

Head in the Right Direction Despite the Economy

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As the economy continues to decline, organizational leaders and managers are facing tough questions and difficult choices: How deeply can you cut costs without creating unintended negative consequences? What about layoffs? How do you get workers energized despite looming economic threats? How do you discourage defensive internal politics? And how do you lead now so that your organization emerges from the downturn poised for success?

Past recessions hold some lessons. In particular, there are 10 actions that successful leaders take in three areas during economic downturns to settle the organization, keep it headed in the right direction, and emerge on top.

Financials

- 1) **Move quickly to reduce costs** and control spending by narrowing focus. Winners in a downturn focus on a few critical priorities in areas in which they can develop a clear lead, and they walk away from bad business. Losers chase unprofitable sales in an attempt to hold their top line.
- 2) **Refrain from across-the-board cutbacks**, being sure to preserve areas that customers value most. Businesses that cut costs uniformly often find that they end up damaging their ability to sell and deliver their products and services.
- 3) **Consider alternatives to layoffs**. Downsizing tends to bolster the bottom line and stock price in the short term, but often creates long-term negative repercussions. Alternative strategies include cutting management bonuses, freezing salaries, and reducing compensation options. It's critical to clearly communicate the rationale and impact to employees.
- 4) **Invest in opportunity**. A bad economy can present bargains, both in new assets and in new talent. Good areas to invest in are R&D, marketing, and customer-perceived quality. By contrast, investing in working capital, manufacturing, and administration doesn't pay off as well.

People

- 5) **Retain and develop top talent**. High-impact workers are often more susceptible to being poached by a competitor in a downturn. Organizations that provide development experiences and rotational assignments have better employee retention rates.
- 6) **Make sure everyone's on the same page**. When alignment on key goals is absent, performance suffers. Top leaders frame an agenda and meet with key stakeholders to gain support and build commitment. Ineffective leaders let inter-office politics fester and hidden agendas dominate.
- 7) **Encourage questions and new ideas** by making it safe for employees to raise them. Leaders who admit they don't have all the answers and ask for input empower their people to contribute their best ideas.

Climate

- 8) **Manage the heat**. Leaders are often tempted in difficult times to relieve the organization's stress by making tough decisions unilaterally. That's often a mistake. Leadership by dictate often lacks broad support; it eliminates constructive conflicts that challenge the status quo and fuel good decision-making.
- 9) **Communicate authentically**. Strong leaders acknowledge the challenges they struggle with and, by doing so, build trust among followers. Rather than being a sign of weakness, it's a sign of strength.
- 10) **Create a positive vision and attitude** that acknowledges reality. When leaders exercise discipline and focus by mobilizing employees to respond to customers' interests and values, they increase the chance that, when the downturn ends, they'll come out on top.



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