"There is no better person than Ram Charan to provide advice on managing in a downturn."

*–Larry Bossidy, Former Chairman & CEO Honeywell International Inc.*

# LEADERSHIP IN THE ERA OF ECONOMIC UNCERTAINTY

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

**RAM CHARAN**

**BESTSELLING COAUTHOR OF *EXECUTION***

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

RAM CHARAN

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Dedicated to the hearts and souls of the joint family of twelve siblings and cousins living under one roof for fifty years whose personal sacrifices made my formal education possible.

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# FOREWORD

## THE ECONOMIC CYCLONE CONTINUES TO RAGE..............

**.......and nobody knows when it will end.**

If you're like most businesspeople, you've never experienced so much change and uncertainty or faced such a deep downturn. You've seen Wall Street all but disappear. You wonder if your company too might cease to exist.

Yet others are looking to you for strength and guidance. Whether you lead a small group of people or a whole business unit or company, these next few weeks, months, and years will test you. You cannot let yourself be afraid of what is yet to come. Instead, you have to see it coming sooner and move faster. Can you be the leader who confronts the brutal reality first, who figures out what has to be done and makes sure it happens, who finds opportunities in chaos, and whose confidence is contagious?

The author of this valuable book, Ram Charan, has advised key leaders for more than thirty years and has taught extensively in many of the world's best companies. Charan has witnessed multiple economic contractions marked by economic uncertainty. He has observed some managements that have navigated these challenging periods superbly and others who have failed miserably.

The task is not for the faint of heart!

Nor is it for the CEO and CFO alone. While those two leaders certainly are right in the middle of the action in a contracting economic environment, this book contends that every one of a business's constituents has an important role to play. Rather than just asserting this point, Charan provides explicit guidance for all business functions and outside parties.

It will surprise you to read, for example, of the important contributions sales people can provide in this setting, as well as the board of directors. It is also crucial to understand how the efforts of multiple business functions need to be aligned and coordinated in a way that gets everyone in the same boat and rowing together.

Finally, Charan points out that both the candor and the frequency of communication are critical in these times of uncertainty.

Leaders who are realistic about their external environment but still positive and reinforcing in responding to the difficulties will more than likely be successful.

In this historic period, *Leadership in the Era of Economic Uncertainty* can be an invaluable partner in navigating your way in troubled economic waters.

I can't think of a better person to provide advice on dealing with uncertainty and a downturn than Ram Charan.

Read........Learn........Survive........Prosper

Larry Bossidy
*Former Chairman & CEO,*
*Honeywell International Inc.*

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# ACKNOWLEDGMENTS

This book could not have been written without the close observation of skilled leaders who permitted me to travel with them on their journeys of personal development. I observed Larry Bossidy, former chairman and CEO of Honeywell International, repeatedly face tough business realities and lead confidently despite them, and continued to learn from him as we coauthored two books, *Execution* and *Confronting Reality*. Jack Welch, the former CEO of General Electric Company, showed me in 1997 how a leader can move with agility, speed, and flexibility to entirely revamp a huge corporation's budget in a matter of weeks when a financial contagion swept the globe. More recently I have observed the decisive and bold actions of Chad Holliday, CEO of DuPont; Richard Noll, CEO of Hanesbrands; Azim Premji, Chairman of Wipro; Dave Calhoun, CEO of ACNielsen; and David Steiner, CEO of Waste Management, Inc. Their rapid and insightful response to the developing financial crisis demonstrated the value of speed and resolve in setting a new course for their companies.

This book also could not have been written without the superb editorial contributions of Geri Willigan, Charlie Burck and Doug Sease. Each of these skillful journalists helped me clarify my thinking and translate it into words on paper. My longtime friend John Joyce contributed his unique insight to the final product.

Special thanks to Mary Glenn, my editor at McGraw-Hill Professional, and Phil Ruppel, president of McGraw Hill Professional, for taking an early interest in this book and shepherding it quickly through the publishing process. They were ably assisted by marketing manager Gaya Vinay and publicity manager Kenya Henderson. Peter McCurdy, production manager at McGraw-Hill, turned the manuscript into the book you are holding in record time.

My deepest gratitude goes to my always cheerful, ever effective team in Dallas: Cynthia Burr, Carol Davis, and Karen Baker, who never failed to keep me and this project on track.

Finally, I must acknowledge those who set me on this course so many years ago when I was working in my family's shoe shop in India. The people of my village and those nearby learned the hard way to cope with crop failures and monsoons that brought even our simple businesses to a grinding halt for weeks at a time. Their legacy endures even in the complexity of modern business and I am deeply grateful to them for showing me the way.

# LEADERSHIP
## IN THE ERA OF
# ECONOMIC UNCERTAINTY

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# INTRODUCTION

# Corporate Crisis!

The first clear sign that the economic crisis was spreading globally and moving beyond the financial industry came to DuPont CEO Chad Holliday while he was visiting a major customer in Japan. The CEO of the Japanese company, among the largest and most highly regarded in its global industry, told Holliday he was worried about his company's cash position and had ordered his executives to conserve cash in case the financial contagion spread.

Talk about a wake-up call!

When Holliday's plane landed in the United States on Monday night, he immediately summoned the six top leaders in his company to a meeting at 7 a.m. the next day. He asked them the following questions: How bad is it now? How bad could it get?

The answers that came back over the next few days were grim. The financial industry's problems were pervading many aspects of DuPont's business both at home and abroad. What had seemed to be a crisis of confidence in Wall Street had the potential to become a global crisis as Western Europe, Russia, and most of Asia were swept by the panic. Credit was disappearing, leaving companies struggling to finance their operations.

The evidence of how serious the problems were becoming appeared in different places. Wilmington, where DuPont has its headquarters, is usually a hotbed of legal activity because so many companies are chartered in the state of Delaware and corporate lawsuits are filed in the Delaware Chancery Court in Wilmington. Bookings at the hotel DuPont owns in downtown Wilmington plunged more than 30 percent in 10 days as lawyers representing companies engaged in litigation canceled their reservations when their clients decided to settle their disputes and stop incurring legal fees. More telling was the rate at which production at many companies was slowing. DuPont paint covers over 30 percent of American automobiles, and the company generally manufactures the paint less than 48 hours before it is sprayed on new cars. To maintain that short lead time, the automobile companies share their production schedules with DuPont. Suddenly there weren't any production schedules. The automakers didn't know what they were going to produce in the face of collapsing sales.

Clearly it was time to take action.

DuPont has long been in the forefront of contingency planning. It has a plan dubbed the Corporate Crisis plan that, if invoked, instantly brings together DuPont's senior managers to appraise the cause of the crisis and put appropriate disastercontrol procedures in place. The plan seldom is called up. It was used in the wake of the 9/11 attacks and in the aftermath of major hurricanes. Holliday had to weigh whether the gathering financial storm was serious enough to warrant implementing it or whether declaring a crisis might frighten the company's 60,000 employees needlessly. As the evidence for a deepening economic downturn quickly mounted, he decided that "Corporate Crisis" was right.

The plan immediately brought together the 17 standing teams that always assemble when a crisis is declared. Over the course of four days it became clear that the nature of the crisis was only financial, and eight teams were stood down. At the end of the four days the remaining nine had determined what needed to be done to ensure DuPont's viability. It was time to let the troops around the world know what was going on.

Communications with employees took several forms. Holliday enlisted the company's chief economist and the head of its pension fund, both of whom are highly regarded in the company, to explain in nontechnical language the roots of the crisis and the way it was affecting the company. The pension fund manager also took time to develop some instructional material advising employees about investment options for the $18 billion in retirement funds. Within 10 days of the formulation of plans to deal with the crisis, every employee in DuPont had had a face-to-face meeting with a manager who explained what the company needed to do. Each employee was asked to identify three things he or she could do immediately to help conserve cash and reduce costs. Within a few days after the communications program was rolled out, the company conducted polling to see how well employees understood the nature of the crisis, determine their psychological reaction—were they scared or were they energized and ready to confront the crisis?—and see whether they actually were doing what they needed to be doing.

Overall, the employees seemed to get it. It helped that the news media were full of stories about the developing financial crisis. The actions aimed at conserving cash were taking hold quickly. Travel was curtailed sharply, internal meetings were canceled, and consultants and contractors were eliminated where possible.

Nevertheless, Holliday had a feeling that people still didn't grasp the urgency with which they needed to be acting.

"In hindsight, maybe we were too good at giving them the reassurance and confidence that we could come through this," Holliday said. "We gave them so much confidence that they just weren't responding as fast as the slowdown demanded."

Together with his CEO and CFO, Holliday took the time to spend an hour and a half with each of the company's top 14 leaders. They were asked to explain what they were doing to cope with the crisis. They all brought long lists and seemed to feel confident that they were doing a lot. But the problem was how fast it was getting done.

"They were talking about things that would be implemented by January or February, but they were things we needed implemented in October," Holliday said.

Even as the immediate crisis measures were being put in place, DuPont had a three-person team of top executives looking at longer-term actions the company needed to take. It would take a while to figure out which production facilities could be closed permanently or shuttered temporarily to reduce costs. But the fastest way to save the most cash was to cut back as much as possible on the over 20,000 outside contractors the company had hired. In most cases a contractor could be released with one week's notice and without any severance costs. Where possible, internal employees whose operations were slowing or would be closed were shifted into what was formerly contract work.

DuPont's initial reaction to the spreading economic crisis took place in less than six weeks. There will be much more to do, depending on how the global economy fares over the next year or two. Even when the slowdown ends and things return to normal, Holliday is predicting that the inflationary trends that preceded the financial meltdown will reassert themselves. But DuPont will be ready for that too if and when it happens.

Chad Holliday answered the call for leadership. 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. This is what every leader must do now.

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CHAPTER 1

# The Challenge of Managing in a Toxic Environment

Management challenges don't come any bigger than this. It's not just your business or industry that is in a downturn; the entire global economic system has been wounded. The liquidity crisis that erupted in September 2008 with the collapse of a few U.S. investment banks spread to businesses and consumers everywhere with a speed that left people as stunned as the victims of an automobile accident. By November virtually every major developed country in the world was either in recession or suffering from a wrenching slowdown in growth. Other countries whose economies are still growing also have felt the effects. Even India's enviable 7 percent GDP growth rate is down considerably from its previous levels of around 9 percent, driving home the irrefutable point that the world is connected as never before, sometimes in unpredictable ways.

Projections and estimates in these circumstances are little more than guesses. In August 2008 who would have predicted that Wall Street as we knew it for 50 years would simply disappear? Accustomed as we were to the easy availability of capital, who would have imagined that credit would simply dry up on a global scale? Going forward, who can say how much capital will be available for expansion? Which countries and markets will contract, and at what rates? How long will the contraction last—or could it become a depression? Will disinflation give way to deflation, followed by a surge of inflation? We will not know when we have turned the corner, and we cannot envision the shape and scope of the world that will emerge. What we *can* be sure of is that this is a time of tumultuous change, and with change come both danger and opportunity.

The financial tsunami was a long time in the making, and its consequences inevitably will be with us for a long time. How long depends on how smart the various players around the world in government, finance, and business are in rebuilding the system. Credit is the oil of the economic engine, and credit ultimately is a creation of confidence. Until all players are confident about the intentions and strength of the others, there can only be stagnation.

The economic peace of the past generation is over. We're in a war for survival, beset by fear, uncertainty, and doubt. As on any battlefield, conditions demand a seriously different kind of leadership from that which is appropriate in peacetime. Leaders must be prepared to make strategic, structural, financial, and operational changes—many of them drastic—in a hurry and with information that is at best incomplete.

As I wrote this in December 2008, most of the business leaders I was talking with were either deeply worried or frankly scared. Bewildered CEOs and directors were saying things such as "Things are going over a cliff in no time" and "No one has ever seen such a vortex before." The most pessimistic foresaw a catastrophe on the order of the Great Depression. Some said it would take one year for the global economy to normalize; others said it could take up to three. However, I also found leaders who already had begun reshaping their businesses to carry on through whatever hard times lie ahead. They are making changes now to emerge in better shape than ever, ready for the growth that ultimately will come. Some are pouncing on the opportunity to move faster than their peers and serve customers in different ways. These are the companies that will be among the game changers in the next expansion.

## One Word: Cash

In the face of a downturn that is deeper, more widespread, and more sustained than anything you have experienced before, you have to adjust your most fundamental thoughts about what your business will look like and how it will be run. The immediate challenge is to act quickly and decisively to prepare for the worst possible scenario. Unless you already had plans and processes in place for a crisis, like Chad Holliday of DuPont, that is more difficult than one might expect. People tend to overestimate how well their company will fare because that is what they want to believe. Such misplaced optimism can lead to inaction or indecision, with dire consequences. If you conscientiously prepare for the worst, chances are that you will encounter something less bad than that and come out ahead when it is all over. If you don't prepare for the worst, you will put both your company and your career at risk.

Your focus must shift from the income statement to the balance sheet. Protecting cash flow is the most important challenge almost all companies face today whether they realize it or not. Before the crisis struck, your company's indicators of success were increasing earnings per share and growing revenues by gaining market share. The most critical metric now is cash. Pursuit of revenue growth must give way to understanding the cash implications of everything your company does. You absolutely must have sufficient cash or credible access to it to weather the storm. And, given today's information technology, you can and should know your company's cash position every single day.

Cash has three internal sources: earnings from operations, working capital (inventories and receivables), and the sale of assets. All three must be pursued vigorously. Every sale must be weighed against not just how attractive the margin is but how much cash will be tied up in inventories and receivables and for how long. Projects that once were evaluated on the basis of their return on investment now must be judged in terms of how much cash they consume and can generate and how soon they can bring in cash.

To understand why the generation of cash is so important, one need look no farther than the American automobile industry's reckoning during fall 2008. Not only had consumers shifted from demanding highly profitable SUVs to wanting fuel-efficient cars, they also had fallen victim to the credit crunch. Auto and truck sales plunged even as the companies were working feverishly to develop new models that would appeal to consumers. The reversal was so swift that General Motors announced in November that its available cash would last less than a year in the absence of a government rescue. None of the three automakers had a comfortable margin of cash on hand. With dismal sales, they were not generating much cash, and a lot of that cash essentially was locked up in inventory. They couldn't borrow substantial amounts because of their credit risk, and by that time they had sold most of their presumed nonessential assets.

Problems in the auto industry had been accumulating, but lack of liquidity can bring the mighty to their knees in less than two weeks. Witness the case of General Electric. A fundamentally solid company with a triple-A rating, it was nevertheless hammered by two weeks of volatility in March 2008 and again the following September, requiring the CEO to get external capital at exorbitant rates. Management had to divert its attention from running the business to managing issues of liquidity.

Because lack of liquidity will be an ever-present lethal threat, you will have to manage conservatively, lowering your *cash breakeven point* as rapidly as possible for the worst-case scenario. Breakeven points calculated on a cash basis will tell you what you need to do, whether it is discontinuing a product line, taking down a plant, or eliminating a distribution channel to survive the worst situation you can imagine.

Don't underestimate how bad that scenario may be. For example, how might the most severe downturn you can imagine affect your debt repayment? Could you be in violation of your loan covenants? Today many businesspeople feel that they have no real problem because they don't have to refinance until the middle of 2010. What if that line of credit dries up? Also, don't forget that plummeting stock prices have turned many pension surpluses into liabilities that must be funded. You have to factor all these possibilities into your cash equation.

Consider also that hard times may last longer than you think. The collapse of U.S. retailing in September 2008, called by some a hundred-year flood, signaled a fundamental shift in consumer behavior. Spreading around the globe, it portends a long period in which demand will continue to decline or remain low as cash-short consumers forgo or stretch out purchases. Stay focused on liquidity as you calculate your cash breakeven one, two, and maybe three years out. One company I advise is planning for a 10 percent reduction in unit volume and a 12 percent reduction in revenue in 2009 and again in 2010. The CEO and CFO are thinking ahead now about what that means if credit and market conditions remain severely impaired in 2010, when the company has to refinance debt.

## Rethinking Growth

After spending their careers in a single-minded pursuit of growth, business leaders have to adjust their mentality. Some CEOs are telling their people that they should go for market share against competitors whose conditions could be unraveling. You should pursue that kind of growth only if it is profitable and cash-efficient. *Cash efficiency* means that gains in market share do not consume disproportionate amounts of cash in the form of more inventory, extended duration of accounts receivable, or increased complexity. The cash efficiency of new market share is extremely important. (This reality apparently was lost on Detroit's Big Three. Even as their scant resources were dwindling and while they were awaiting government help, industry executives were talking about plans to regain market share! That was pure fantasy, and to pursue that goal would have been deadly. Instead, what they desperately needed to do was reduce their overall market shares, cut product lines, prune the customer base, and try to gain share in cash-efficient and profitable segments.)

Protecting against a sudden liquidity crunch can mean thinking the previously unthinkable, such as deliberately giving up increases in revenue and in market share. As Rich Noll, CEO of Hanesbrands Inc., puts it, "You have to be more willing to leave a little bit of upside on the table to protect yourself for the downside."

One CEO I know surrendered 8 percent of his volume when he raised prices, but the new prices stuck and the result was the security of improved cash flow. It was a risky move. I recommend that in this environment you only raise prices on your least profitable customers. Even then, be prepared to walk away from those customers if they balk. Credit card companies have been raising rates on customers' credit balances aggressively.

The new reality is that barring acquisitions, your company will be smaller two years from now than it is today. Cash-strapped private equity firms have been unloading some of their companies for as little as a dollar! In an environment of falling demand and liquidity risk, most companies have no choice but to shrink. Your cash breakeven will tell you that you have to reduce your workforce and capacity. Bitter and painful as it is, you will have to face that reality, because survival depends on cutting costs and raising cash. You can turn that necessity to your advantage by being selective about the cuts you make. This is a time to narrow your focus and concentrate on the core of the business: the invaluable assets you can't afford to lose. Choose the market segments and even the particular customers you will continue to serve, the products you will continue to make, and the suppliers you will continue to buy from and eliminate the rest. Shrinking will present opportunities to simplify your processes and reduce the layers of management. In the end you will have fewer customers, fewer products, fewer facilities, fewer people, fewer suppliers—and a stronger company.

Using the necessity for cost reduction and liquidity to reshape and refocus the business puts you on the offensive. It turns a bad situation into an opportunity to build a company that will emerge from the storm stronger, better, more flexible, and better positioned than the competition.

## A New Intensity of Management

Many leaders will have to make a huge change in how they manage day-to-day. Succeeding in a volatile environment requires frequent adjustments at the operational level of the business as well as an occasional disruptive shift. It demands what I call *management intensity*: a deep immersion in the operational details of the business and the outside world combined with hands-on involvement and followthrough. It's not enough to sit in your office, read reports, and issue directives. You need a granular understanding of what is happening outside your company, with customers, and in your own operations. Diverse parts of the business must be coupled to one another more tightly and linked to the outside world. Plans and progress must be revisited almost daily. Big picture, longer-term, strategic-level thinking cannot be abandoned, but every leader has to be involved, visible, and in daily communication. Your new guiding principle must be this: hands on, head in.

An important part of management intensity is a thorough understanding of changes in a volatile environment that can affect your business. You need information that is detailed, up to date, and unfiltered, obtained quickly and at the source. This is what I call *ground-level intelligence*. The most important type of ground-level intelligence has to do with consumers. Take, for instance, Wal-Mart's observation that for the first time ever its sales of baby formula were coinciding with twice-monthly pay periods, indicating that consumers were under severe stress and living from paycheck to paycheck. That's ground-level intelligence.

You should have a granular understanding of how the effects of the slowdown, such as tight credit and the threat of job losses, are changing consumer behavior. How are customers and suppliers adjusting or failing to adjust to the new reality? How are their financial condition and competitiveness changing? If, for example, your company makes personal computers, the person who buys your product usually will be an information technology executive, but the end users, or consumers, are the employees on whose desks those computers are placed. If your customer is reducing the number of employees, you should prepare for lower sales to that company.

Get out into the field and observe, like the retailer whose leaders visit consumers shopping through different channels, including farmers' markets, to see how their habits are changing. At the very least, get down with your own people who are close to customers. Although you may have to discount their natural optimism, the sales force is also an important source of ground-level intelligence, especially if they are business-savvy and have cultivated relationships with the customer's factory managers and sales and marketing executives.

The need for ground-level intelligence extends to your suppliers and partners. You should probe carefully to learn what they are doing, how they are feeling, and what they are seeing. They will be particularly valuable sources of information about credit availability and the prices of their own inputs and their own financial health.

Internally, detailed information on activities that directly affect the company's financial health and liquidity—things such as cash, inventories, and receivables—have to be monitored every day. Quarterly or monthly reports cannot be considered ground intelligence. Knowing that the inventory of a product line is building daily lets you act before it consumes more cash.

All this information needs to be shared, pooled, and then pored over in an effort to extract key facts and patterns that are beginning to emerge. You may see sales of certain products trending in different directions in different parts of the country, or you may discover that a competitor is doing better with one product than with another. When you see those trends emerging, you can act on them immediately, say, by changing advertising in different regions. Most important, you need to see the big picture that is emerging so that when one of your largest customers slashes orders to your company by 40 percent, it won't come as a surprise and you will be prepared to take swift countermeasures to protect your company. One major supplier to the U.S. auto industry discovered that the forecast it got from one of its automaker customers was downright wrong against the ground-level intelligence the supplier itself had gathered. The supplier spared itself a lot of excess inventory and cash usage by relying on its own information.

Conversations have to cut across silos so that you know what others in your business are picking up on and they know what is happening in your area. That way, your efforts are coordinated and your company can respond faster. Think of the situation you and your company face as being akin to a basketball game. Players on the team constantly make instant decisions about the way the competition is shaping itself and intuitively pass the ball to a teammate to counter the defense, never worrying about who gets the credit. Basketball is a game of speed, urgency, and flexibility that demands a high level of synchronization. In this environment, any lack of focus, speed, urgency, or flexibility will hurt the company because the lack of liquidity pushes a company over the cliff faster than anything else can. Only by synchronizing people as a companywide team can you obtain *focus*, *speed*, *urgency*, and *flexibility*, making and executing decisions faster.

## Controlling in Real Time

Most companies have operated with annual targets and have measured progress toward those targets on a quarterly basis. In the current environment, that's too long to wait to see whether a company is on track. Conditions are changing so quickly that an annual target can be hopelessly unattainable only a week or two after it is set. You have to increase your *frequency of control,* setting targets on a quarterly, monthly, or even weekly basis. You have to revisit your goals and key performance indicators, tracking progress toward them and taking corrective actions more often. If you've been monitoring capacity versus actual production quarterly, for example, you may want to do it monthly. This will give you the agility to make modifications as conditions change.

Volatility shortens the life span of a business model and strategy. Yours may become obsolete sooner than you think. In fact, your company may have to change its strategy more than once before things return to normal. Flexibility may well be your strategy, and conservation of cash may be your goal until the clouds clear up. Staying in close touch with your people and digging into the numbers more often will help you pick up early warning signals that your strategy, business model, tactics, or execution is not working. There's no time to lose in sorting through those possibilities. You have to stay on top of things to see that your shorter-range plans and targets are being acted on. Follow-through must be weekly if not daily. Urgency comes when you ask questions and help people overcome any obstacles they may have encountered today, not tomorrow.

Budgets also must be compressed in time. They usually are set in place for a full year, using straight-line projections. Any company that does budgeting the usual way is almost certain to be disappointed. For example, many companies' budgets for 2008 were shot by the third quarter. At that point, the chances of making up losses were slim, and the budgets became meaningless. Yet planning, compensation, and a host of other processes were built around them. The kind of flexibility you need requires that all your people with input to the budget be able to sit down together to create it in a matter of days and then revisit and revise it monthly. Reducing the number of line items will simplify the process.

Management intensity means watching the horizon and the periphery even as you move decisively to ensure that the business survives the next six months. Use your ground intelligence to detect the forces that are changing the world both during the downturn and after it ends. Determining where things are headed won't be easy. Even in the best of times the future is often foggy, but an unyielding focus on the future coupled with a pragmatic approach to preparing the company for the worst will produce high returns. It lets you go on the offensive, detecting possible new rays of light. In November 2008, for instance, the domestic auto industry still was reeling from the drastic tumble in sales. Yet Ford, noting that the price of oil had dropped to $60 a barrel, added a shift to truck production to take advantage of the latest demand, which had been obscured when oil prices were well over $100 a barrel. (Of course, this might not be enough to save it from forthcoming strong headwinds.) Similarly, detecting a permanent shift toward buyer preferences for cheaper products may tell you to let go of a market segment rather than try to hold on to market share and lose cash.

## Building a Confident Organization

This will be a time with many tough decisions, including choosing which people will stay (the real change agents) and which will go, whose budgets will be cut by how much, and which plants will be shut down and which will survive. Part of your management intensity entails making decisions swiftly. You won't always have time to answer every question and look at things from every angle. You must use your ground intelligence and have the guts to act. Also, you must be prepared to reverse earlier decisions that no longer make sense. One company had won board approval for a wholesale reconfiguration of its supply chain in early summer 2008, which required a huge capital investment over the next two years. When sales suddenly dropped 10 percent in one month that fall, the board urged the company to postpone the supply chain effort. They were willing to forgo the upside to husband their cash resources. At the same time, they felt that the new configuration of the supply chain would be different from the one that was planned.

Be decisive about the future too. Yes, forecasts and predictions seem all but meaningless at the moment. However, at some point there will be a recovery, and you need to prepare for it by making the best assumptions you can about your markets and your competitors. On the basis of that view, determine where to invest managerial energy and even some money in innovation, strategic acquisitions, new customers, new products, or new distribution channels. This is where your conservation efforts elsewhere allow you to seize the initiative and leave your more defensive competitors behind.

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 psychology from fear to realistic optimism. Your actions as well as your words will align the minds, the physical energy, and the hearts and souls of the people around you.

Your presence on the front line is also important in energizing people and transforming their fear into confidence. It must be the right kind of presence, though. Authenticity—the combination of rock-solid integrity, intellectual honesty, straightforwardness, and the ability to confront reality—is always important, but now it is absolutely critical. You have to instill courage and optimism in others by putting reality on the table and addressing it decisively. You need to show a path forward that is credible and concrete and enroll other change agents who have the courage to make tough calls without sacrificing values. If you tell half-truths, sugarcoat bad news, or fail to understand the realities of the toxic environment, people won't trust you. Worse, they will miss the urgency.

## Your Job Now

This is the broad view of how your company can overcome the hardships imposed on it by the economic tsunami that has swept the world. The next eight chapters deal with specific actions each functional area of the business can take. Certainly you will want to read first about your own area of responsibility, but please take the time to read about all the other functions too. Never has it been more important for everyone in a company to understand the stresses and strains on colleagues in other jobs. The more you know about their situation, the more you will be able to work with them as team members for the good of the entire organization.

As has been noted, your company most likely will emerge from the battle smaller. You will have fewer customers, you will sell fewer products, you will have fewer suppliers, and you will have fewer layers of management. However, all this trimming, honing, and focusing also means that your processes will become simpler and more efficient and your company will become stronger. Even more important, you and your people will have a shared legacy of emerging victorious from a terrible war, prepared to take your company to a new level in a much better future.

## The Six Essential Leadership Traits for Hard Times

Which among the many important behaviors and traits that characterize a good leader are most important for managing in this downturn of downturns? Following are the six I consider essential, along with the reasons why.

***Honesty and credibility.*** This is no simple challenge. Nobody can be certain about the business environment and its direction. How can you tell people what you believe when you can't be confident that it is right? You can't fake it or bluff—anybody can test your ideas by googling. The only answer is intellectual honesty and humility. Your authority derives not from omniscience but from your ability to facilitate understanding and solutions. Level with people: tell them how you see the world, acknowledge the limits of your understanding, and ask them for their own views. Doing this may take courage, but together you can piece together better probabilities than any one person can.

***The ability to inspire.*** Always important, it is critical today. Most people are anxious. The tsunami came so suddenly, destroying their hard-earned savings and putting their jobs at risk, that they don't trust what they hear, see, or read. Worst, they don't see what will turn things around; many are close to losing hope. What can you do?

Start with your own team—it is they who will have to inspire the rest of the organization. Work with them to toughen their resolve to get through the storm successfully. Then help them to develop one or two realistically optimistic pictures of what can lie ahead. This is vital: they need a vision that will turn their lightbulbs on, generating creativity and ideas. Inspire your team to focus on the new priorities by doing so yourself, fearlessly. Inspiration will also come from making decisions that produce incremental successes. These are high energizers that build further successes.

***Real-time connection with reality.*** In this volatile and uncertain environment, reality is a moving target. You have to keep updating your picture of it, continuously monitoring change and impending change through ground-level intelligence. Have your team do the same. Put all of your concrete external information on the table, however bad it may be, and discuss it among yourselves. Gather it from unconventional sources. Don't get locked into one view of things. Allow the picture to change as you gather new information.

***Realism tempered with optimism.*** Unadulterated pessimism is no more realistic than unbridled optimism. While the first order of a realistic assessment is to understand and accept the magnitude of a problem, the fact is that few problems are insoluble. Focus your people on a vision of what is possible, and energize them to search for the actions that will realize the vision. This is where leadership becomes a performing art, introducing that touch of optimism that taps psychological reserves to deal with bad news and transform fear into action.

***Managing with intensity.*** Your hands-on participation is essential in these times. You must dig into the right details with much higher frequency than ever before. Only through deep personal involvement can you acquire ground-level intelligence, share and discuss it with your team, and act with the speed that is required in a volatile environment.

Importantly, your people need you to be present with them in the foxhole. Your grasp of reality is useless if you can't bring the rest of your organization to understand it and act on it, and you cannot do this with memos and proclamations alone. You have to be interactive—listening as well as explaining, answering questions, taking the conversation to the next level, and then doing it again and again. Your people will be inspired not by stirring words as much as by seeing firsthand that you have put reality on the table and have a plan for addressing it decisively, as a team.

***Boldness in building for the future.*** Facing the necessity of conserving cash and surviving in the short run, you may feel pressured to shortchange the future. Resist this pressure. It will take imagination and guts to place strategic bets with no guaranteed payoffs when there's so little money available and so much uncertainty about the assumptions your plan is based on. Yet such bets are critical: what good will it do if you limp to the finish line and find nothing there?

CHAPTER 2

# AT THE HELM: *What CEOs and Business Unit and Country Managers Must Do*

Are you up for this?

The challenges of managing a company through the next few years inevitably will fall most heavily on the shoulders of the chief executive officer and, in the case of large diversified companies, on business unit and country managers. This chapter addresses CEOs but pertains to all three of those leadership roles.

The current economic turmoil already has tested CEOs in the financial industry. Some have emerged as true leaders. For example, it was no accident that the Federal Reserve called on JPMorgan Chase to purchase both Bear Stearns and

Washington Mutual as those two firms collapsed. Morgan CEO Jamie Dimon has demonstrated superb leadership, recognizing before most others the problems that were developing and deftly guiding JPMorgan Chase away from the risky loans and derivatives that undermined rival banks, setting it up to grow rapidly. John Thain, the CEO of Merrill Lynch, didn't have the time to work the same magic on the critically wounded company he inherited when he was recruited to take over. Instead, he gets tremendous credit for seeing how quickly the global financial industry was deteriorating and acting before his rivals to sell Merrill to Bank of America for \$29 a share when three days later it might have been \$2.90 a share. He now serves as the president of global banking, securities, and wealth management at BofA.

These leaders were able to look ahead, anticipate what was coming, and move quickly and decisively to adjust to the new reality. Many others have failed the test, and many more will fail in the future. The list is staggering: Richard Fuld of Lehman Brothers, James Cayne of Bear Stearns, Daniel Mudd of Fannie Mae, Richard Syron of Freddie Mac, Martin Sullivan of AIG, Ken Thompson of Wachovia, Alan Fishman of Washington Mutual, and Fred Goodwin of the Royal Bank of Scotland. As the tsunami moved from Wall Street to Main Street, it drove a growing circle of companies into bankruptcy, starting with retailers such as Circuit City.

Some leaders are better able to meet the challenge than others are. Mark Garrett, CEO of Borealis Group, a plastics manufacturer based in Vienna, Austria, began warning his people about a major decline in economic activity six months before it actually happened. His prescience enabled the company to screen capital projects in a capital-intensive industry and focus only on what was necessary. Yet the hard truth is that CEOs, business unit managers, and country managers who have managed successfully during the prolonged period of good times may not be up to the challenges confronting them today. A CEO's dominant psychology in good times tends to be aggressive, optimistic, and oriented toward ever-increasing profits and revenue growth. When things are going well, there can be a tendency for CEOs to become arrogant know-it-alls.

Some let their optimism lead them into taking substantial risks by using leverage, debt, and off-balance-sheet financing. Others find themselves basking in the glow of being a well-known corporate chieftain. They spend huge amounts of time in the public eye, making speeches, testifying before Congress, and doing media interviews while delegating the job of running their companies to subordinates. As a result they lose touch with the day-to-day operations of their companies.

In good times, those things don't matter a lot. In tough times, they can be fatal. There are only 24 hours in the day. Leaders need to reprioritize their allocation of time. Some who once were energized may be overwhelmed by events and unable to respond correctly and adequately. In the worst cases they may slip into denial or depression, paralyzing the organization when it most needs active, aggressive leadership and bold decisions. James Cayne, former CEO of Bear Stearns, found himself in the summer of 2007 overwhelmed by the task of managing his company's toxic assets. "That was a period of not seeing the light at the end of the tunnel," he later told *Fortune* magazine. "It was not knowing what to do. It's not being able to make a definitive decision one way or the other because I just couldn't tell you what was going to happen."

It is imperative that CEOs look inside themselves to see how they are responding to the crisis. More than ever before, a CEO must be self-aware about where his or her mind and heart are. Do you have the guts and the psychological reserves to lead and do what it takes to get through the storm? Do you know where you need to strengthen your support? Do you have the courage to make tough calls?

The immensity of the challenge confronting CEOs in this era of extraordinary uncertainty and volatility is that everyone is looking to them not only for reassurance but also for specific direction. The question on many minds is simple but scary: Are we going to make it? That is followed by an equally simple question: What do I have to do? The CEO has to provide reassurance as well as guidance to everyone in the company.

When we think about the CEO's job, it is helpful to divide it into two realms: leadership and operations. The first is about inspiring and motivating people to go beyond their fears and painting a believable future that is waiting after the storm. The second is about the daily nitty-gritty of doing business successfully in a very tough and unpredictable environment.

## The Need to Lead

The CEO is by definition in a unique situation. The buck really does stop in his or her office. Just as the captain of a warship is responsible in the end for everything that happens aboard the ship, the CEO is ultimately responsible for everything that happens in the company during his or her tenure. The ultimate test of real leaders is that they leave their units and companies in better shape than when they took over. That test is difficult enough to pass in good times. In tough times only the best leaders will be able to accomplish that ultimate goal. They will be the ones who change the architecture of their companies, who innovate, who find and seize the new opportunities created by the economic turmoil transforming the business landscape.

To meet those daunting responsibilities there are several things that a CEO can and must do.

## Recognize Reality

This is the single most important task confronting a CEO, and it is extremely difficult to do in this environment. Facing wrenching uncertainty and lost hopes, many people go into denial. Some become fearful. Indeed, there is fear of fear itself—the kind that Franklin D. Roosevelt characterized as "nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance." In this environment, especially, fear is deadly. Cowering under your desk and sucking your thumb will guarantee failure. Looking in the rearview mirror at how things used to be serves no purpose and will distract you from the challenges ahead. An equally dangerous form of denial is wishful thinking, the tendency among many of us to say to ourselves, "This will end soon, and we will be back to normal."

Don't believe it. Although we don't know what the new world will look like, we can be certain it won't look the way it did before. There is simply no question that you and your company will be different two years from now. If you don't believe that, you're condemning your company to the ash heap.

## Change Your Company's Psychology

This task requires you to walk a very thin line without slipping over onto one side or the other. On one side, you will have to convince the employees that the company is up against a serious crisis that requires urgent actions, some of which may be painful, most notably big reductions in head count. Yet while you are laying out the unvarnished truth about the economic environment, you also need to present a compelling argument and a credible plan to show that the problems the company faces can be solved and that the company can emerge from the troubled times in even better shape. Although employees are the most important target for your message, investors will hear it too. They need reassurance and explanations about how the company is meeting the challenges and reshaping itself for the future.

You don't have months to formulate your vision. Forming a task force isn't an option. You need to gather your senior people around you, get their best thinking on the issues facing the company, and develop a solution that not only addresses the crisis of the moment but sets a course to take the company through the tough times. That course can—indeed, must—be flexible to accommodate the possibility of unforeseen events, but you cannot in any circumstances just wander aimlessly. Needless to say, the new plan has to have the support of the board. To get that support, you will have to change the board's dominant psychology too.

## Be Bold

Like many CEOs, you probably guided the company through many small, incremental changes during the good years. There isn't time for those minor course corrections now. Your actions have to be bold, not tentative, if you're going to convey confidence. You also should be transparent, explaining how you reached your decision, why you think it is the best decision, and how your actions will move the company toward your vision of what it needs to become. Make offensive moves, not just defensive ones such as cutting costs deeply in response to lower revenues. Any sustained economic downturn creates opportunities for those ready to seize them. You may need to act instantly if, say, a competitor stumbles. Grab that market share if you believe it is profitable and cash-efficient. If the stumble is bad enough, buy the competitor's assets if you think they will be productive in the future. Waste Management, Inc. trades about a million tons of paper each year with China. Before the Summer Olympics it was selling at $200 a ton. Shortly after the Olympics, as the world economy began to suddenly slow, the price of paper plummeted to $20 a ton. David Steiner, CEO of Waste Management, saw the huge overcapacity for paper processing in China as an opportunity to vertically integrate Waste Management's operations there. "It would give the mills the opportunity to survive and give us a chance to integrate our operations there," he said. "I believe the biggest challenge of 2009 is sorting through the opportunities."

Also, be constantly alert to the sudden availability of talent. The best and brightest will always be mobile, and you stand a better chance of attracting top talent if those people can see that you have a plan to emerge from the crisis stronger as well as a plan for their personal growth. Finally, one of the boldest actions may be to stay the course: to remain committed to a plan that already is in place. Your company probably had several initiatives under way before the slowdown began. Some of those initiatives may be of marginal utility, and others may not fit with the new vision or strategy. However, at least a few will be extremely valuable in the long run, such as a new product or process that, if successful, will give you a better margin or allow you to attract a new class of customer. Continue investing in those initiatives, because they really are investments, not costs.

## Reallocate Your Time

You must become a much more hands-on executive. You will need an unprecedented grasp of reality not only on the global level but also at the ground level. You are in charge of the nuts-and-bolts operations of the company and now will have to focus on that role with an intensity that you almost certainly haven't had in the past. The point is to become more operational. Of course, you cannot do everything and make every decision in this tumultuous period. You must be sure you have trusted subordinates who, within the parameters in which they can make decisions, are able to do so quickly and skillfully. But you must interact with those subordinates much more frequently, so that there are no slipups in execution.

The increased management intensity will require more time in the office and less time spent outside the company. If you've been a highly visible presence in the community, you're going to have to be much less so in the next two years. Public or ceremonial events should be held to a minimum. The time you spend outside the office can best be dedicated to customers and suppliers, including sources of both raw materials and money.

Every decision you make must be predicated not only on solving the immediate problems but also on shaping the company's future course. Here are the most important things you can do as a hands-on executive.

## Protect the Core

In every business there is a central set of invaluable assets, including certain customers; people who know technology, operations, or logistics; and in many companies a brand identity that is solid and established. You need to identify the constituents and things that are at the core of your company and protect them from loss or damage during the crisis. Ask yourself: What is it that we cannot afford to lose? The answer is your core. Look for ways to sharpen or strengthen the core and drop the rest.

## Reassess Your Top Team

Now more than ever your top people are crucial to the success of the company. Every senior manager must have both the skills and the psychology to cope with hard conditions and remain optimistic and focused on the future. Your job is to evaluate your top people with a new lens and under a different light. Do they have the skills and mind-set to lead under current circumstances? You cannot afford to keep those who are indecisive, those who tend to be loners, and those who are frozen in analysis paralysis. People like that drain energy from an organization. The entire organization knows who these people are and will welcome change.

This is a time that requires superb horizontal cooperation among people who are both bright and ambitious. The fact is that in some organizations the senior managers see themselves as competing against one another. In tough times they compete for resources by doing things such as hiding information to make themselves look better while blaming their peers in subtle ways. Discussions in meetings can degenerate into personal attacks. Emotions can run high. As a leader you must suppress the bickering and internal competition, and mold your direct reports into a team that can stand the test.

In functionally organized companies the modus operandi among leaders is to do the best for the company from the viewpoint of their individual functions. This environment demands that they rise above parochial interests. Business decisions must balance and integrate functions to meet the new priorities for cash, costs, margins, and revenues. One way to resolve conflicts among ambitious managers in various functions is to have those people do real exercises that show them how their functions could serve the company's needs better in different financial situations and with different cash flow needs. For example, if the general economic conditions deteriorated and the demand for your company's products declined, what decision would the team have to revisit and what would be different about resource allocation? If the goal of the exercise is clear and the external conditions are well understood and shared, this will foster the skills necessary to make the right decisions and remove some of the internal conflict.

## Be Transparent

You have two major responsibilities that must be met through communication: information flow and motivation. What you need to understand about communication is that the message, whether informational or motivational, seldom is heard the first time. It is essential to repeat it time and again to be sure everyone gets it. The message must be consistent to all audiences and throughout the period.

You need information, unfiltered and in real time, to govern the company in rapidly changing and stressful conditions. You will have to establish mechanisms to communicate more intensely and more frequently with your top executives. If the company doesn't have it already, set up an intranet and create executive pages accessible only to the senior managers. All information that may have a significant impact on the company, whether internal or from external sources, needs to appear as soon as possible on those pages with alerts to let your people know that new information is available.

The most important sources of information will be sales and marketing and your supply chain leaders. One person should be responsible for posting on the executive intranet pages the latest sales intelligence gathered in the field as well as the changing prices of critical inputs such as raw materials. You cannot afford to wait for the posting, however. Arrange instead for a daily half-hour conference call to check in with the sales and marketing people. It can be helpful to have a different salesperson on the call each day to provide direct intelligence about what he or she is seeing in the marketplace. The fact that the CEO is interested in what they are seeing also serves as an effective morale booster for salespeople in the hostile atmosphere they face each day.

Staff meetings may have been monthly affairs before. Not now. Weekly meetings are the minimum for exchanging information, viewpoints, and ideas. Pulling people together in tough times is in itself energizing as long as you keep the discussion upbeat and focused on how to solve problems, not on how intractable the problems seem. It is more important now than ever before to be sure that your communications philosophy is one of two-way information flow. You have to be a good listener, not only seeking information but also evaluating the psychology of the speaker to be sure he or she is not becoming demoralized or overwhelmed.

## Be Visible

Motivating the entire organization is a different kind of communications challenge. You need to align everyone with the company's goal of preparing for the worst and looking toward long-term success. You can inspire them by doing something as simple as being visible to the troops, encouraging them with a smile or nod, or noting a recent accomplishment. This means, of course, that you have to get out of the office and walk the corridors and visit the factories. Again, two-way communications is essential. You need to be listening to your people at every level to discover what is on their minds, what they are worried about, and what new ideas they have for doing something better. Listen especially for the ground intelligence they may have but do not appreciate fully.

Pay special attention to the people who are interacting with customers, partners, or suppliers. They are on the front lines and not only will have important intelligence and insights but also will be affected by the psychology of the people they deal with frequently. You want them to be upbeat and optimistic to send the message to the customer or supplier that your company is focused on the future and intends to be a winner.

## Know the Daily Numbers

It is critical that you have a firm picture of the company's financial position on a real-time basis. Cash flow should be tracked daily; inventory, margins, and receivables should be updated weekly, with their interrelationship with one another analyzed to reveal evolving patterns of change. Dashboards that depict the information flow should be as simple, reliable, and revealing as possible and should be provided to every executive who needs the information as well as to the board members. Budgets will have to be done and redone, perhaps as often as monthly, to make sure you are allocating resources correctly and quickly. Setting up a process now to do budgeting more frequently to adjust resources and get it done quickly will pay huge dividends in the future because it will give you much more flexibility. Even complex budgets can be buttoned up in less than five days when the various players are brought together to make the trade-offs jointly.

## Manage for Cash

Managing for cash is different from managing for accounting profits or revenues. It means that you almost certainly will be required to give up some customers or products. Any time you are trimming your revenue, goals have to change. Whether you are eliminating a customer, a product, or a distribution channel, your total revenues will shrink and your profit probably will too. The tradeoff is that by eliminating certain customers or products you eliminate some complexity from your operations and can better manage receivables, inventories, and production schedules, all of which can be sources of cash generation. Cash can be found in outsourcing, in contractual terms with suppliers, through reductions in your overhead, and by combining functions. Be careful, though, when you think about ways to conserve cash. Large layoffs may make sense as a way to reduce costs, but if you're eliminating veteran employees or those who have a union contract, the severance costs may be a big cash drain. Indeed, in some cases it may make more sense to insource work from outside contractors as DuPont did.

## Reduce the Company's Cash Breakeven Point

In determining the actions you must take, think about whether you may be creating potential obstacles to refinancing or reducing your debt rating. Then decide what the cash breakeven point is. There can be no sacred cows. Setting the tone starts right from the top. You should consider combining some titles or functions, reducing layers, and removing indecisive managers. If your company is too decentralized, you need to figure out a methodology to leverage your scale across the decentralized units because smaller units may not be as competitive. Rethink what needs to be centralized, outsourced, or decentralized. In the past you might have done all this to achieve efficiency. Now you should do it for cash.

You will have to determine your lowest breakeven point, recognizing that it will be lower if you forgo the customers and products you used in the past to fill the production capacity even though they didn't provide any accounting profits. This will be your biggest challenge at the outset. Most companies accumulate a lot of excess in good times, whether product lines, personnel, or costs. A downturn is the time to clean out the attic and pare the company down to its fighting weight.

A downsizing plan is a difficult thing to engineer. It isn't enough to come up with an arbitrary goal for head count or for reducing general and administrative expenses. Instead, your plan has to reflect a carefully thought out set of interrelated requirements that take into account which product lines, customers, and employees to keep to serve the long-term vision of the company in the post-turmoil environment. A comprehensive and well-articulated plan that employees and investors can understand easily will go a long way toward helping you project the confidence necessary for keeping morale high and energy flowing. Reducing head count can be one of the fastest and most effective ways to cut costs, but it has to be done intelligently and surgically, keeping in mind the cash costs of severance payments. Set an example by starting at the top with a review aimed at combining functions and eliminating layers. 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

A key part of your comprehensive plan is the determination of which customers to keep. Even in a downturn, not every customer is worth having. It will be easy to eliminate the marginal ones but much more difficult to decide that a large customer simply isn't providing good enough margins or cash return. Customers can put demands on your cash when, for instance, they require you to carry a lot of inventory. You may decide cash is more important to you than a revenue gain.

The biggest danger is that one of your large customers will go belly-up. Both you and your CFO should be getting a constant stream of ground-level intelligence about the customers of your customers. If one seems to be heading for trouble, you need to go there and get your company at the top of the list of suppliers who will be paid. If your customer has inventory it can't sell, you can try negotiating to buy it back to sell it elsewhere.

Although keeping a close eye on weak customers is important, you cannot afford to ignore your best ones. Stressful times present an opportunity to talk with your counterparts at those companies and figure out ways to cement the relationship. More than ever before you have to take the initiative and be proactive toward your best customers.

"The mood now is for customers to ask you, 'Come and tell me where you can help me and give me a proposition where you also co-share some of the risk,'" said Azim Premji, chairman of Indian software powerhouse Wipro. "It's a tough change. It requires investment, it requires much more engagement of top management, it requires much more understanding of customer requirements, and it requires a much stronger relationship because it opens the book to you."

## Know When to Change Your Strategy

As the CEO you call the shots on strategy, with the board's approval. The first thing to do is make sure your existing strategy is viable in the face of a shifting landscape. Too many people will be eager to change strategy when it doesn't need to be changed, but there may come a point at which the effects of slow growth permanently change the moneymaking formula and demand a change. You are the one who has to recognize those conditions and formulate the appropriate response, deciding which components of the portfolio are vulnerable to significant decline and anticipating when their market value will begin to wither. Yet you also should be alert to where sudden opportunities may appear. You need to have a finger on the pulse of the external environment, seek input from other people about what is happening, and develop a point of view about it, always seeking a way to emerge stronger in the aftermath of the slowdown.

## Set Shorter-Term Milestones

Most companies have operated with annual targets and have measured progress toward those targets on a quarterly basis.

There's no room for such a leisurely pace in the current environment. Conditions are changing so quickly that an annual target can be hopelessly unattainable only a week or two after it is set. You're going to have to work within a much shorter time horizon, demonstrating flexibility and agility by setting targets on a quarterly, monthly, or even weekly basis. Even when you set those targets, be prepared to make course corrections as circumstances change.

This is going to be a huge change for people. It will take some effort on your part to be sure they all understand the need for shorter-term milestones and do not become disoriented or discouraged by the rapid changes. Be aware also that when one target changes, that will cause changes in other interconnected targets. If, for example, you foresee sales declining by 10 percent next year, think about the various ratios tied to sales, such as R&D spending and G&A expenses. As sales decline you need to maintain those ratios if possible, cutting them if you can and allowing them to rise only when it is clearly justified. You need to be sure everyone understands those interactions and is prepared to adjust to them.

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CHAPTER 3

# On the Front Lines: *Sales and Marketing*

The shift in the economic environment will be most painful for sales and marketing executives, not least because a global slowdown erodes their normally optimistic outlook and changes their entire game plan. Salespeople live to hit their goals. Their psyches no doubt will suffer if they don't see how they can repeat or improve on what they achieved last year.

For many years sales and marketing staffs were intent on capturing as many customers as possible and making every sale that was possible, often without thinking too hard about whether a sale was very profitable, whether it created economic value, or whether the customer was a good one. Competition was tough, especially when new low-cost competitors from abroad came on the scene, but good relationships with customers and a steady proffering of discounted pricing often could win a sale. Costs were rising slowly and could be recouped through productivity gains, cost controls, and supply chain efficiencies instead of higher prices. The objective was to keep every customer happy. In that environment of economic expansion, the size of sales and marketing departments grew, as did the ranks of sales and marketing managers.

Those halcyon days are gone, perhaps for a long time.

Adjusting to the new reality will mean cutbacks from the top down. The initial cuts will be dispiriting, but if they are done in one stroke and are focused on those who do not show the aptitude or attitude needed in the new environment, the sales department can become more efficient through consolidation of regions and accounts. The remaining salespeople will have the right attitude: an aggressive eagerness to meet the challenge. Here is what you as a leader in sales and marketing will have to do to help the company survive and thrive.

## Evaluate Your Organizational Structure

The first thing to do is to evaluate the sales and marketing organizational structure thoroughly, along with the purpose, objectives, and key performance indicators (KPIs) that structure serves. In many cases, all three will change. Do you need to reorganize, perhaps combining functions or regions or maybe organizing by customer segments rather than by regions? The goal is not just to reduce costs but, more important, to get the salespeople focused on what they need to do for the customer and against the competition. Use this opportunity to reorient the sales force not only for the moment but for the future. In addition, you should determine the new criteria for measuring the performance of sales managers at different levels and determining what sales skills are more important now and which salespeople exhibit those skills or have the aptitude to acquire them.

Training will be important to the new sales organization because training affects both attitude and focus. Training should be done repetitively, in small doses and regularly, to condition the sales force's attitudes and discover their roadblocks. A buddy system for joint problem solving also works well.

The salesperson's role in the past was that of an order taker, not a seller of solutions. The new focus has to be on building a bridge of information into multiple parts of the customer's shop, figuring out the customer's pain points, and devising solutions for him. In essence, your sales force has to figure out a way to help your customers succeed in these trying times so that you and they are truly in a win-win relationship.

## Create Intelligence Agents

Every salesperson knows how to fill out a sales report, but those rudimentary skills are not enough. Salespeople must become the company's eyes and ears, providing timely ground-level intelligence that forms the basis for fundamental decisions about the company's strategy and tactics. The quality and granularity of that information profoundly affect the company's ability to survive and thrive. As the leader of the sales effort, you have to turn your people into skilled intelligence agents who provide timely information that forms the basis for fundamental business decisions.

That means your salespeople need to become more analytical. They already know more about your customers than anyone else in the company does, but now they have to know even more. They should be prepared to evaluate each one unemotionally in light of current and future profitability. They need to be able to tell you how decision making is done in a customer's shop, what a customer's dominant psychology is—too optimistic, too pessimistic, cognizant of the reality of the economic situation—and how that psychology is manifesting itself in the customer's decisions about its own forecasts for sales volume, product lines, advertising, promotion, and pricing. A competitor who can't or won't raise prices, eliminate unprofitable products, or evaluate and drop some customers may enjoy a temporary market advantage but invariably will weaken over time. The game isn't won or lost in the first inning.

One of your toughest tasks is developing salespeople's analytical skills through training. They need first to understand that the usual solutions in a tough competitive climate—productivity improvements and cost cutting—will be inadequate in the face of sustained slow growth. They need to understand the various numbers that are the language of business—revenues, margins, cost of capital, and, most important, cash—so that they can apply those numbers and relate them to the other information they glean about the customer.

Salespeople must be able to help the company answer the most urgent question: Is the customer viable? Then there are the follow-ons: What financial or competitive strains is it under? Is it highly leveraged? How is its cash flow? Will we need to get cash on delivery? If it's an important enough customer and it is under financial strain, maybe your company can help.

Salespeople should know what would cause a customer's revenues and profits to increase, and seek ways to contribute to that growth over the long term. What are the trends in the customer's industry, and how might your company play a role and improve its position in that industry? In normal circumstances selling is focused on reducing customers' costs. Now the focus must be on helping customers improve their market share, margins, or even customer satisfaction. Salespeople have to be thought leaders and collaborators both in the customer's shop and in their own companies, using their business savvy to help customers and their own companies succeed. Contact with the right people in the customer's shop is important. If you are a supplier of packaging and usually talk to packaging people at your customers, this is the time to go further. Seek out and spend time talking to the brand and marketing people to get additional insights into what that customer needs.

## Help Determine Which Customers to Drop

The decision about which customers to keep and which to drop must be done in collaboration with the CEO and CFO. But salespeople, especially those who adapt well to their new role as intelligence agents, will have considerable input in shaping your company's view of each current customer.

Salespeople have a natural aversion to dropping customers; their mantra is more customers and more revenues. In these conditions the sales force has to come to terms with its own psychology. Instead of engaging in wishful thinking, they have to develop a point of view about what to expect from each customer in terms of increasing or decreasing orders, the ability to pay in a timely manner, and the likelihood that a customer will emerge from the downturn in better or worse condition. They also can provide critical information about each customer's willingness and ability to enter into new arrangements that can benefit both companies. A weakened customer that is willing to work closely with your company to solve its problems may become one of your strongest customers when conditions return to something approaching normality. Without your salespeople's intimate view of the company, you may decide prematurely to drop that customer.

When a customer must go, the salespeople should work with that company to help ease the transition. It can't be done on the spur of the moment. The customer needs a warning and some time to make the transition to a new supplier. Remember that these customers have processes, inventories, and people who will be affected. Apart from being the decent thing to do, the help you provide can pay off in the future. The person you deal with today may be a higher-ranking manager at another customer tomorrow and will remember that you didn't leave her or him in the lurch.

## Know What Your Customers Cost

To judge which customers to keep and which to drop, you must have a detailed understanding of how each one affects your business and different parts of your value chain. An apparently good customer that makes frequent changes and requires you to alter your production processes or source unusual or expensive raw materials may not be worth the disruptions and extra costs. The demands may be a major headache for your production or purchasing people. Materials or components that are unique to that customer may tie up too much of your cash in inventory. A large customer that pays late may be acceptable when business is booming and you are managing for revenue and market share growth, but can be a liability when times are tough and you are managing for cash. When a customer's ability to pay becomes impaired or that customer's credit rating drops, you don't want to be the last one standing in line.

## Be Sure You Have Input into Product Decisions

Sales and marketing has an important role to play in reevaluating product lines and distribution channels to determine which to push, which to revamp, and which to drop. This is part of the sales force's intelligence-gathering role. The power of direct observation is huge. Rather than depend on your customers' opinions, your people should get into the field to observe the behavior of your customers' customers, searching with granularity for opportunities for new segments and new products. Don't depend on published data, because in a severe downturn they are outdated before they are published. Observations in the field will deliver insightful and nuanced information faster than published information can.

## Craft Better Value Propositions

The intelligence that your salespeople gather about your customers can be put to good use in developing the best value propositions. The information needs to be shared with other functions, including legal, production, and research and development, that should participate actively in shaping those value propositions. For a thorough discussion and a complete methodology for the creation of such value propositions, see my book *What the Customer Wants You to Know: How Everybody Needs to Think Differently about Sales.* Suffice it to say that an improved value proposition may range from something as simple as making the contract process more efficient to redesigning a product to suit a customer's clientele better in changed conditions. Consumers often live from paycheck to paycheck, and many now have less cash than before to spend. To provide them with a better value proposition, you might, for example, redesign your packaging so that they can buy two items packaged together rather than half a dozen. Closer relationships between your company and your customers can be a crucial part of your strategy to emerge from the downturn stronger than ever.

## Set and Reward Realistic Sales Goals

In the new conditions, it is no longer appropriate for salespeople to pursue sales goals set last quarter or last year. Instead, goals should be set month by month, perhaps in a quarterly package that can be reset depending on the conditions and the way your company evolves as it manages for cash and reduces its customer base and product lines. Be careful about setting lower targets; they can become self-fulfilling prophecies. Instead, develop the right targets and put in place execution practices that will enable your people to meet or exceed those targets. One company has created new incentives for salespeople to call on customers and collect cash that is owed the company. Apart from improving cash flow, this gets the sales people to make more calls. The point is to be flexible. Pay your people for hitting realistic short-term goals, not for whether they exceed or fall short of last year's actual sales.

## Do Not Sacrifice the Brand

Brand identity is extremely valuable to your company as a long-term differentiator. Although there is clearly a major trend for consumers to move from branded products to private-label products, brand will remain a valuable asset. You need to be sure the customer's experience with your product lives up to the promise of the brand. Do not give in to the temptation to sacrifice identity by cheapening the product. It requires regular marketing efforts to ensure that the consumer realizes the promise of the brand, and marketing must be based on ground-level intelligence about what the consumer is experiencing. If there is a shift in the mix of demand and senior management is tempted to take steps that you believe may damage the brand, such as downgrading the packaging, you need to have the courage to argue for another alternative. A brand reputation takes a long time to build. It is something you cannot afford to lose.

## Target Advertising and Promotions

Since advertising and promotion budgets almost certainly will be cut, you need to focus on the right segments and products. The two key questions are where to put advertising dollars and where to give deep discounts. Also, you should develop cogent arguments for why you need to maintain or even increase spending in selected areas: those which will help your company manage for cash now or build a market segment that will be critical when you emerge from the lean times.

Consider more thoughtful advertising methods, including targeting regions or territories on the basis of how the economic forces are playing out. For example, some areas, such as

Michigan and Ohio, have been hurt by manufacturing cutbacks, whereas other areas—Florida and Arizona are good examples—are suffering from the collapse of real estate prices. As the downturn continues, what other regional patterns may develop? Understanding the different reactions of consumers in those areas will allow you to adjust advertising and promotional efforts accordingly. Even though advertising and promotion resources may be cut, you can have the same or an even better market presence because your competitors doubtless are cutting resources for advertising and promotion too. The media mix—television, print, and the Internet—is important, and you need to reevaluate that mix constantly, looking for the combination that gives you the best response at the lowest cost.

## Adjust Pricing Fairly

When you make cash the dominant driver of your business, pricing becomes even more important. Early in 2008, when commodity prices were soaring, many companies were trying to get ahead of the curve and adjust their prices accordingly. But prices plunged in the third quarter of 2008, and those companies had to reconsider their pricing strategies in light of the new reality of plunging demand. That kind of volatility requires extremely flexible pricing mechanisms. Your customer and your customer's customer will be looking to see whether your prices reflect the lower costs of your inputs, but it isn't that simple. The decline in your volume may mean that your fixed costs are now spread across lower volume and your cash flow from operations is going to be lower unless you can increase your price and sustain that increase. You and your customers need to find a win-win situation. One supplier to Wal-Mart redesigned packaging to bring a higher price because the new design allows Wal-Mart to sell more of the product and generate more traffic in its stores. Needless to say, you are going to have to spend some time and mental effort devising the right price strategy for the extreme volatility that is a characteristic of today's environment.

## Cut Costs Wisely

With head count down and senior management pushing for cost cuts, it will be important for you and your sales team to determine cost-effective ways to approach customers. The more you can do by telephone and computer, the more savings will accrue from forgone travel. Don't let the temptation to save money persuade you that face-to-face contact isn't important, however. It is in those kinds of meetings that the most valuable intelligence can be gathered, and in this environment intelligence gathering is especially important. Think of it as an investment, not an expense. You also can make more productive use of salespeople.

## Link Salespeople to Operations and R&D

If you aren't already engaged in an ambitious effort to develop new customers or different uses for your products, this is the time to assign some of your most aggressive and business-savvy salespeople to a business development role. You should also bring operations people along or at least get them to collaborate. Also, talk often with the engineers and product developers. Creative, cost-effective solutions to customers' problems often emerge from discussions among people with different knowledge bases. It doesn't cost anything to brainstorm with people inside your company.

## Link Salespeople to Senior Management

The best customer intelligence is useless unless it is put in the right hands. If senior management isn't pushing for it already, you need to set up mechanisms that ensure that what your salespeople learn in the field gets to the senior executives, including the CFO and the heads of production, purchasing, and R&D. Those mechanisms can be formal, such as General Electric's Quick Market Intelligence program that sets up a weekly conference call between senior managers and sales people in the field, or informal calls from the CEO and the CFO to four or five sales people in the field each week. The idea is for senior executives to pick up on nuances that aren't always evident in formal reports or meetings. Do that for a month and everyone will be surprised and delighted at the patterns that are becoming visible. You will also find that such conversations motivate both the sales people as well as the senior managers who participate in the calls. Everyone becomes more vigilant and curious.

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CHAPTER 4

# Mind over Money: *The Chief Financial Officer*

In good times CFOs generally are driven by one of two dominant psychologies. Most focus on relationships with investors, and their principal concerns are the company's debt ratings, its price/earnings ratio, and the financing and refinancing necessary to keep the appropriate debt structure. The remainder, which I call operational CFOs, are more likely to act as true partners to the CEO in the management of financial performance and in maintaining sound financial health as well as in matters of portfolio composition and restructuring, including acquisitions and divestitures. These CFOs also will take the lead in improving productivity and deploying capital for efficient and profitable growth. No matter what their orientation is, the best CFOs are highly regarded by Wall Street.

The CFO's role traditionally involves leading his or her own finance organization and working with the board on issues relevant to the company's financial health and performance and risk evaluation, including techniques to mitigate risk, as well as risk compliance. In this toxic environment the CFO will be called on to step up as a leader of the organization and become, like the CEO, much more operational while at the same time paying close attention to Wall Street. The danger is that rumors start quickly, and if investors, particularly debt holders, begin to worry about the company's financial health, they can bring about the company's demise. As the CFO you will have to devote some time to managing cash sources and ensuring that your company remains well within the bounds of its debt covenants and retains its debt rating. Obviously, the time demands will be very heavy, and that requires a stable temperament and the ability to allocate work to subordinates while you guide the company through the storm and build for the future.

The test of your leadership as the CFO is whether you have the courage to advocate strongly for what can be afforded and not a penny more. 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. 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. Get them to see the different external conditions and show them ways to deal with the new realities. Never forget that most people in most companies haven't a clue about the effects a shortage of liquidity can have on the company's operations or the way their decisions affect liquidity. You need to educate them and make sure they understand these things. The better they understand, the better able they will be to cope with the situation and generate new energy. Most managers have never faced decision making under these conditions and will need some training.

Here are the things you need to be doing.

## Set the Tone

First, you will need to exude the honest conviction that the company will come through the storm successfully. You must earn the trust, confidence, and collaboration of not only your peers among the senior managers of the company but also their subordinates, who are on the firing line.

Second, you will need to present facts and details of the company's financial health under different scenarios of future demand and market conditions in a format people can comprehend. You will have to be honest and forthcoming about those scenarios. Don't be tempted to sandbag. CFOs have a tendency not to trust line managers to do the right thing in all cases and therefore put some resources in reserve without telling anyone in case the company looks like it might come up short at the end of the quarter. Lay it on the line with both a top-down and a bottom-up analysis and communicate so that each manager understands what it means for him or her in regard to his or her job. Crisp, repetitious communication is imperative to drive home the point that cash is king. In your role as an educator, have people do exercises involving changes in targets or resource allocation under different scenarios. In one company the CEO and CFO put some 200 people through exercises to show how a 10 percent decline in demand would affect every aspect of the company, from sales and margins to inventories and even the 401(k) plan. Those exercises got people's brains oriented toward protecting cash and encouraged them to collaborate and work better in teams. Such exercises provide an opportunity to educate line people on the financial consequences of their actions by using real numbers and cut through the confusion they have from what they read in the media.

Third, you must be constructive and very specific in demonstrating how resources have to be redeployed. This is an area in which you can make a huge difference in the company's ability to survive and eventually thrive. Use your influence and persuasion to show where resources need to be extracted, because that part of the business won't earn the cost of capital and get commitments to move those resources quickly.

Fourth, just as you will be interacting much more closely with leaders of other functions, you need to train your people to do the same thing at lower levels of the company, making use of not only their analytical skills but also their leadership abilities in engaging in debate and getting faster decisions. For many it will be the first chance they have to demonstrate leadership with concreteness and specificity and to motivate people. It is a chance for them to change their personal brand image within the company and earn a respect they have not had before.

## Know the Numbers

As the trustee of the company's finances, you are responsible for analyzing both the demand chain and the supply chain and evaluating the effects of the slowdown on each link in those chains. The most important metrics concern cash: cash flow, cash generation, cash collection, cash usage, the availability and timing of credit lines and the timing of new financing, and the repayment of debt. Already many CFOs are working diligently to protect their companies' debt ratings because they know they will need to refinance in the next year and that the ratings agencies, badly burned by the liquidity crisis, will pounce on any signs of weakness.

The company's intense focus on cash—where it comes from and where it goes—necessarily requires your involvement in pricing policy and mechanisms. You have to understand and communicate to the CEO and the salespeople when and where price discounts can help generate cash and when and where they will hurt. You need to make forecasts of cash flows under different scenarios, breaking down old assumptions and introducing new ones. You will have proved yourself as a leader when you know that the other leaders get it.

In some cases, you may also be your company's CRO: chief risk officer. It is your responsibility to understand and monitor the myriad risks confronting the company at all times. In a severe downturn it doesn't take much carelessness or a seriously bad judgment to wreak havoc. We have seen how the lack of liquidity, whether perceived or real, has brought the mighty to their knees in just two weeks.

Just as your colleague the CEO is managing the overall company more intensely, you have to manage the finances more intensely. You need to develop the necessary dashboards and metrics to stay absolutely current on every aspect of the financial picture, from cash on hand to inventories to receivables. Focus on the daily cash burn rate. Make it transparent to mangers in the company. At the same time, keep the managers informed about what cash is being devoted to the items that will build the company for the future. That information must be available to all authorized managers on a real-time basis, and you need to be sure that the moment anything starts trending in the wrong direction, the operational executives involved know it so that they can take decisive action to fix it.

## Advise the CEO

It is imperative that you and the CEO understand each other and each other's responsibilities and tasks and that you offer the CEO your full and candid counsel on anything that involves the company's finances. That is another way of saying that you need to have an informed view of virtually everything the company is doing and how it will affect the organization's short-term, medium-term, and long-term strength. Although the leaders of other functions—operations, sales and marketing, and purchasing, for example—will have their own points of view and give advice to the CEO from their unique perspectives, it isn't likely that they will have the level of sophistication to judge their recommendations against those of other functional leaders. With your command of the numbers and grasp of the value chain, you will become, almost by default, the advisor of last resort for the CEO and ultimately the board. You will be the one to lay out for them your own evaluation of the profitability of products and customers and cash usage by product and by customer for segments, business units, and regions, and to recommend the allocation of resources. As keeper of the all-important numbers, you may have to develop new metrics to explain and analyze the company's changing financial posture.

## Guide the Budget Process

One of the most daunting tasks facing you is to find a way to redo the budget frequently, perhaps as often as monthly, so that it reflects reality and enables you and your colleagues to move a portion of your resources to fund the emerging configuration. What has been a tedious annual process that literally takes weeks, if not months, now must become a streamlined exercise that takes two or three days or less. The key is bringing people together to work on it simultaneously and resolve conflicts together. Some large companies have done this, and so it is possible. Setting up a rapid-fire budgeting process doesn't happen right away. There will be some trial and error, but persistence pays off, and the sooner you become flexible in allocating resources through the budget, the better off you will be. (For a description of how such a process works, see Chapter 9 in *Execution: The Discipline of Getting Things Done*.)

Budgeting is all about allocating resources, and those resources will be allocated differently in a severe contraction from the way they are in normal times. You will be concerned not just with the operating budget but with the capital budget as well. You will be working with line people to reprioritize both the operating budget and the capital budget. This can't be a mechanical process that is based on what you did last year plus a little more. It has to take into account the changes in the composition of the global economy and the changes in competitive patterns. You will have to make tough decisions. Among the questions you need to answer are the following:

What is the right amount of capital to be deployed not just for 2009 and 2010 but in the years beyond in light of the cash equation and the credit ratings we need to maintain? Capital expenditures will have to come under laser-sharp scrutiny. Many companies have lost their earning power for years to come, their capital structure has worsened, and investors are predicting that dividends will have to be cut. All this has an effect on ratings, the availability of cash from outside sources, and the cost of cash.

How much of that capital allocation depends on the availability of credit from outside?

How much depends on partners on projects, and what is their credit rating, the availability of credit to them, and your confidence in your partner's management?

Which projects need to be halted even though they are halfway complete?

Should some projects be shifted abroad?

How can you be sure that projects that have been culled aren't being kept alive by an operating manager hoping for a reprieve when conditions improve?

Are you sure the projects you recommend for continued funding will produce the required returns? It is no longer sufficient to simply measure returns on investment. You have to dig deeper to show how the selected project will produce cash flows. Projects that have an earlier cash return, even though the ROI is lower than that of some other projects, will get higher priority. Those projects should be monitored on a monthly basis to ensure that they don't slip and cause cash allocation problems in the future.

Reallocating resources in the current environment means adding to some projects and subtracting from others. That inevitably forces people to break emotional ties to projects in which they've invested both money and mental energy and for which they have high hopes. Finance people have to ensure that decisions about which projects to continue and which to abandon are based on the incremental cash investment required and the desired return on that investment, not the sunk investment or personal attachment. A high ROI might have been appealing last year but will be impractical now if the company simply can't spare the cash.

You need to revisit estimates of future revenue streams periodically to be sure they are realistic. Their timing matters. Projects that won't come on line for another five or six years or that have obstacles to overcome are particularly vulnerable. Encourage the team to seek other ways to complete them. Could a project be shifted abroad or completed with the help of partners?

## Advise about Compensation

In collaboration with senior human resources executives, you will play a central role in determining how the board designs senior managers' compensation packages to reflect the new reality. Few board members have experienced a crisis of this magnitude, and while they want to do the right thing in compensating senior managers, the usual guidelines fall short. Past competitive data on peer groups are no longer useful because the landscape has changed so dramatically. That means the board will have to start with a fresh way of thinking about compensation. It will be your job as the CFO to guide them and answer their questions. Every compensation plan has three key elements that are used in combination to get senior management to focus on the right things. In this case the right things are getting the company through the storm and emerging on the other side as a stronger and more competitive organization. A one-day off-site meeting with the board will give you a chance to show how the drivers of the company's survival and their relative importance are changing in this rocky financial environment.

The first element is the architecture of the plan. What proportion will be fixed, what portion will be variable on a one-year basis, and what part will be on a long-term basis? What is the ratio among them, and what is the rationale behind that ratio? Among S&P 500 companies, the typical allocation has been 20 percent fixed, 40 percent in cash at one year, and 40 percent over the long term. That formula was determined in much easier times, however, and will not necessarily work in this era of contraction and declines in asset values and credit ratings. For example, many members of top management will earn no bonuses under its criteria. You need to lay out for the board the business and financial assumptions about the future under various scenarios and let them debate the right thing to do. The second element is the measures of performance. How much weight does each carry and why? Which ones are quantifiable and which ones are qualitative or subjective?

Finally, you need to be participating actively in devising new measures of performance and linking them tightly to the reward vehicles. At the end of the day the total rewards given to management are a cost to the company and the shareholders. The linkage has a tremendous impact on the motivation of management. In the past these reward vehicles have been cash, options, stock, restricted units, and more imaginative instruments. The whole compensation arena has become very complex, and the new economic environment is making it even more so. Most options granted over the last five years are now under water. You must work in conjunction with HR and the board's compensation committee to determine how various market and financial conditions will affect the way you measure performance, and decide on what combination of reward vehicles will best motivate managers and will not encourage them to do things the way they always have been done.

You should take the board through various scenarios, using clear numbers to show what the new performance measures should be in different conditions and how management's reward may be affected if stock market conditions do not improve. You may discuss the dilemma confronting the board if management performs better than does the relevant competition yet the price of your company's stock declines. Those kinds of situations need to be the subject of a practical and spirited discussion aimed at establishing a more realistic approach to compensation.

## Guard against Customer and Supplier Defaults

In collaboration with sales and marketing, you need to drill down to evaluate customers' and suppliers' balance sheets and financial conditions to determine which ones are most likely to falter and what effect that would have on the company.

You may be called on to serve as an envoy to a troubled customer or supplier, even helping your people to devise an assistance plan if doing so makes sense from your point of view and establishes your company as a favored customer or supplier. That judgment will depend heavily on your ability to analyze the customer's financial health and balance sheet and all of its external commitments in a forward-looking manner. You should not act precipitously to drop a customer. You want to retain your reputation for fairness by demonstrating concern for the customer. If, for example, a customer you need to drop has inventories of your product, how can you work with that customer to help it liquidate those inventories? You may elect to take them back under certain conditions and place them elsewhere. You are a better judge in evaluating the real worth of that inventory. Your interpersonal behavior is crucial, keeping in mind that people remember how they are treated no matter how tough the environment is.

## Train Your People

For all practical purposes, you will be operating in a crisis atmosphere for the next year or two or even three. For that reason you need to evaluate the financial executives under you carefully to determine which ones can and can't handle the pressure-cooker environment. Remember to consider their psychology and ability to lead, not just their facility with spreadsheets. They have to be team players who can work side by side with other leaders. Unblock key jobs for the most aggressive and brightest lower-level executives so that they get the kind of experience now that will make them much more effective when normal times resume and perhaps prepare them for your job if you are thinking about moving up or retiring. Hands-on practical training using real-world company problems and documents can be invaluable in bolstering the confidence of your subordinates and getting them to think differently about the company's situation.

## Train Management about the Balance Sheet

Most management people understand the basics of profit or loss, such as revenues, margins, and costs; physical value; and pricing discounts. Far fewer understand key items of the balance sheet such as accounts receivable and inventories. Even fewer are familiar with capital expenditures and returns on those expenditures. Very few who do understand return on capital expenditures can say which projects will generate cash the most quickly. Usually it is only the financial people who understand how cash outflow through leases, debt payments, and refinancing commitments can affect covenants that are linked to a number of items on the balance sheet and how difficult it can be to finance and refinance if those covenants are broken. This is a time when the CFO and the finance staff need to educate managers in the intricacies of the balance sheet by using the company's real numbers and showing what can happen in the future under different scenarios.

These managers need to understand how one item affects all the others and what the consequences are if, for instance, the company's debt rating goes from AA to BB. You can create exercises that demonstrate how such a reduction affects operations, marketing and selling, pricing, and the cash breakeven point. This is not rocket science. It is merely a matter of showing them the reality of the business.

## Keep the Board Informed

Just as the CEO keeps the board apprised of how the company's strategy is unfolding, you need to keep the board informed on a real-time basis of any significant deviations from financial expectations, including events such as customer or supplier defaults. Interpersonal skills are important and listening skills are at a premium in working with the board. The frequency of your contact with the board should increase. As one director told me, "Conditions are changing every week. It would be good for us to get information more frequently, particularly between the board meetings."

CHAPTER 5

# Making It All Work: *Operations*

Operations is the heart of any company. This is where the work gets done, and it is where the most fundamental changes will occur as your company adapts to the new circumstances and re-creates itself to become stronger in the future. While the details obviously will differ greatly depending on whether you're in manufacturing or services and in accordance with the complexity and geography of your business, the goals are common: lower operating costs, efficient use of resources, low working capital, and conservation of cash, along with the usual demands to meet customers' need for quality and on-time delivery.

## Achieving the Lowest Cash Breakeven Point

If you head operations in a manufacturing company, your number one task is to lower your cash breakeven point ahead of falling revenues. Decide now how you will cut capacity and be prepared to act fast. Will you have to reduce the number of shifts or close entire plants or consolidate production? How will each of those choices affect cash flow and the company's other priorities, including keeping the best customers happy? Would it be useful to subcontract some parts of the process so that you can shutter a facility? Should you search for new software that can make your systems more responsive and efficient at lower volume? These are complex questions that you can't answer alone. You need the input of sales and marketing and finance at the least.

As you make changes, let others help you consider the impact of those changes on the entire system. For example, if FedEx changed the timing or methods of package pickup at the shipper's shop, those changes would have far-reaching implications for activities such as truck dispatch, employee scheduling, and flight times for its vast air fleet. Without taking the related changes into account and modifying the entire system, chaos could ensue. Even in a simple form of operations you need to remember that decisions have second and third orders of consequence. Know what they are and do your reengineering on a systemwide scale.

## Rethink Capital Expenditures

The quest for cash can make it attractive to postpone capital expenditures, but you can't let that temptation lead you to shut down spending entirely. First, keep in mind that depreciation will allow you to spend a certain amount of money without any real cost. And while there are certainly projects that can be postponed or abandoned altogether in light of the tough market conditions, you should not postpone maintenance spending. Deferring it can create serious problems, and the longer it is deferred, the more it will cost. Don't eliminate long-term spending without thinking carefully about the value of each project. Remember that the company eventually will come out the other end of the tunnel.

Projects that have high strategic importance cannot be delayed, and you must continue to make investments in critical technology. If competitors choose cost savings over innovation, your technology will give you an edge when you emerge from hard times. Finally, you have to be conscious that spending on regulatory and safety issues isn't discretionary. An accident that releases dangerous chemicals or injures workers can have a disastrous effect on the company and of course to the individuals. The decisions about where to keep spending, where to cut back, and where to expand capital spending will be a balancing act that will test your skills as a leader. Are you open to options you may have rejected in the past, such as leasing, which might cost more in the long run but conserves cash now? Will you be able to make tough decisions and make them on time? There is no time for procrastination.

## Simplify Your Product Lines

Be merciless in weeding out product lines and their myriad versions and extensions that create unnecessary complexity. You need fewer and better products, and you need to have the best product people possible thinking about making things better, faster, and more efficiently. This is the time to do a thorough review to determine how you can make more use of common parts and platforms. Remember the 5 and 50 rule: 50 percent of the parts in your inventory get you just 5 percent of your revenue. Retailers need to be equally aggressive in paring their product lines, particularly in light of the fact that they often order seasonal merchandise six months in advance of the planned selling season. Reducing the number of SKUs (stock keeping units) and setting up much tighter linkages between the sales floor and suppliers can ameliorate the impact of misjudgments about what will sell.

## Outsource Where Possible

Simplifying your operations should include a review to determine what might be outsourced. You can focus your mind on this if you consider what differentiates you from your competitors. Those things are valuable and should be kept in house. You can consider everything else candidates for outsourcing that will make your costs variable and may also take advantage of economies of scale not possible in house. You can begin with component manufacturing because there now will be plenty of smaller companies eager to get new business. You may find partnerships useful too, especially among smaller companies that may be able to swap manufacturing capability for, say, customer contacts or design expertise.

Some companies may want to go the opposite way, using their redundant employees and bringing some outsourcing inside. Remember that DuPont dropped many of its outside contractors and let its employees take up the load.

## Manage Inventories

In normal times the focus of operations tends to be on customer satisfaction, low costs, and low manufacturing variances. That is still necessary but no longer sufficient: Inventories are a huge cash trap. Now you will have to be more cognizant of the financial implications of inventories of both raw materials and finished products. Operations needs to link tightly with sales and marketing to ensure that cash remains the focus at all times. The maximization of sales or accounting profits will become a secondary priority for most companies.

Managing inventories is supply chain management's most important task, and you will play a big role in the way that is done. Many manufacturers, especially in Japan, figured that out long ago and shifted to just-in-time inventory planning for raw materials. Other companies have adopted produce-on-demand philosophies to keep inventories of finished product at minimal levels. Not every company can take those approaches, but if you aren't using some variants of them already, you should consider how they can be adapted to your operations.

## Special Needs for Service Companies

Service companies face a different set of circumstances since their employees are in essence their engine of production and often deliver that production on a just-in-time basis. There is little concern about purchasing raw materials, but the principles of managing for cash and cash flow remain at the forefront of what a service company needs to do.

Two principles stand out as critical concerns for service companies: organizational capacity utilization and motivation. Your people are your machinery, and the term *capacity utilization* refers to how busy those people are. It is easy to grasp the principle that an idle staff is an unproductive staff, but some of the implications of that principle are not well understood. A restaurant that is extremely busy, with every table full and waiters hustling to take orders and deliver food, almost invariably will have better customer relations than will a restaurant in which half the tables are empty. The same phenomenon was evident in business-class and first-class air travel after business dropped dramatically in the fall of 2008. Though occupancy in those sections was sometimes only 30 percent, the number of attendants assigned to those customers was the same as it was a year or more before. Yet the attendants were much less attentive to the passengers. People who have too much idle time, and are perhaps worried about their future employment, get caught up in chatting and commiserating with one another. Customer service suffers as a result. The lesson: Staff your operations commensurate with the need for customer service.

Motivation is the second principle that demands your attention. Although executives in the company may have suffered the biggest financial hit in dollar terms from the plunging stock market, even the lowest level employee understands that 401(k) values have crashed while the unemployment rate nationwide is soaring. You need to create some excitement among these employees to prevent them from becoming utterly demoralized. For example, more frequent recognition that rewards customer service and teamwork can be energizing. Create methodologies for discovering which employees are treating customers with extra care, reward them visibly, and communicate how critical it is to ensure that customers come back.

Employees who deal directly with customers should be "people people." Those who aren't suited to the job need to be moved out of roles in which they have customer contact. When the inevitable staff reductions take place, it must be obvious to everyone that there are objective criteria for why certain people are removed. The remaining people need to feel that they are being treated equitably. The psychology of the people in a service company is much more critical than it is in a manufacturing company, and you need to communicate with them constantly and clearly to keep morale high.

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CHAPTER 6

# Refocusing Innovation: *Research and Development*

Research and development holds the key to the future for many companies, and its leaders usually focus on the long term. They tend to see R&D as being set apart from the day-to-day problems that besiege the company, even in a tough economic environment. R&D wants stable employment to prevent the disruption of ongoing projects and doesn't want to be the pawn of finance. Further, many R&D organizations were developed in much more profitable times and a lot of overhead and administrative costs have accumulated. Now the economic contraction and liquidity crisis should prompt you to reflect on how you can reinvent your function and reorganize its activities, bearing in mind that R&D is for bench scientists, not administrators.

Consider SmithKline's approach. The huge pharmaceutical firm's nearly $7 billion research effort is being broken down into smaller teams and organized as separate units, each with its own board of directors that includes outsiders, notably people with venture capital backgrounds. The result is a research and development effort in which each of the various teams operates as a small start-up, totally immersed in and focused on a single research objective while reducing overhead and bureaucracy.

## Rethink the R&D Budget

You can be sure that the financial stresses will mean reduced funding for R&D. 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 or causing you to miss a disruptive opportunity that can reorder your destiny. Your first task is to ensure that the right things are cut. You can get ahead of the budget decision curve if you do your own zero-base budgeting. That exercise will show clearly which projects are critical to the company's future and which can be sacrificed. You can use those results to influence senior management's decisions and implement the cuts in the most effective and efficient way.

Just as investors find their portfolios unbalanced when stock prices slump, it is likely that the current downturn has left your R&D operations unbalanced. You may have too many people in the United States and too few in India or have too many working in chemicals and not enough in biotech. This is the time to reevaluate your capacity in different segments.

Take a fresh look at all the projects currently under development and evaluate how the changing economic landscape affects the expected value of each one. Tight consumer budgets, for example, may mean that the basic functionality of a new product will become more important than having lots of extra features, especially if you can reduce your costs and the price. Consider the competition too, keeping in mind where various competitors demonstrated innovative strengths and weaknesses in the past. They are facing the same constraints and challenges you are and are deciding which projects they need to drop and which ones to pursue. If you believe you have a particular 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 give your company a tremendous edge.

## Rebalance Research Priorities

As part of your zero-base budgeting exercises, you need to rethink the purposes of R&D so that you can make the best decisions about using fewer resources, both labor and money. Fewer companies today are doing basic research, such as developing new molecules in the pharmaceutical industry. Your company's research is much more likely to be focused on new products or new processes or both. Moreover, the purpose of that research also varies. A lot of it is aimed at *sus-*

*taining* a company's market position. Reformulating existing products to reduce the raw materials they contain, for example, can lower the cost of making and shipping them and sustain their appeal to customers. Creating new variations of products for markets or segments in which the company already participates is another way to sustain the business. Then, there is *disruptive* research, which is aimed at developing a cutting-edge product or process that creates a new market or turns an existing market upside down because, say, it reduces costs by several orders of magnitude.

In downturns most companies tend to focus solely on research to improve existing products. That's a mistake. You will need to seize opportunities to make quantum leaps by focusing on new products and disruptive research as well. Your competitors are scared, may lack liquidity, and may be afraid of taking risks. That's a superb set of conditions for you to set up your company as a winner for decades to come. If you seize the opportunity, you can go from fourth or fifth in your industry to first or second when the downturn ends.

It won't be easy. There will be plenty of fires to fight and you'll be operating with fewer resources than before, but if you think strategically about what you want to accomplish through R&D, you will become a stronger company. For example, Pfizer recently dropped research in the cardiovascular field despite having developed the blockbuster drug Lipitor years ago. Lipitor delivered a huge amount of cash for 10 years or more, but management has made the gutsy decision that cardiovascular isn't going to be part of its future efforts. Your toughest decision as a leader will involve where to focus, where to cut, and where to increase. Cutting will be necessary, but the judgment you exercise will determine its impact.

## Make the Best Use of Resources

R&D's resources largely consist of people with ideas. You have to do some hard thinking about how best to deploy them. If the CEO cuts your budget in half, how will you deploy your people in the new environment? To answer that question you might ask yourself what you would do if the CEO doubled your budget. Then your priorities will be clear. Many things may be possible, but you need to determine what is necessary both for now and for years from now. The global scope of the economic malaise provides a good opportunity to establish partnerships with companies in your industry in other countries. Companies in China, India, Brazil, Taiwan, and Korea are looking to maximize their resources, and this is the chance of a lifetime to ally themselves with American companies. They will be eager to combine forces in joint R&D projects. You might swap technology so that both of you can grow faster or create a new market. If a foreign company is known for a particular expertise, you can outsource your project in that area and redeploy your people to projects in which you have an inherent advantage. But don't enter into alliances abroad blindly. Although many companies in the developing world will be eager to attach themselves to you, intellectual property rights can be an issue. Many companies in the developed world have had bad experiences when their local partners pirated intellectual property and used it to start their own venture or another joint one. It will take skill, judgment, and leadership to find the right partners, but they do exist.

Once you have determined which areas you and your partner want to target, consider intensifying the resources brought to bear on those areas. Ganging up on one area can lead to real progress and maybe even a breakthrough.

## Confront Obsolescence

Just as you reevaluate the R&D projects that are under way, you need to reevaluate your people. You need to do whatever you can to ensure that you keep the critical contributors, but this is the time to deal with obsolescence, which can be a much more debilitating problem in R&D than it is in other functions. People who have not kept pace with the changing world, who are not current on technology, need to be released. Some personnel reductions will occur naturally when projects that no longer make sense are cut. Be sure, however, that you move any valuable people working on those projects into other research, perhaps using them to replace weaker contributors working on the projects that survive. You also should think about replacing weaker players with higher-skilled people from outside. Use the Internet to get current on published research in areas important to your company and reach out to nontraditional sources of talent such as universities. Even if you don't hire them, professors can contribute a lot to R&D by acting as consultants.

## Tighten Your Links to Sales and Marketing

Many technology organizations, although working hard, have not been contributing much in terms of better revenues and margin growth as a percentage of investment. The problem is that the technology priorities are not linked tightly to the changing market conditions and the commercial priorities of the company. In your organization you doubtless have links to sales and marketing. After all, they're the experts on what the customer needs and wants. Now you need to strengthen those ties and bring marketing and sales people into the process of evaluating which projects to continue—and even speed up—and which to cut. Their insights will be crucial in making those decisions and in making the case to senior management. But don't rely solely on sales and marketing for an understanding of the consumer. No R&D operation can do its job exceptionally well without seeing the real world. Get out of the lab and watch and talk to consumers.

CHAPTER 7

# Tying It All Together: *The Supply Chain*

Different people conceive of a company's supply chain in different ways. In this context I am referring to all the relationships your company has with its suppliers—the logistics of getting supplies from their companies to your company, moving those supplies and your own components to where they are needed within your company, and the logistics of getting your products from your company to your customers. I include in this the information flows to and from your suppliers and customers.

Whether under an executive vice president of supply chain management or included in the chief operations officer's portfolio, the job of managing your manufacturing and sourcing footprint—supplies, inventories, and shipments—has become increasingly critical and more important than ever. Supply chain management has a tremendous impact on cash flow and customer service, and under stressful conditions flawless execution in this arena can give you a major competitive advantage.

Under current economic conditions it is a foregone conclusion that the cost structure of your business is changing. The cost of risk has increased, and currency exchange rates have become extraordinarily volatile. Most companies should step back and think about what would be a better global footprint for manufacturing facilities and the supply chains to and from those facilities. One of the major shifts already happening is to bring manufacturing closer to markets to tighten the links between manufacturing and marketing and reduce the delays that a more spread-out footprint often entails. Each company has to evaluate the trade-offs in its own situation, and there has never been a better time to evaluate both the short-term and long-term possibilities of revamping manufacturing and the supply chain.

## Focus on Synchronization

Ever-closer synchronization is the key. There is much you can do right away to tighten the links between suppliers, your own company's operations, and your customers to allow you all to react faster to changes in the external environment. The essence of your job now is to achieve the greater flexibility needed to survive the slump and give you an advantage when conditions improve. This may require major strategic changes to create a leaner and more agile organization that can respond much faster to sudden shifts in the external environment.

One of your main goals is to minimize the cash used in inventories, both incoming and outgoing. You can best accomplish that through cross-functional communication to synchronize the purchase of raw materials, their delivery to where they are needed, and their shipment to customers. Chances are that your communications are not nearly as effective as they could be. How often are you informed of sales trends and manufacturing schedules? What is the vehicle for obtaining that information? Your colleague running IT can do a lot to speed up that information flow and make it even more specific, but don't rely only on spreadsheets. You can learn a lot that's not evident from them by meeting face to face with managers in the sales, operations, and purchasing departments. You doubtless meet with those people already, but the frequency may need to increase so that you can stay atop of developing conditions in the market.

## Build Information Bridges to Suppliers and Customers

You will play a major role in the companywide quest to reduce complexity if you can set up a flow of information among your company, your customers, and your suppliers. It will be, in essence, an "information bridge" that is used frequently, with great intensity, to build a common bond of trust. You need to be sure that your suppliers see the same reality you see. That means sharing with them information about things such as your need to cut costs or substitute materials as prices change. You also need to know what margins they consider necessary for survival, their plans for cutbacks and other cost control efforts, and how they intend to manage for cash; all these things are factors that may affect your company's operations.

In short, you need to make your suppliers more than just suppliers. They need to become collaborators in what is actually a partnership. That means you can't dictate to your suppliers, as too many companies do. In a partnership, information flows both ways, and the game becomes win-win. As tough times bear down, one partner cannot be expected to bear the losses alone.

The partnership you forge with suppliers can help you synchronize the flow of goods in a way that will have a direct impact on your cash usage. It also will give you additional resources in the form of expertise when, for example, you are redesigning a package or product to meet the growing demand for lower-cost products. Some companies already have moved far forward in such collaborations, prompted mostly by the promised cost savings. What is different today is that you are managing across the bridge to control cash, not just costs.

You need the same supplier-customer partnership with your customers. This is the time to work with fearful customers to show how their cash generation can improve through closer coordination with your company. The ultimate goal is to establish a tight linkage, using the same metrics between your customer's needs and what you need from your supplier.

Forecasting demand has always been an iffy proposition, and it is more so now than ever. By linking tightly with your customers and suppliers, you can better absorb the volatility that characterizes today's markets. You can outperform competitors.

## Seek Sustainable Relationships

Tough times often inspire people to build enduring relationships with suppliers and customers. You need cash; they need cash. You face declining revenues; they face declining revenues. You both have to cut costs. You won't be able to establish a partnership with every supplier or customer, and so it is important to determine which ones will be sustainable partners. By the same token, reexamine existing partnerships to determine whether they are the most effective and efficient under the new conditions and whether the number of suppliers should be reduced. Every company that joins with you as a partner has to commit to the understanding that the situation no longer is "and/or" but "and/and." That means striving to give customers everything they want (both this and that), not forcing them to make trade-offs (either this or that). The majority of consumers, for example, do not want compromises in functional benefits, aesthetics, or price. They want all three of those things.

If you can give your customers products that do not compromise any of those attributes, and your supplier partners can help you do that by working closely in the design and manufacturing, you will all be winners. Technology is the key to creating those products, and it is best pursued jointly. Answer the following question on a scale of 1 to 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 a different partner.

## Determine the Strategic Changes to Make

You must carve out some time from the daily focus on keeping the supply chain tightly synchronized to think about the future: how should the supply chain change to make the company stronger when the downturn ends? Doubtless you remember well the summer of 2008, when commodity prices were soaring, shortages were widespread, and hoarding was common. The downturn reversed those price trends and brought with it tremendous volatility in currency values, but you can be sure the climb will resume when global demand recovers. Is your supply chain designed to deal efficiently with high oil and gasoline prices? Should you be relocating operations closer to big customers and thinking about focusing foreign operations on local rather than export markets? Of course you need a handle on which customers and suppliers will survive and where. These considerations must take place in a joint exercise with operations, finance, and sales and marketing to determine the optimal solutions, and you have to think hard and carefully about them.

## Advance Everyone's Understanding of the Value Chain

The more people appreciate the importance of their roles in getting your company through the storm and emerging stronger on the other side, the better they will do their jobs. Training programs that enhance their knowledge of the company's value chain and their part in it can be useful, as are efforts to promote greater coordination at all levels between supply chain employees and manufacturing, sales, and R&D. Your people should be alert to opportunities for new products or segments on the basis of their knowledge of suppliers and raw materials.

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CHAPTER 8

# Supporting the Team: *Staff Functions*

Staff executives—human resources, investor relations, communications, accounting, legal, and information technology—have their own critical roles to play in helping the company meet the challenges of a tough environment. Each supports the CEO in carrying out policies that bolster the operational and psychological changes required by the new reality. The leaders of these functions must quickly get their respective organizations down to a smaller core group of people who can seize the initiative and act rather than wait to be given instructions. That means making hard decisions about what in each function is a fixed cost—accounting and health and safety are fundamental—and which costs can be made variable, such as training and contracting. Outsourcing of staff functions will be a fact of life. It provides flexibility, and leaders should not shy away from it.

The scale of staff administrative functions needs to change too. In tough times, centralization of functions is a fast way to get a bigger bang for the buck. You might consider gathering all the business unit purchasing heads in a task force and demanding that they formulate a plan for centralizing their work. Combining different functions also can be useful. Some companies already place public relations and investor relations under either the CFO or the general counsel, and that produces some efficiencies. Yet even in those situations there may be as many as three layers of management that will not be necessary provided that you have the right people in the right jobs, people who will take the initiative and have the energy, knowledge, and skills to act without close supervision. You almost always will find that there will be someone in an organization who can rise to a challenge when given the opportunity.

No matter how a company is organized, the following points are salient in showing what the major staff functions can do to help steer the company in the right direction with dispatch and urgency.

## Human Resources

No doubt about it: HR will bear the brunt of the transition to crisis management in the early stages because so much of that transition will affect people at every level of the organization. There are several areas in which you will be tested.

*Head Count Reduction*

You know that head count has to come down and come down fast, but you can't eliminate people willy-nilly or you'll wind up dismissing the wrong ones and have to struggle to replace them later. Instead, the reductions have to be done as part of an overall plan to reshape the organization. You will be judged by how well and how fast the process works and how humanely it is carried out. The reductions will have to be bold so that the process occurs only once. You do not want to end up trimming the dog's tail one inch at a time. Employment reductions conducted several times in a short period create an atmosphere of distrust and demoralization that saps energy and leaves the remaining employees with the impression that the company isn't being fair and equitable. You need to explain in clear language the worst-case scenario the company faces and what changes it will make to meet that challenge, including changes in its human resources.

Avoid at all costs moves such as the cruel policy developed by one large Wall Street firm. When two employees returned from lunch in the fall of 2008, one offered his pass card to the scanning machine and was cleared to enter. The other wasn't cleared. When the first staffer used his card to open the door for his colleague, a security guard approached the two. He told the first person that he could proceed to his office, but the second person was told that as of noon that day he no longer was employed. He was to see the HR person in room 312 for further instructions.

You will be central in helping determine what needs to be done and then executing the decision. Part of your job will be to serve as a clearinghouse for operating managers' recommendations for reductions, department by department, as they figure out how to get their breakeven points as low as possible without jeopardizing the business's future. The reductions should start at the top with the CEO's direct reports and those at the next level down. This is where your personal knowledge of these people—how they operate, what their skills are, and whether they are optimistic or pessimistic, team players or loners—can provide invaluable guidance to the CEO.

Lower in the executive ranks, it will be useful to think of people in basic categories such as "leaders" and "individual contributors" (for example, programmers). Your integrity, impartiality, and objectivity will be tested here. Play no favorites. You represent the ultimate in the culture of a company that is intellectually honest and treats human beings with respect. Your authenticity is on the line. Don't let it be tainted.

The first category includes people who are in the direct line of generating revenues, margins, and demand as well as those who are in the direct line of production, delivering to the customer and dealing with customer complaints. Most of them will be necessary unless their product line is eliminated, but remember that it is the *job* that is necessary, not so much the person in it. It may be that someone else whose job will be eliminated can do it better, particularly in trying circumstances.

In dealing with highly talented individual contributors, you face a dilemma. They are very valuable assets, but they don't have specific budgets supporting them. You will have to work closely with their supervisors to make some tough choices. Consider whether their work can be outsourced to universities or other organizations that have the same expertise and can make that fixed cost a variable one. You also can put them on contract or, as in the case of DuPont, keep them by giving them work taken back from contractors. The point is that although you may not be able to support them as full-time employees now, there will come a day when you will need them, and it is best to find ways to keep them tied to the company.

You also will have to examine your own shop and decide what to do. You can demonstrate your leadership ability by committing to cut your annual budget by a significant amount, perhaps as much as 20 percent. Much of the cost reduction will be through head count reduction. How many people do you really need, and how many will you need once the company is in fighting trim? In large companies the HR department often has coaches, facilitators, and internal consultants. Those resources, if needed, can be outsourced easily, and as we'll see in a moment, there are ways of getting their tasks done by using other internal resources.

Reductions must be done with sensitivity and respect for people's contributions, not like the Wall Street firm's harsh method of abruptly canceling an employee's security pass. It is perhaps pertinent to note that that firm's CEO was known to be a particularly rude person. Clearly the HR executive did not fulfill the obligation to tell the CEO that such a brutal approach to reductions will soil a company's reputation.

### *Compensation*

As the HR leader you must ensure that people have a clear understanding of their individual goals and the company's overall goals and how they will be compensated relative to those goals. In a normal environment, compensation typically is based on one indicator: bottom-line results, which usually are stated as operating profit. In a downturn, managing for cash is the goal and compensation formulas have, at a minimum, four principal indicators: cash, operating profit, working capital, and customer satisfaction. Doubtless you will find managers who will resist or skirt new and different compensation plans that take the downturn into account. It is important that you explain the details of the new plan and get their feedback so that they will buy in. Otherwise, you will have to monitor the plans frequently to ensure that the managers are executing them as intended.

Direct compensation and bonus compensation will be foremost in everyone's mind, but you are also the trustee of the total cost of benefits. People often don't think about or badly underestimate the cost of benefits and come to see specific ones as entitlements. You need to change those attitudes by showing employees how much benefits are costing the company and demonstrating that other approaches to benefits, such as different deductibles in health plans, may work just as well at a lower cost. Finding efficiencies in benefits has become a focal point for many senior HR executives.

Most of the time, people would rather lose some benefits than lose their jobs. Indeed, this is a time to get in place a benefit structure that is both more flexible and less expensive. That structure will conserve cash now but will pay large dividends when conditions return to normal. To implement such plans, you need to show with clarity the competitive situation in your industry.

*Succession and Talent Planning*

As challenging as a downturn can be for a company, it also is a great opportunity to make sure the right people are in the right jobs. Managers who do very well when the wind is at their backs may not be up to the problems of managing through a sustained period of slow growth or no growth. You already may know some of the executives who will be unable to meet the challenges. They are the ones who have a hard time cutting costs, dragging out the process over months instead of getting it done in a matter of days. People who are indecisive or fearful have no place in an organization that needs to make fast and bold decisions, motivate and encourage people, and act as a seamless team. Neither do Lone Rangers or those eager to play the role of hero.

When leaders are removed, you will be a key player in finding their replacements. Some leaders are discovering new talent at lower levels in their companies and taking calculated risks to move them up several levels. David Calhoun, CEO of the Nielsen Company, which measures television viewership and advertising response, found just such a person when his company acquired a small firm that measures advertising awareness on the Internet. As traditional advertising spending shrank sharply in fall 2008, Calhoun made the decision to move much more quickly into measuring both television and Internet ad awareness. His choice to run the new approach was the young founder of the company Nielsen had acquired. Like Calhoun, if you are confident about some high-potential leaders, go ahead and unblock jobs for them by moving others who have performed well but not spectacularly into new roles. (For a comprehensive plan for building a deep bench of talent over time, see my book *Leaders at All Levels: Deepening Your Talent Pool to Solve the Succession Crisis.*) If you haven't developed a deep bench of internal leaders to move up, you have to look outside the company. Don't make the mistake of elevating someone who hasn't shown the potential for high office.

Talent outside your company may be abundant as highly skilled people become dissatisfied with the way their companies are dealing with the economic crisis or shortsighted CEOs fail to retain their best people. This may be a time to recruit them. Headhunters will know how to help. Look at your long-term talent needs and bring in the people who will build your company's future. Depending on the circumstances of the person you are recruiting, you may get a real bargain, or you may have to pay well and consider it an investment in the future. It will be particularly useful to get new long-term employees aboard early in the game so that they can help shape the future.

Be sure to keep the board informed about talent development and succession planning. Explain any required changes in the skill mix at the highest levels. Make suggestions for who should be positioned in other regions or business units to take advantage of opportunities that will emerge as the downturn ends. Help prepare the board to move quickly if it becomes necessary to retain talented executives who are targeted for recruitment by other firms, and seek the board's support in hiring promising individuals away from other companies.

### *Training*

Over the years training has become an increasingly important part of the HR function, but in many cases it has lost its value. Make it a point to examine the relevance of leadership training programs and how to use those dollars in the best way over the next two or three years. All leadership training should be focused on the problems and opportunities facing the company now. The training should provide knowledge and skills that can be put to work immediately. There is no time or use for abstract or general programs that are based on 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.

What's important is training in how to manage in a slow-growth environment, an unfamiliar proposition for many line managers. HR needs to create and deliver the appropriate materials and methods in areas such as contract negotiations and price setting, with an emphasis on collaboration. You will get a big return on investment if you recruit your own senior executives to teach some of these sessions by using actual company information, problems, and challenges. Not only will such sessions bring home the reality of why people need to master these skills, they will give the "teachers" a fresh insight into their own psychology and valuable input from people on the line.

### *Morale*

Do not underestimate the need to keep up morale during tough times. A slowing economy will generate a constant drumbeat of depressing coverage by newspapers, television, and blogs. You need to be sure that employees are getting accurate and timely information about the company's efforts to survive and thrive in the new environment. Some of that can be accomplished by working more closely with internal public relations, as will be discussed in the next section.

## Public Relations and Investor Relations

Communicating the company's new strategy and execution of it to both internal and external audiences will be the central task of public relations and investor relations leaders. During normal times you doubtless did what almost every one of your counterparts in other companies did: get out good news and try to take the edge off bad news, perhaps even hide it if possible. That's a fruitless exercise now. In a period of prolonged slow growth, nothing is more important for corporate communications and investor relations than maintaining credibility even in the face of results that may fall short of expectations.

If you're running investor relations, you have to bury yourself in the details of the company's changing financial structure. Learn from the CEO and the CFO how the key performance indicators (KPIs) will change in the slowing environment as the company manages for cash, not revenue growth. Once you have a thorough and detailed grasp of the new picture, you have to convey that information accurately and fully to investors. Analysts may be using the old metrics to evaluate your company. They too are lost in the sea of uncertainty. They have to be shown why your new metrics and KPIs make more sense in this environment. It goes without saying that any misstep that hints at a cover-up or distortion will be disastrous in the investment community.

Once the company is fully engaged in executing the new strategy, you will be the point person in communicating clearly and unambiguously to the investment community how the company is performing, including unanticipated problems and shortfalls in achieving goals. You need to build a record over time of the outcomes of the company's actions, showing, for example, how the elimination of certain kinds of customers or product lines affected various parts of the company's value chain for better or worse. The investors should be prepared for the company's next moves as the situation continues to evolve, always with an eye toward emerging stronger and more competitive. You should enlist the CFO when necessary to keep the largest or most important investors fully informed.

You need to adopt an attitude of more transparency to reduce anxiety within the company and build a relationship of trust with media outlets. If you don't understand everything that is happening, get the CFO to help you. Work with finance and HR to create a Web site or dashboard, accessible to all employees and updated at least biweekly, that presents an analytical picture of the company, its competitive position, and the steps it is taking to execute its strategy. Don't talk down; help people make sense of what is unnerving and confusing to everyone. Include, for instance, macroeconomic news such as Federal Reserve policy statements and actions and relevant international and industry news. It may be useful to establish a hotline to respond to employees' concerns and queries.

External communications people should be proactive in establishing links to both national and local media, demonstrating that the company is methodical and solid and has a realistic view of the environment in which it is operating.

## General Counsel

The general counsel will be responsible for crafting the details of new contracts and renegotiating existing contracts to provide flexibility in rapidly changing conditions. For example, if it appears that a customer is about to default or a supplier is violating the terms of its agreement, you will have to work closely with sales and the CFO to ensure that, if necessary, you will force renegotiation or take other protective measures. At the same time you should be working with the customers and suppliers that are identified as your company's long-term best prospects to streamline the business process. Anything you can do to make it easier for suppliers or customers to do business with you will give you a competitive edge. Because of the fluid financial situation surrounding the company, you will be consulted frequently by your colleagues in IR to make sure they are providing investors and regulators with full and fair disclosure.

As the company reduces its workforce, you must make sure the dismissal process does not disproportionately affect older employees, women, or minorities. Finally, you will play a big role in renegotiating changes in work rules if your company has union agreements.

## Information Technology

As the leader of the information technology function, you should assume that the IT budget will be cut. You need to develop a strong viewpoint on reprioritizing your projects. Your first priority is to make a sound argument that projects related to compliance, including projects designed to interact with the board, the auditors, and the CFO, should be funded fully. Certainly you should be prepared to lay out the consequences if they are not. Just be sure to do it in a collegial, not a confrontational, manner. Your second priority will be utility-oriented projects: things that keep the lights on and the processes running. Both types of projects have the advantage of helping top management sleep better.

After those two top priorities are funded, you may find that your budget is nearly depleted. That means you must rethink projects that create value. Think first about aiming the money that is left at value-creating technology such as automation of the gathering and delivery of sales data in granular detail to guide production, sales, and marketing. Those actions will be welcomed because they will have a direct relationship with achieving budgets in the near term. However, don't sacrifice an important project that will yield big benefits later. 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. If you think you will face opposition from top management, it may be time to find a line manager who has a project that promises to create cash in the near future. If the real benefits to that line manager are significant enough, he may go with you to the CEO and CFO and make the point that the project isn't a cost but a worthwhile investment.

Still, you will be told to reduce your organization's costs and will have to start thinking about how many technical people to keep and which ones to take out. Remember that technology budgets often move in waves. One IT executive told me that from 2003 to 2007, money was available and IT was growth-oriented and was doing some innovative work. Now it is time to be a cost cutter and strengthen the core of the unit, keep it running, and reassure top management that compliance and maintenance are not impaired in any way.

CHAPTER 9

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

Directors are ultimately responsible for ensuring that their companies survive the turmoil as the global economic crisis plays itself out. The circumstances will test the temperament of the entire board and its ability to work together. As challenging as it may be, boards have to stay one step ahead of management, instilling a sense of urgency but also providing a steady hand. In light of the fact that the last major global economic crisis occurred more than 30 years ago, very few directors have experienced these economic conditions individually or collectively. They cannot let their fears stand in the way of protecting the business by getting management to face up to whatever painful changes must be made. I have witnessed several instances in which board members have persuaded the CEO to assume a worst-case scenario when the board thought the CEO's forecast was too rosy. That has made a tremendous difference in preparing the companies to survive.

Conversely, the board can make a vital contribution by helping the CEO see past the gloom and doom and go on the offensive. Chief executives will be consumed by the many issues that demand their immediate attention. The board can ensure that opportunities and the long-term betterment of the company are not forgotten. This is the time for boards to motivate management teams to confront the new reality and win in spite of it.

Each board member will have to become involved more intensely in the company or companies he or she oversees. In one company the tsunami became so intense that the board had to meet four times in six weeks. No one missed a meeting. Board work is going to require more time and effort than ever before, and it may be worth asking yourself at this point if you are overextended in your various obligations, especially if you are the CEO of your own company and are serving on more than one other board.

Your judgment as a director will be crucial in a number of areas.

## Approving the Targets

You will need to give extraordinary scrutiny to the targets that management proposes. Are the goals realistic in the circumstances? Revenues, margins, cash, overhead, capital expenditures, and capital structure all will be under stress and must reflect the trade-offs necessary to operate through the storm and emerge stronger when it ends. New targets need to be added to that list too. Cash and the breakeven point are essential ingredients in measuring how the company is doing in adverse conditions. Directors need to understand the relationships and cross-effects among those targets much more clearly than they did before. With such an in-depth understanding, you will be able to develop a viewpoint about which are the highest priorities and make your argument to your fellow directors, appreciate their views and change your own if necessary.

One reason you'll have to be engaged in real time is that the targets will be moving. Annual targets are all but pointless when no one can forecast demand a year out. If management misses the first-quarter goals by a substantial amount, it will be almost impossible to make up that lost ground in the next three quarters. Because of the need for flexibility, leaders should be setting quarterly targets and abandoning the notion that they are absolute numbers. In tough times, everything is relative. For an unknown period, the likely question will be not how much your revenues grew but whether your company's revenues fell more or less than your competitors' revenues. Targets should be tied in some way to external conditions and benchmarks such as selected portions of gross domestic product, liquidity and debt, and consumer discretionary income. The peer group designed yesterday is not likely to be appropriate tomorrow. Many players have been made irrelevant by the harsh environment. Focus on relevant competition in the marketplace. In this turmoil the metric of TSR—total shareholder return—probably isn't the right one.

Once the new targets are set, the board can begin to diagnose why management did or did not hit them. Was the cause the underlying economy, changes in the industry, or decisions by management? That kind of evaluation is very important to understanding how the external environment is changing the company's competitive posture. Even if management hits the targets, the board should analyze the results carefully to ensure that it isn't achieving the goals by doing something inappropriate. In one case a CEO who had missed two consecutive quarterly targets tried to get back on track by implementing an ill-conceived 25 percent reduction in force that nearly gutted the company.

## Watching Risk

The board needs to be sure that the leaders of the business have considered worst-case scenarios. A one-day session with senior management can do a lot to encourage them to be bold in imagining the range of problems that may occur and making preparations to cope with them.

The worst-case discussions should include a management presentation on how it intends to get the company to the lowest possible cash breakeven point in the coming year. Many managements will balk at attempts to push that hard, fearing that the cutbacks will mean missing opportunities on the upside, but that risk pales in comparison with the safety of conserving cash and lowering costs in the face of the unknown that lies ahead. If the company has focused on the right products, regions, and channels and has cash on hand, it can move quickly to take advantage of an upturn. While some CEOs may not cut back enough, others may cut too deeply. Boards can help management strike the right balance.

## 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. Many companies will be raising new equity and recapitalizing, thus diluting the current shareholders' equity. More than a few companies will disappear through liquidation, bankruptcy, or mergers, and many more will see their debt ratings reduced, the cost of borrowing rising and their access to money impaired. With that in mind, the board has to make some critical decisions that will affect shareholders directly.

First, should we cut the dividend, and, if so, when and by how much? Dividend payments are direct outlays of cash, and cash preservation is the primary goal during these tough times. Yet slashing a dividend also sends an important psychological message. If the decision is made to reduce or eliminate the dividend, the rationale behind that decision must be explained carefully to investors and the public by the public relations and investor relations departments. Generally, casting the decision as a precautionary measure can dilute the impact, but before making that case be sure the facts support it. If analysts or investors see concrete numerical evidence that the dividend decision is an act of desperation, arguing otherwise will impair the company's credibility.

The second question is whether the company should buy back depressed shares or, if it already has such a policy, whether it should continue to do that. Again, the repurchase of shares is a direct outlay of cash at a time when cash needs to be conserved. Share buybacks have less of a psychological impact than do dividend payments. I am aware of many boards that have decided that the conservation of cash trumps share buybacks, and those companies have not encountered heavy investor resistance.

## Adjusting Compensation

The targets you set as a board member are directly related to the compensation of senior management. In these circumstances it is safe to assume that most management teams will fail to achieve targets set a year ago. The board must realize that the unprecedented events have made them outdated. It is fruitless to get into a discussion about how they came to be set and why management missed them. Board members who try to debate that question create tension and undermine management. Instead, the board needs to be looking ahead. If you've relied on compensation consultants, as most boards have in recent years, it is time to reassert your authority, especially if you are on the compensation committee. Your task is to be sure that senior management focuses on the particular things that are right for your company at this time.

Watch for absolutes or measures tied to stock price. Investors can diversify their holdings, but leaders cannot diversify the sources of their pay. Reconsider how much should be variable. Is it really fair to expect senior leaders to lose 75 percent of their compensation when a stock market decline takes their variable pay to zero? The board, working with the senior HR executive, is in the best position to design a plan that makes sense.

## Gauging Management's Psychology

Severe or prolonged downturns can take a heavy toll on management's psychology, and the board needs to stay on top of the situation. It's easy for a management under strain to go into the bunker mode and become fixated on surviving for the moment without any regard for the future. You can be sure that in light of the stock market's plunge, most senior executives have experienced a shocking reduction in their net worth and are deeply concerned about their personal financial situation. It will be useful to invite 20 or so managers from several levels of the company for cocktails or dinner the night before the board meeting. Interacting with them will allow the board to gauge their psychology and at the same time inspire them. Are they optimistic or pessimistic? How are they dealing with customers? Are they future-oriented with a picture of how the company can endure the current travails and come out stronger? How is each senior manager executing his or her job?

## Ensuring the Right Leadership

You need to give the CEO your full support as long as he or she is earning it. There will be many casualties as a result of this economic malaise, and more than a few CEOs will be among them. This is the ultimate ownership and stewardship function of the board. On the one hand, the board cannot lose its nerve when the chips are down. It should support the CEO even if management did not meet the targets. The board needs to reflect on the many factors that caused the failure to hit absolute targets. Management may have done everything in its power to achieve the best performance in the face of huge obstacles.

On the other hand, there are situations in which each director needs to understand that the CEO may not be up to the job of guiding the company in these torturous conditions. He or she may not be able to make the mental adjustment or may not have the courage and skills required to lead the company now. The tendency is almost always to act late on evidence that the CEO's performance is declining, but any delay in making that difficult decision can place the company in great jeopardy.

We saw the cost to Lehman Brothers and, indeed, the entire world financial system when Richard Fuld hesitated. We also saw the fortuitous results when John Thain, the CEO of Merrill Lynch, didn't hesitate and grabbed the lifeline offered to him. That is the kind of decisiveness you need to see in your CEO. You may be hopeful that conditions in your industry won't reach a similarly dreadful state, but if you have thought conscientiously about worst-case scenarios, you will have asked the right questions before it's too late.

## Sharing What You Know

Good intelligence about the world has never been more critical. As a director you doubtless have many contacts and many sources of information about what is happening in the industry, among competitors, and in government. In normal times, relaying that information is done episodically and somewhat formally. Now that process needs to be constant and free flowing. This is especially true of little tidbits of information that you might have dismissed as worthless in the past. They now can take on much greater significance, but only if you share them. Something you have heard about a customer may not in itself be of much consequence until it is supplemented or expanded by something that another director or a senior manager in the company has heard. You also should search out information aggressively on your own. Ask questions, read the news more carefully, and cultivate your best sources. What you learn today may save your company tomorrow.

## Planning CEO Succession

The succession issue is a perennial problem for companies. Nearly every director sets it out as a number one issue, and nearly every director admits that the board on which he or she serves is doing a poor job of succession planning. There has never been a better time to undertake a complete survey of succession and implement plans for both the short term and the long term.

Your clear priority is the short term, and you should focus on the worst-case scenario: what to do if the company suddenly needs a new CEO. Is the successor already in the company? Is he or she the same person the board would have selected if this problem had arisen a year ago? Do not be afraid to look down one, two, or even more layers to see if there is a potential candidate. If no one in the company is up to the job, the issue is urgent because of the speed at which conditions are changing. Use your contacts to see who knows of a possible candidate you haven't considered who can come aboard quickly. Some boards are asking search firms to bring in a list of great candidates who haven't been informed they are under consideration so that the board will be ready to move quickly if an emergency arises. If you think the search may be prolonged, you should consider appointing one of your colleagues on the board as interim CEO and chair. If you believe that person is up to the job of managing through the storm, you have the luxury of searching for a new CEO who is fully focused on the future when the crisis abates.

This is a great time to spot leadership talent by observing how leaders are handling their jobs in different conditions. Talk to as many of them as you can, gauge their psychology, and see who is decisive and who is buckling under. You must keep in mind that the definition of high potential is changing in these new circumstances. Previously a person was designated as having high potential on the basis of how fast he or she could move and how big he or she could think. High potentials still have to be able to demonstrate their capacity for big ideas, but now it is equally important to determine how well a person can see the new reality, align various constituencies to face that reality, and interpret the market and financial flows and link them to the survival of the business. It will be useful to discuss these leaders among your peers to cross-check your observations. These insights into people will pay off in years to come when some of them are considered for senior-level jobs, including perhaps the CEO post.

# MOVING FORWARD

I have kept this book short and to the point because your time is precious. My hope is that you have found it easy to read and digest and that you will heed its call to action. Roll up your sleeves and put the tools and ideas to work right away. Remember, "hands on, head in" is the guiding principle. Adjust your mindset, gather your people, and tackle the problems squarely. I have been gratified to see that some leaders are already doing just this by calling emergency meetings and asking their people to help generate ideas. The best of them are finding realistic solutions, communicating, and doing diligent, frequent follow-through.

If you're a capable leader, you will have a stronger business after the downturn than you did before. If you're a leader with vision, you are already wondering what comes next. It may be one year, it may be three or more, but there unquestionably will be a phase II. Actions generate reactions, and many business leaders and analysts expect the next phase to be inflationary since so much money has been pumped into the world financial system. This is not a forecast. It is simply a reminder that being a leader in tough and uncertain times means always anticipating the next challenge and building the fortitude and skills to face it.

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# INDEX

# About Ram Charan

Ram Charan is a world-renowned adviser to business leaders and corporate boards, a bestselling author, and an award-winning teacher. He is known for his keen insights into business problems and his real-world practicality in solving them.

For nearly four decades, Ram has counseled some of the world's most successful business leaders on far-ranging issues, from corporate governance and CEO selection to leadership development and pursuing organic growth. Most recently he has been deeply involved in advising boards and CEOs on ways to cope with the mounting global economic slowdown.

Ram, a prolific writer, is the author or coauthor of fifteen books, including *Know-How, What the CEO Wants You to Know*, and *Boards That Deliver*. *Execution*, written with former Honeywell CEO Larry Bossidy, was on the *New York Times'* bestseller list for nearly three years and has two million copies in print. Ram has contributed to lead articles in *Fortune*, *Harvard Business Review*, and many other publications.

Ram's interactive style, his real-world approach, and the practicality of his lessons have made him a favorite among executive educators. He has taught for thirty consecutive years at GE's John F. Welch Leadership Center in Crotonville, New York, and has won best-teacher awards at Wharton and Northwestern.

Ram's business career began when he was just a teenager, working in the family shoe shop in India. He went on to earn an engineering degree and then master of business administration and doctorate degrees from Harvard Business School. He graduated from Harvard with high distinction and was a Baker Scholar.

Ram is a director of Austin Industries, Tyco Electronics, and Emaar Manufacturing in India. He was elected a Distinguished Fellow of the National Academy of Human Resources in 2005. He is based in Dallas, Texas.