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by Tom Brown

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And If the Good Times Stop Rolling? Dealing with a Downturn

by Tom Brown

COULD THE NEWS on the business front be much better? Low unemployment, low inflation, robust corporate profits—what one magazine has called "economic nirvana" has lasted a decade or more for many companies. Maybe it can go on forever, with high-tech order-and-reorder systems preventing unsightly accumulations of inventory, the bond-market vigilantes riding herd on interest rates, and Alan Greenspan safe in his heaven, watching Godfully over it all.

And maybe not. "A lot of us have forgotten that the booming economic good times that have generally prevailed for the last 15 years were preceded by 15 years of grudging increases, and setbacks, in the Dow Jones Industrial Average," says Larry Brotzge, a C.P.A. and former chief financial officer at a *Fortune* 500 financial services company who now consults on financial management with small and mid-size companies. "We have a whole generation of managers and executives out there who have learned how to manage since 1982, when the Dow has climbed, give or take, over 6,200 points. We all might have grown to a level of unhealthy complacency. Markets are so globally-related these days, a lot of things could set the economic world back and a lot of businesses with it."

He goes on with his cautionary tale: "Any type of military crisis, strong wage inflation following full employment, a return of high oil prices, a serious sag in the technology sector—one or all of these could put us in a serious downturn." Managing through such unpleasantness would require some skills that may have been sitting in your managerial tool chest, rusting. What better time than now—you're fat, you're happy, you can prepare—for a refresher course on what you will need to do to weather the storm that just might be lurking over the horizon?

Still not persuaded? "There's another way to look realistically at the need to be sharp on managing a downturn," says Edward E. Lawler, director of the Center For Effective Organizations at the University of Southern California. "If you really look at the situation globally, some country, some industrial sector, or some company is now in a downturn that its leaders and managers may not have been prepared for. Parts of Europe have been experiencing a downturn for some time. England seems to have navigated through it, but France, Italy, and Germany haven't quite. And even in the United States, what has a Sears or a Digital been through if not their own company-specific downturn? The question is, what do you do when a downturn hits you?"

Start with the basics

Brotzge, of course, has a CFO's point of view, but other experts affirm his list of first steps as classic control-and-cut-cost activities. Beyond having sufficient lines of credit to sustain your company during economic adversity (such lines are best built during good times), Brotzge emphasizes the importance of acting quickly to:

- project the "worst case" scenario on a spreadsheet to see if the company can survive without running out of cash
- eliminate any unnecessary spending
- work with suppliers to improve the credit terms they grant you (especially if they're not in a downturn)
- reschedule, or cut, new or test projects with dubious prospects
- consider shutting down businesses or products that are losing money or operating on ultraslim margins
- in all your operations, ruthlessly inquire into whether current performance is entirely because of a downturn or, alternatively, stems from sloppy execution of business basics
- keep employees fully informed (and ask for their help); don't shoot all those messengers who bring bad news about business reversals; don't resort to downsizing as the first step
- keep bankers and the investment community fully informed (if you keep talking with them, there's less chance they'll panic and pull back support)
- consider any strategic mergers or alliances that offer both a sharing of operational costs and openings to new markets

Manage beyond the basics

"When companies hit a downturn, it's the perfect time to start asking 'Why?' in new and more powerful ways," says Eileen Shapiro, a consultant and author of *Fad Surfing in the Boardroom*. "A lot of market setbacks are caused by corporate truths that were, in fact, competitive traps." Shapiro notes, for example, that cereal manufacturers found themselves with stagnant or declining sales when they were benchmarking their prices only against competing cereal products. In fact, they were losing sales to bagels and other noncereal breakfast foods.

Use the downturn, Shapiro advises, as an occasion to ask, "Is my business providing a good deal to our customers? Can we do it at a profit? And can we continue to provide that same good deal over a long stretch of time?" She continues: "Whenever you hit a slump, you have violated one or more of the principles embedded in this three-part question. And that

How Built-to-Last Companies Manage Downturns

IN THE COURSE of the research that led to their book *Built to Last*, James Collins and Jerry Porras studied 18 visionary companies as identified in a poll of CEOs. The two men worked with 20 other scholars over six years to identify precisely why these 18 companies outperformed 18 comparison companies, as well as the rest of their related competitors, by huge margins. Collins and Porras spoke with Tom Brown from their respective offices—in Boulder, Colorado, where Collins is an independent consultant, and Palo Alto, where Porras is a professor at Stanford's Graduate School of Business.

Did the 18 visionary companies suffer downturns?

Collins: Every one, without exception, did. And we learned a huge amount about the distinctive nature of these companies by studying how they reacted during a downturn. Their true beliefs often were revealed during their brush with economic adversity.

Did their downturns come upon them overnight?

Porras: Traditionally, they came very slowly. There were notable exceptions, like Boeing, which had lots of military-connected business that changed with new policies at the Department of Defense.

Collins: In the cases of a Disney, which just wasn't performing up to its potential from 1967 to 1982, or a Ford, which found itself in a crisis in the early '80s, or an IBM, also in a crisis in the early '90s—in most cases, the downturn can be traced to things that happened inside the companies, especially in relation to key events occurring outside the company, over a longer stretch. For example, Ford was not managing itself to be able to deal with the fuel crises of the times.

Porras: These visionary companies lost sight of what was happening. They got complacent with their success. IBM plainly lost sight of its core beliefs and ignored the movement of the customer in their own marketplace.

Whatever the cause, were there some generic ways which the companies used to manage out of a downturn?

Collins: They went back to their core roots, their basic beliefs as a company. They led their company for the long term while managing through short-term setbacks. By contrast, the comparison companies often forgot the long term entirely.

If you could use the analogy of these companies being college students hit by economic hard times, the comparison companies dropped out of college in order to make money. Conversely, the visionary companies never forgot what they ultimately had to be about. They became part-time students, for the short term, and found ways to eat less while still studying.

Porras: What's clear as well is that the visionary companies went back to the basics. When Ford was in trouble, it certainly managed costs tightly, but it also worked toward the long-term: to get every employee involved, to restructure jobs, to move decisions lower, to build quality into the way work was done.

During hard times, can a company both preserve its core beliefs and stimulate new economic progress?

Collins: Absolutely. The first thing a visionary company needs to do is to ask what it will absolutely not change as it deals with a downturn. By identifying what a company will not change, it revalidates its core values and core purpose.

Porras: But companies like Motorola, Disney, and Boeing were not afraid to start with their core beliefs and then move into new businesses to pull out of a downturn. Disney, for example, moved into theme parks. It took its roots as a movie company dedicated to family entertainment and expanded it.

Collins: It's sort of like Churchill in World War II. Many at the time thought that Britain was over and out. Churchill came back and rephrased the question entirely. He said the real battle was not just how to survive but how to prevail. I was struck by how often these visionary companies, during harsh adversity, chose not to take on a survivor mentality but instead sought to set a BHAG, a Big Hairy Audacious Goal, to ultimately prevail. Too many companies seem to be stuck in what they have been doing, even during a downturn; they're not focusing on what they could be doing.

So is it possible, according to what your research revealed, to build a downturn-proof company?

Porras: I guess that brings us to the questions of how perfect an organization can be—and how perfect can the people managing it be. Since leaders and managers are, first, human beings, my own feeling is that there will always be mistakes in organizations. Attention will often drift so that an obvious oncoming downturn is not seen even by the brightest. And during a downturn on the magnitude of the Great Depression, no one is going to be safe.

What the visionary companies show us is that it can make a tremendous difference if you're in touch with your core beliefs and yet ready to change, to be flexible, to grow in new directions. ■

If you want to learn more . . .

Built to Last by James C. Collins and Jerry I. Porras (1994, HarperBusiness, 342 pp., $14.00, Tel. 800-242-7737 or 212-207-7000) violation is the precise point from which to start managing differently, if not moving your company in entirely new directions."

Don't underestimate the difficulty of this though. Andy Van de Ven, a professor at the University of Minnesota's Carlson School of Management, has looked extensively at "new directions." He led a team of 15 professors and 19 doctoral students in the Minnesota Innovation Research Program, which examined 14 never-been-done-before technological, product, process, or administrative innovation attempts in the 1980s. He would like to be optimistic that companies can move easily and simply in new directions; but the study, and his subsequent findings, concluded that this just isn't so.

"When a downturn comes, and if you keep all your employees informed, people are generally jolted to look and question their existing products and procedures," he observes. "That should be good for innovation. The only problem is that, as the downturn unfolds, resources are slack. There is seldom much available time or energy to devote to new products or services. So, during a downturn, you must be ready to harvest ideas which have been percolating already, as opposed to brand new ones."

This has implications even for good times. "Companies should always be working on their 'corporate repertoire'—testing themselves constantly in terms of what they do well, and what they might do equally as well," Van de Ven says. "Companies should also be emphasizing how to manage internal conflict and opposing points of view, so that these skills can play to your corporate advantage when the company needs to be flexible and move resources toward new priorities."

Kim Cameron, associate dean of the Marriott School of Management at Brigham Young University, echoes the idea that managing conflict positively is one key aspect in a culture capable of turning around in a downturn. He also notes that a great deal of the respect given those "high-performing" companies that have been supporting an "ever-growing" economy was based on their ability to implement three modern management tools to great effect: total quality management, downsizing, and reengineering. "The trouble is," says Cameron, "the jury is still out on the long-term effectiveness of these tools. On downsizing and reengineering, there seem to be as many studies showing a negative impact to these programs as there are ones showing a positive impact.

"Almost all current management is based on assumptions of growth and expansion. People advocate complexity, boundary-spanning organizations, and decentralization at least in part because there are enough resources available today to do such things." But he worries that, in a downturn, the reduced resources and pressure to consolidate will force people "to rethink most of what we have built our current management discipline upon." So, for all its trendiness, having a resilient corporate culture is, for Cameron, a critical key to managing a downturn: "Getting people to focus on and discuss 'how' they do things rather than on 'what' they do may be the decisive factor."

As Brotzge's advice suggests, the first focus in a downturn tends to be on costs, and often on the cost of people since this may seem the easiest to trim.

The tough thing to keep in mind, when confronted with a downturn, is that it's the people who do the work of the company, and how they think and respond may well overshadow the quality of products and services in determining how the outfit makes it through tough times. Harvard Business School Professor John P. Kotter offers Konosuke Matsushita as a perfect example of how true this can be. "Matsushita had to face a serious downturn not just once but twice. In one instance, sales fell 50% in just one month. In terms of marketplace turbulence, his past looks more like our future," says Kotter, author of a new biography of the Japanese business giant. "Matsushita constantly put forth the aspirations of what he was trying to do in the firm. Then he got the people working inside the company to be involved directly in its turnaround. Everyone employed was tasked to find ways to manufacture and sell in better ways.

"Clearly one of the things that he did which will be forever relevant is that, even when things were very bad, he had the capacity to think in longer terms. He maintained a long-term perspective. This helped the company pull through, because decisions weren't made on a knee-jerk basis. They avoided tempting decisions which might look good in the hour, but which would have proven to be very, very bad within even a year."

Lawler draws a related conclusion: "Perhaps the most important question to ask during a downturn is how to protect your key brains. Compensation is, of course, one issue to examine. But supporting the managers and employees whom your company will have to rely on to manage out of a downturn is also a matter of respect, giving them a sense of importance, and a sense of security, and a sense of the long-term horizon and their important role in it." ■

If you want to learn more . . .

Fad Surfing in the Boardroom by Eileen Shapiro (1995, Addison-Wesley, 253 pp., $22.00, Tel. 617-944-3700)

From the Ground Up by Edward E. Lawler III (1996, Jossey-Bass, 336 pp., $27.00, Tel. 888-378-2537 or 212-698-7000)

Matsushita Leadership by John P. Kotter (1997, Free Press, 301 pp., $25.00, Tel. 800-223-2336 or 212-698-7000)

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