



Turbulent Times Reshape Management Practices

Executives who became accustomed to an era in which predictable growth could be achieved by riding waves of global market expansion, continuously appreciating asset values, and access to easy credit recently have had to face very different circumstances. Once rideable waves have given way to turbulent economic conditions and unfamiliar business environments.

Merely working harder, while adhering to the same business practices, will not enable executives or their enterprises to escape the turmoil. Changing circumstances mean business leaders must first take steps to survive the turbulence. Good leaders will want to revalidate standing business assumptions while managing operations in real-time and reaffirming the core business. They also will need to remain visible to managers and employees regardless of the difficult conditions. Once survival is assured, they then must turn their focus to the potential upturn.

Survive the Turbulence

An enterprise's financial position, while always important, takes on greater significance during unstable economic periods. When sheer survival is at stake, executives must do more than devise ways to shed costs and lower breakeven points. The balance sheet of the enterprise needs to be kept strong, meaning it has ample cash and liquid short term investments, carries only manageable long term debt, and lists its assets at or below their market value. All are indicators that the firm can pay debts coming due while also sustaining day-to-day operations. Otherwise its balance sheet may need to be strengthened through the infusion of cash.

Cash is the oxygen that enables an enterprise to breathe and to function normally. Consequently, the availability of cash and an assurance of adequate liquidity—a firm's ability to convert assets to cash—are especially important during uncertain business cycles. In fact, in a down economy generating and preserving cash may even take precedence over growing revenue or increasing returns on investments.

Similarly, any assets that consume cash will be scrutinized more carefully. Inventory levels and receivables in particular must be monitored with greater care. Should cash supplies be depleted, management's attention will be diverted from operational matters at the worst possible time.

The difference in what leaders have achieved

at various global automobile companies shows the importance of a strong balance sheet. Executives at Toyota, Nissan, and Ford have made certain that their companies have adequate cash on hand to survive despite the financial losses and "cash burn" caused by the global slump in auto sales. By contrast, General Motors and Chrysler have had to borrow repeatedly from the U.S. government to stay afloat from month to month. Weak balance sheets may ultimately make it impossible for them to survive the economic turbulence.

Cash is the oxygen that enables an enterprise to breathe and to function normally.

Revalidate Commitments and Assumptions

Business leaders can never assume that preexisting practices and commitments will remain valid during changing economic conditions. For example, unless they are resecured, long-standing lines of credit that have been treated as ongoing commitments to the enterprise may be withdrawn by lenders. Or, terms of outstanding loans may be abruptly adjusted, a result of sharp fluctuations in market interest rates or credit conditions.

An enterprise may also incur unexpected changes in known liabilities. For example, if shares of company stock have been used to secure loans or fund pension obligations, any significant drop in their market value will require management to find additional monies to maintain funding at required levels.

A company's order book and production schedule cannot be assumed accurate either. Both may be meaningless in the face of softening demand for products or services.

When executives at Caterpillar, the world's leading manufacturer of construction, mining, and industrial equipment, first sensed the start of recessionary conditions, the company was enjoying record annual sales of more than \$50 billion. Moreover, it had its highest ever profits, record earnings per share, and a backlog of orders extending out several years. Nonetheless, CEO Jim Owens called on the Caterpillar sales and management team to go back to dealers and marketing companies and revalidate booked orders. He stressed the importance of ensuring that order expectations were realistic because he did not want to see the company build excess inventory. Owens knew Caterpillar would be better off reducing planned production than sending machines to dealers where they might not sell as planned or sell only at significantly



reduced prices.

Manage Operations in Real-Time

Normally CEOs are not immersed in operating details like manufacturing schedules. However exceptions occur when turbulent economic conditions require them to direct greater attention to an enterprise's operations. Detecting and responding quickly to out-of-the-ordinary conditions is essential, for delays can prove costly. Consequently, good leaders will devote a greater portion of their time to operations issues and to monitoring and adjusting the business processes of an enterprise.

The need for managers to make operating adjustments in real-time also requires shorter reporting cycles. Key performance indicators—sales and orders booked, cash balance, or inventory levels, for example—that had been reported monthly and quarterly may now need daily or weekly updating.

Leaders often must act quickly and perhaps less democratically, making key decisions without the normal participation of others. Although there is markedly less time to let action plans bubble up, it remains essential for executives to keep the rest of the team informed, engaged, and supportive.

Reaffirm the Core

This is a time for the management team to reaffirm the continued importance of the company's core businesses and to ensure that everyone's attention is properly focused on them. Investors, managers, and employees will value reassurance that the vision, direction, and purpose of the enterprise remain valid. Which lines of business are still essential and will be sustained? Is there excess production and service capacity? Will temporary or permanent shutdowns be necessary? Can the enterprise shed excess capacity in other ways? Do customer and supplier bases need pruning? Companies that are of strategic importance, playing an essential role in future growth, will undoubtedly be retained at all cost through the downturn. However, keeping others that add costly complexity, perhaps because of their insistence on unusual variations in expected services or procedures, may no longer be justifiable.

Streamlining and simplifying the mix of customers or suppliers can reduce costs while also freeing up assets and resources for redirection to other core areas.

Whenever changes are occurring, managers and employees assume that they will be informed about adjustments, the underlying rationale, and the means by which transitions will occur.

Stay Visible

People expect their leaders to be visible during dif-

icult times. They must know that the firm's executives are engaged and tending to the challenges at hand. It is not a time for leaders to hunker down, out of sight. When respected leaders remain visible during tough times it builds credibility, defines character, and boosts the confidence of everyone. Consequently, staff know they can count on those at the top to be involved and working on their behalf despite everything that is going on.

Prepare for the Upturn


Unless actual survival of the enterprise is at stake, good leaders will continue positioning their enterprise for the future. They will do all they can to retain research and development expenditures as valued investments essential for filling new product pipelines. They also may seek to continue capital expenditures, prioritizing each according to the needs of the reaffirmed core business.

Once confident that necessary actions have been taken to shore up the firm against the turbulence, leaders turn their attention to the eventual economic upturn. They will want to reassess the fundamentals of their business. How quickly will demand reappear? What forces will drive demand through the upturn and into the future? Will growth in demand arise from the freer consumer spending, because companies are replenishing their inventories, or because of a return to corporate and public spending on infrastructure? Are there opportunities to set the enterprise apart from its competitors through economies of scale, differentiation, or a distinctive feature of its business model?

Some industries will be reshaped through consolidation. Therefore the start of an economic upturn may be an opportune time to expand. Acquisitions of new lines of business can be made or perhaps new markets can be entered under highly favorable terms. Of course, if competitors make certain acquisitions, executives also may encounter new challenges requiring them to act to head off future difficulties.

Tactical moves can also prove highly beneficial, including recapitalizing debt at preferential interest rates or locking in pricing on commodities and services that likely will escalate with the upturn.

Executive Leadership Today

Despite the causes and challenges associated with difficult economic conditions great leaders always seem to distinguish themselves. They are the ones who keep their enterprises on course despite the turbulence that surrounds them. 

—Jim Senn

Director, Center for Global Business Leadership

When respected leaders remain visible during tough times, it builds credibility, defines character, and boosts the confidence of everyone.