



Insights from The Clarion Institute

Emerging from Economic Contraction: Senior Leaders' Role

By Jon Wheeler and the Partners of The Clarion Group

A Note to Our Readers:

Senior Leadership Teams are responsible for keeping both the short term and the long term in their sights. In these times of dramatic economic contraction, it is easy for leaders to focus on ensuring short-term viability. In this paper, we share our thoughts on the importance of keeping the future in leaders' field of vision.

The Fall 2006 *Clarion Call* dealt with the three significant cross-organizational responsibilities senior leadership teams uniquely own: Ensuring Business Viability, Creating Organizational Alignment and Igniting Possibility (<http://www.theclariongroup.com/newsletter.html>). We used an urban architect metaphor in the article to describe the broad view required to guide the direction of a business as well as engage in the more detailed planning and execution that make organizations work.

With the recent dramatic economic contraction, the rapid decline in demand and the unsettling uncertainty about the length of the recession, leaders have naturally narrowed their focus to the cost management dimension of Ensuring Business Viability. However, in those companies that have successfully absorbed the shock of the last six months, we are finding clients who are now broadening their focus to incorporate the rebuilding process. Not all companies are there, of course, as the responses to our recent Business Climate Survey indicate: more than half of the respondents say that executives in their companies are spending, at most, 20% of their time on strategy (with the other 80% being spent on execution).

This is hazardous, in our view, since we do not assume that the strategy you rode into the recession will carry you out. As Peter Drucker says, "The greatest danger in times of turbulence is not the turbulence, but to act with yesterday's logic."

Looking Back

For at least the five or six years of economic expansion prior to the third quarter of 2008, most of the senior leaders we worked with were focused on extending and optimizing their business models. They were less focused on dramatically changing their strategies than they were focused on yielding greater returns from their existing operating platforms by growing with the expanding markets while prudently managing expenses.

We would occasionally work with clients to develop new business strategies and greenfield operating models. However, the work was more often about creating approaches to generate new ideas to extend growth, to exercise greater discipline in developing and maintaining effective organizational alignment, and to improve individual and team performance. These three areas have not diminished over the past six months but the focus on business viability has changed – and it's changed substantially.

Short-Term Focus

Clearly, when the economy contracts, so must many businesses. Leaders have had to focus on tightening their belts in ways, and at a rate, most have not seen before. Pressures were being applied from many directions: the marketplace (competitive pricing, decline in demand), the Board, employees, the credit markets and (for some) regulators. The circumstances were further complicated by the fact that almost all current leaders have matured into their senior roles long after the last deep recession of the early 1980s; many, therefore, have little direct experience to guide their thinking and reactions to the current situation. Regardless, this work must be done to make businesses viable in the near term. For some, this is a matter of survival.

The danger is that the expense focus can create business myopia for some leaders. They may deal disproportionately with contracting their businesses, thereby running the very real risk of not doing the necessary work to prepare their businesses for growth when the economy turns. And, they must, with confidence, spend the necessary time understanding their future business models, e.g., how their companies will provide market value in new ways that yield income and growth once they are on the other side of this recession.

What percentage of leadership's time in your company is being spent on execution and cost management versus developing the growth strategies for the future?

Looking Forward: Not a Mirror of the Past

There are many indications that growth, when it returns, will not be symmetric with the recent contraction. Companies may not just return to their pre-recession product and service portfolio mix. This asymmetric expansion will occur for several reasons.

Many companies will have a new cost or expense equation from which to compete in the market because of the belt tightening; this could constrain automatic resumption of pre-recession positions. But, more importantly, fundamental shifts in the marketplace will require that the growth occurs in new areas.

There are forces at play that have the potential to change dramatically what markets will look like and how businesses will sell to and service customers. Consider, for example, the 40-50% reduction in retirement savings and likely longer careers of would-be retirees, a consumer attitude of need versus want and the expanded definition of discretionary spending, and an overall lack of confidence in the financial system.

Who will step into the space to rebuild the capital markets in the absence of investment banking as we knew it? Which companies will be able to redefine themselves as IBM (for different reasons) did? Services that barely existed in the early '80s (reengineering services, 10-year contracts to run data centers) were its business drivers in the late '90s. What will emerge from Oracle's purchase of Sun Microsystems?

Companies aiming for growth in this new marketplace will likely spawn a new wave of innovation. Less agile businesses may struggle to keep up. If this notion holds true, what must senior leaders be doing now to prepare their business both from a growth strategy and a talent capability point of view?

Wider Field of Vision

The collapse of such apparently solid financial services firms as Lehman Brothers, Merrill Lynch and AIG plus the rapid decline in the economy have caused some leaders to ask:

- What are the longer-term implications of this recession for our business and industry?

- What fundamental assumptions about the market demand for our products and services may change?
- What new growth opportunities will occur when the economic growth returns?
- How are we going to bring a meaningful return to our shareholders and investors in the future?
- Do we have the organizational capabilities required, within the organization and on the senior leadership team, to navigate the necessary changes to our business model and product/services mix?

The most successful leadership teams will be those that diligently attend to the contraction of businesses while also anticipating the asymmetric expansion. Some will challenge themselves to wrestle with the above questions, will give themselves time to assess the fundamental theory of their business (Theory of the Business, Nov 2008, <http://www.theclariongroup.com/insights.html>) and will think in terms of new possibilities and scenarios; these will not only survive, but will see through the uncertainty in the marketplace and become the winners when the economy turns.

Said another way, it is more important now than ever before for senior leadership to engineer the discussions that help ignite new possibilities for their organizations.

Gazing into the Future

To return to the urban architect metaphor, neighborhoods are changing and old roads are being less used, while new pathways are being developed. If business leaders are not thoughtfully discussing these changing dynamics often and from a place of scenarios and possibilities, many of today's familiar corporations and brands will go the way of the declining urban centers of the 1960s and '70s.

Those who merely manage expense and believe the historic franchise will reemerge, as has happened in previous recessions, run the terrible risk of watching opportunities move to the suburbs and other growth cities. Those who manage expense and aggressively reassess the fundamentals of their businesses while developing transformative strategies for the future are better positioned to not only survive the near-term economic challenges but also thrive when the economy begins to grow again.

It's the senior leadership team's unique responsibility to test and, when necessary, release old market assumptions, develop new growth strategies, align talent and organization structures and put their companies on a path of renewal. For those caught in the emotional tailspin of the contraction and cost containment, the call to rebalance their focus is clear.

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