compensation** – Develop the architecture and measures of performance

- **Guard against Customer and Supplier Defaults** – Collaborate with Sales and Marketing to evaluate customers and suppliers balance sheets...and remember that people remember how they are treated no matter how tough the environment.
- **Train Your People** – Hands-on practical training in real-world company problems and documents can be invaluable in bolstering the confidence of your subordinates.
- **Train Management about the Balance Sheet** – This is a time to educate the management on the intricacies of the company's balance sheet using the company's real numbers and showing what can happen in different scenarios – it is not rocket science, it is merely a matter of showing them the reality of the business.
- **Keep the board informed**

Chapter 5 -- Making it all Work: Operations

This is where the most fundamental changes will occur as your company adapts to new circumstances and re-creates itself to become stronger in the future.

Achieving a Low-Cost Cash Breakeven Point. – The number one task is to lower your cash breakeven point ahead of falling revenues. Always remember that decisions have a second and third order of consequence.

Rethink Capital Expenditures - Projects of high strategic importance cannot be delayed

Simplify your Product Lines – You will need fewer and better products, getting your best product people thinking about making things better faster and more efficiently

Outsource where Possible – Think about what differentiates you from others and keep those things in house

Manage Inventories – They can be a huge cash trap, this is supply chain management's biggest task...use "just-in-time" suppliers and take a "produce-on-demand" approach in production.

Special Needs for Service Companies – Staff your operations commensurate with the need for customer service. Two critical areas for focus organizational capacity utilization and motivation.

Chapter 6 -- Refocusing Innovation: Research and Development

Rethink the R&D budget – ensure that the right things are cut by doing zero-based budgeting. If you believe that you have a competitive strength, play to it, this is a time when you can grab a big lead over competitors and emerge with new products or processes that will give your company a tremendous edge.

- **Rebalance Research priorities** -- Reformulate existing products to reduce material and shipping costs. You need to seize opportunities to make quantum leaps that will set your company up as a winner for decades to come.
- **Make the Best Use of Resources** – The global scope of economic malaise provides a good opportunity...once of a lifetime... to combine forces with organizations across the globe in creative alliances or partnerships.

- **Confront Obsolescence** – Keep critical people and projects and address those not keeping pace with the changing world.
- **Tighten Your Links with Sales and Marketing** – Get their inputs on what efforts on what to continue, what to speed up and what to cut. Get out of the lab and watch and talk to people in your marketplace.

Chapter 7 – Tying it All Together: The Supply Chain

Supply chain encompasses all relationships the company has with its suppliers and has a tremendous impact on cash flow and customer service.

Focus on Synchronization -- Achieve the greater flexibility needed to survive the slump and to give you advantages when conditions improve.

Build Information Bridges to Suppliers and Customers – You will also need to know their margins which are necessary for their survival, their plans for cutbacks and other cost-control efforts and how that may affect your company's operations.

Seek Sustainable Relationships – Every company that joins you as a partner, has to commit to understanding that the situation is no longer “and/or” but “and/and” ...this means striving to give customers everything they want. Ask the following question on a scale from 1-10, with 10 being the highest; To what extent is your supplier an integral partner in the development of new products? If the answer is less than 8, you have a lot of work to do or you may need to seek out another partner.

Advance Everyone's Understanding of the Value Chain – Training can help to enhance knowledge of the company's value chain and to promote greater coordination at all levels between Supply Chain, Manufacturing, Sales, and R&D.

Chapter 8 -- Supporting The Team: Staff Functions

Get the staff organizations down to the point where they can act rather than waiting for instructions. In tough times, centralization of functions is a fast way to get a bigger bang for the buck.

Human Resources

HR will bear the brunt of the transition to crisis management since so much of organizational transition work impacts people. There are a number of areas within HR that will need to be addressed:

- **Headcount reduction** – You will be judged by how fast the process works and how humanely it was carried out – if reductions are made, they should be bold so they only have to occur once.
- **Compensation** – In a downturn, managing for cash is the goal and compensation formulas have at a minimum four principle indicators; cash, operating profit, working capital and customer satisfaction.
- **Succession and Talent Planning** – This is a great time to make sure the right people are in the right jobs. People who are indecisive or fearful have no place in an organization that needs to make fast and bold decisions, motivate and encourage people as a seamless team – there is also no place for lone rangers or people wanting to play the hero. If you are confident about high-potential leaders...go ahead and unblock jobs for them and move people around.

- **Training** – All leadership training should be focused on problems and opportunities facing the company now. The training should provide knowledge and skills that can be put to work immediately. This is not a time for canned presentations, instead you need to train people in applied techniques and encourage them to read books and journals on their own to pick up additional management expertise. You will get a big return on investment if you recruit some of your own senior executives to teach some of these sessions by using actual company information, problems and challenges.

Public Relations and Investor Relations

- **Maintain Credibility** -- In a period of prolonged slow growth, there is nothing more important for corporate communications and investor relations than maintaining credibility even in the face of results that may fall short of expectations.
- **Communicate Results** - You will need to build a record over time of the outcomes of the company's actions, showing how they have impacted various parts of the company's value chain for better or worse. Enlist the CFO in keeping the targeted and most important investors fully informed.
- **Maintain Internal Performance Reporting** -- Work with finance and HR to create a website and/or dashboard accessible to all employees, updated at least bi-weekly that presents an analytical picture of the company, its competitive position and the steps it is taking to execute its strategy.
- **Keep Internal Lines of Communication Open** -- It may be helpful to establish a hotline to respond to employee concerns and queries.

General Counsel

Anything you can do to make it easier for suppliers or customers to do business with you will give you a competitive edge.

Information Technology

First priority is to make a sound agreement for projects related to compliance, second priority should be utility-oriented projects. After those two priorities, you'll need to rethink projects that create value.

You may have to slow the pace of development sharply, taking bite-size pieces one-by-one on several projects rather than scrubbing two to save one. Each project has to show how much cash it will generate for the company.

Chapter 9 – View from the Top: The Board of Directors

Directors are ultimately responsible for ensuring that their companies survive. This is a time for boards to motivate management teams to confront the new reality and win in spite of it.

- **Approving the Targets** -- For an unknown period, the likely question will not be how much your revenues grew but whether your company's revenues fell more or less than your competitors' revenues
- **Watching Risk** -- The board needs to be sure leaders of the business have considered worst-case scenarios.

- **Guarding Shareholder Interests** -- It is a given that most companies will become smaller over the next two years; most will have lower earnings and net cash-flow generation. Decisions to consider will include dividends and share buy-backs.
- **Adjusting compensation** - Your task is to be sure that senior management focuses on the particular things that are right for your company at this time.
- **Gauging Management's Psychology** – It will be useful to invite 20 or so managers from several levels of the company to a dinner the night before a board meeting. Interacting with them will allow the board to gauge their psychology and at the same time inspire them.
- **Ensure the Right Leadership** – You need to see decisiveness in your CEO and if you have thought conscientiously about worst-case scenarios, you will have asked the right questions before it is too late.
- **Sharing what you Know** – Good Intelligence about the world has never been more critical. The process needs to be constant and free-flowing. Little tidbits of information you may have dismissed as worthless in the past, take on much greater significance, but only if you share. What you learn today may save your company tomorrow.
- **Planning CEO succession** – There has never been a better time to undertake a complete survey of succession and implement plans for both short-term and long term. High-potentials still have to demonstrate their capacity for big ideas, but now it is equally important to determine how well a person can see the new reality, interpret the market and financial flows and link them to the survival of the business.

