

UNLIMITED POTENTIAL

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Newsletter

Leading in Economic Uncertainty: Shrinking Business

Are you the type of leader who's dealing well in these trying economic times?

- Who confronts reality?
- Who figures out what needs to be done?
- Who communicates with confidence?
- Who finds opportunities in chaos, despite uncertainty, inevitable change and unpredictable sales?

If you're like most, you've never before experienced a downturn like this. Reports about the end of the recession mean little if your company continues to fight cash-flow problems.

You cannot allow yourself to be afraid. Others look to you for strength and guidance. You must give the best you have and move quickly, even when faced with incomplete information.

Leading in uncertain times is not for the faint of heart. Some management teams navigate these challenging times well, while others fail miserably. It's not just the CEO and CFO who are responsible; everyone has an important role to play. Indeed, those who lead well during the recession will emerge as shining stars for tomorrow's top teams.

In his new book, *Leadership in the Era of Economic Uncertainty*, bestselling author Ram Charan identifies the key rules to follow if you want to get the right things done in difficult times. They include:

- Pay attention to salespeople's contributions.
- Accept guidance from your board of directors.
- Understand how various business functions must be aligned and coordinated.
- Communicate candidly and frequently.
- Respond to external pressures in realistic, yet positive, ways.



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The Call for Leadership

Do tough times make great leaders, or do great leaders emerge when the going gets tough? The ability to stare into the face of uncertainty, accept change and make decisions with incomplete information is crucial.

Such skills require strengths you may not have previously tapped. You must be able to:

- Experience fear realistically, without getting paralyzed.
- Act decisively, even if you're uncertain about whether your plan is the best – or even the right–one.
- Take charge and pull people together.
- Adjust quickly, change course as needed, and maintain people's confidence.

Management challenges don't usually strike to the degree we've experienced over the last year. It's not only your business or industry that finds itself in a downturn, but a disruption of the entire global economic system.

Uncertain Data

Projections and estimates are little more than guesses these days. We won't know when we've turned the corner, and we cannot envision the future shape and scope of our businesses. What we can say is that change will present as both a danger and an opportunity.

Whether you can afford to see these changes as a pessimist or an optimist is not the question. Some predict the global economy will take a full year to normalize, while others project a three-year wait.

Smart leaders are reshaping their businesses to carry on through whatever hard times lie ahead. They are making changes now so they can emerge in better shape than before, ready for new growth. They're pouncing on new opportunities, devising ways to move faster and trying to serve customers in different ways.

These leaders will be the game changers in the next period of expansion. How can you be one of them?

Shrinking Business

The new reality is that, barring acquisitions, your company will likely be smaller two years from now, according to Charan. In an environment of falling demand and liquidity risk, most companies have no choice but to shrink.

As bitter and painful as it may be, survival depends on cutting costs and raising cash. This is the time to narrow your focus and concentrate on your business' core: the invaluable assets you can't afford to lose.

Choose the market segments and customers you will continue to serve, the products you will continue to make and the suppliers from whom you will continue to buy. Eliminate the rest.

Seize opportunities to simplify your processes and reduce layers of management. In the end, you'll have fewer customers, products, facilities, people and suppliers, but you'll set the stage for a stronger company.

Reducing costs and managing liquidity risks will reshape and refocus your business, putting you on the offensive. You'll turn a bad situation into an opportunity to emerge from the storm even stronger, more flexible and better positioned than the competition.

Management Intensity

Day-to-day management practices may have to change. Now's the time to use management intensity: a deep immersion in your business' operational details, as well as the outside world. More hands-on involvement and follow-through are required.

You need a granular understanding of what's happening outside your company, with customers and inside operations.

Diverse parts of the business must be tightly coupled and linked to the outside. Plans and progress should be revisited almost daily. Every leader has to be involved, visible and in daily communication.

Ground-Level Intelligence

The most important type of intelligence to gather involves your customers.

- Which changes in this volatile environment can affect your business?
- Do you have up-to-date, detailed and unfiltered information?
- How are the slowdown's effects (credit, job losses) affecting consumer behaviors? Suppliers?

Get out in the field and observe. Salespeople are often closer to customers than other company representatives. Find out what they know or suspect trends will be.

The need for unfiltered information extends to suppliers and partners. Probe carefully to learn what's going on throughout the value chain.

All of this information needs to be shared and examined to extract key facts and patterns as they begin to emerge. Conversations must cut across silos so you

know what management, peers and subordinates are picking up on, as well as what's happening in your area.

Only by synchronizing people as a companywide team can you obtain focus, speed, urgency and flexibility to make and execute faster decisions.

Controlling in Real Time

Increase your frequency of control, setting targets on a quarterly, monthly or even weekly basis. Revisit goals and key performance indicators, track progress toward them, and take corrective actions more often.

Volatility shortens the lifespan of a business model and strategy. Yours may become obsolete sooner than you think. Your company may have to change its approach more than once before things return to normal. Flexibility may be your line of attack, and conservation of cash may be your goal, until the economy gains strength.

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 and/or execution aren't working.

Build Confidence

Management intensity means watching the horizon and periphery even as you move decisively to ensure survival over 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 isn't easy. Even in the best of times the future is often foggy, but a persistent focus on what lies ahead, along with a pragmatic approach to preparing the company for the worst, will produce high returns.

Aggressive measures and decisive actions build optimism and confidence. Spotting opportunities and pursuing them aggressively will inspire people and change their psychology from fear to realistic optimism. Your actions and words will align people's minds, physical energy, hearts and souls.

Authenticity Is Critical

Your presence on the front line is important to energizing people and transforming their fear into confidence – but it must be authentic. Combine rock-solid integrity and intellectual honesty with straightforwardness and the ability to confront reality.

Instill courage and optimism by putting reality on the table and addressing it decisively. Show people a credible, concrete path, and enroll other change agents

sacrificing values.

If you tell half-truths, sugarcoat bad news or fail to recognize a toxic environment, people won't trust you. Worse, they'll never respond to your sense of urgency.

What You Can Do

Never has it been more important for everyone in a company to understand the stresses and strains on fellow colleagues. The more you know about others' situations, the better you can work with them as team members for organizational well-being.

6 Key Leadership Traits for Hard Times

The following behaviors characterize a good leader in a downturn:

- 1. Honesty and credibility.** This can prove difficult. Nobody can be certain about the business environment and its direction. How can you tell people what you believe when you lack full confidence? The only viable options are intellectual honesty and humility. Your authority depends on your ability to facilitate understanding and solutions – not from omniscience.
- 2. Ability to inspire.** Many people are extremely anxious. The recession descended as suddenly as a tsunami, destroying hard-earned savings and putting jobs at risk. People don't trust what they hear, see or read. You and your team must inspire employees by working with them to toughen their resolve. Help them develop one or two realistically optimistic pictures of what can lie ahead. People need a vision that sparks the creativity required to develop new ideas and solutions.
- 3. Real-time connection to reality.** Reality is a moving target. You have to keep updating your picture of it, continuously monitoring change with ground-level intelligence. The same applies to your team, whose members must put all concrete information on the table, however bad it may be. Gather info from unconventional sources, and don't get locked into one view. Allow the picture to change as you gather new intelligence.
- 4. Realism tempered with optimism.** Unadulterated pessimism is no more realistic than unbridled optimism. The first order of realism is to understand and accept a problem's magnitude. Then, focus your people on a vision of what's possible. Energize them to search for actions that will help them realize their visions.

As Charan suggests, this kind of leadership becomes a performing art. When you introduce the right touch of optimism, your people will tap into their psychological reserves to deal with bad news and transform fear into action.

5. **Managing with intensity.** Dig into the right details more frequently than before. Hands-on participation is essential. Only through personal involvement can you acquire the ground-level intelligence needed to act with the required speed.
6. **Boldness in building for the future.** The need to conserve cash and survive may pressure you to shortchange the future. You must resist. It takes imagination and guts to place strategic bets with no guaranteed payoffs when there's little money and great uncertainty; however, it's critical to aim for long-term payoffs.

A note from Ram Charan:

"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 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."

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