CREATING CONFIDENCE IN CRISIS –

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n the face of the greatest economic crisis since the great depression of the 1930s, organizations and their leaders worldwide are reeling as they seek to set direction, gain traction, and find confidence. As economist David M Smick points out in his recent book, The World is Curved, “The survival of the world financial system, including our ability to protect the savings and livelihoods of average families, depends on an elaborate game of confidence.” We assert that amidst personal tragedy and economic upheaval, organizations that emanate confidence will not only survive, but can actually be strengthened by the current crisis.
The confidence projected by the CEO is essential, but not enough. In times of uncertainty, senior executives must ensure that the company’s people practices, line leadership, and strategic direction create confidence for investors, customers, employees, and communities. In this paper, we draw on insights shared from senior executives in RBL Institute member companies to outline four steps management teams can take to create confidence amidst crisis.

Step 1: Codify the new business reality.
Step 2: Outline the challenges the new environment creates and identify the paradoxes.
Step 3: Unearth the opportunities created by the crisis.
Step 4: Take action: reshape HR practices, reinforce leadership behaviors, and rethink strategy.
While there is no silver bullet for success, by taking these four steps, business leaders will begin a dialogue, make decisions, and take actions that help to propel their organizations to emerge through the economic crisis ahead of competition.

Step 1: Codify the new business reality.

On its face, this first step appears to be as simple as watching the evening news. We are all acutely aware of the volatile investor behavior, disappearing customers and colleagues, missed earnings, low morale, and the impact of painful cost cutting measures. However, do we truly understand the new business reality we are living in? How is our market different today than it was a year ago? What are the new rules of competition? What are changing expectations of customers? How do the financial markets affect our business? What impact will increased government participation have on our business model? Codifying the new business reality is essential and shouldn't be taken for granted. The definition of "codify" is "to sort something into an organized system." With a cross-functional team, gather data from industry experts, talk to outside stakeholders (customers, investors and community leaders), and candidly present business realties to employees inside the company. Avoid basing your future decisions on fears and foggy anecdotes; lift the fog with data and researched information to paint a clear picture of the new business reality in light of the crisis.

Step 2: Outline the challenges the new environment creates and identify the paradoxes.

With a clear view of the business realities, outline the challenges your business will have as you move forward. Don't simply scan the horizon. Rather, deliberately analyze your codified business reality through the lens of your original strategy. Is your path still clear? Systematically identify the challenges associated with each new challenge.

A common conundrum managers face during times of crisis is the challenge of managing paradox. For example, on one hand, the business must dramatically cut costs, but on the other hand, you must also focus on creating long-term sustainable growth. These seemingly contradictory strategic options leave some managers resigned to the assumption that they must make an "either / or" decision. "Either I eliminate training costs now and right the ship, or I attempt to hold on to my training department and face the consequence of missing my numbers this quarter." Either/or behavior will lead to under or over-reacting and not position you for the future.

The key is to think "and/also" instead of "either/or". Solutions must provide for immediate needs today AND/ALSO avoid causing negative long-term consequences. The economic crisis gives leaders a license to prune and focus to reduce risks and/also to continue to invest in the future. For example, Kellogg's is scaling back

some training programs AND investing in developing coaching capability in line managers that will help provide fill the training gap. This approach meets both short-term cost-cutting needs and long-term talent development needs. Ultimately, it generates both investor and employee confidence. In addition to short term and long term, other paradoxes requiring attention in this economic crisis include:
• Balancing cost cutting and investing in growth
• Tailoring for local conditions and leveraging global capabilities
• Engaging employees and reducing employee costs
To successfully find opportunities and create confidence in difficult times, you should be honest and business realities, openly debate the paradoxes they create, and make aggressive decisions to respond.

Step 3: Unearth the opportunities created by the crisis.

Keith Lawrence of P&G quipped, “A good crisis is a terrible thing to waste!” While many are wringing their hands and making frantic decisions, the world’s best companies are looking for opportunities amidst the fray. The difficult economic times are not any easier for P&G, but their leadership team is forcing itself to focus on sustained growth by emphasizing five articulated fundamentals of sustained growth:
• Truly be in touch with all stakeholders (investors, customers, community, employees)
• Play to strengths and the company’s core values
• Leverage the crisis as an opportunity to think and act differently
• Ensure decisions are consistent with core values and business strategy Continue to invest in our leaders and ourselves
Opportunities exist in tough economic times if approached with the right mindset. For example, Campbell’s is taking advantage of the downturn to acquire exceptional talent that wouldn’t have been on the job market just six months ago but who are now interested in finding a secure position. Through a targeted recruiting effort, Campbell’s is acquiring key technical and managerial talent that will help the company sustain its competitive advantage for years to come without incurring a large expense. Along the same lines, Kellogg’s is finding that high potentials previously reluctant to accept global assignments are now more willing to accept them. They are using the opportunities presented by the current job market to develop key talent who will lead the company long after the downturn has passed. Opportunities associated with recruiting or developing talent are only the tip of the

iceberg. A risk of economic downturn and crisis is that everything tends to hang in a state of uncertainty and change. On the flip side, if approached correctly, a benefit of economic downturn and crisis is that uncertainty may give license to make change happen. What better time to rethink and reshape stodgy bureaucracies, renegotiate old contracts, renew targeted customer's confidence and reinvent struggling business models? Truly, a good crisis is a terrible thing to waste.

Step 4: Take Action.

(i) Reshape people & organization practices
Practice #1: Upgrade Talent. A critical predictor of stakeholder confidence is the appropriate and careful investment in talent. Over the years, we have found six investments that may be made to upgrade talent. These practices are particularly interesting when approached through the mindset described in Step 3.
Buy: Tighten up recruiting processes and approvals, but don't completely turn off all recruiting. In the last crisis, some companies implemented a hiring freeze and said that it took years to overcome this short-term focused practice. The crisis can be the best time (and in some cases the only time) to source and secure specialized talent into the organization.
Build: Help people grow through coaching, targeted and resulted based training, and on-the-job or life experiences. Use the crisis to assess and focus your training investments, but don't stop them. You may discover innovative on-the-job, coaching, and focused training opportunities that exist.
Borrow: Bring knowledge into the organization through advisors or partners. Given the unprecedented challenges leaders are facing, GE is making a selective effort to provide external coaches for senior leaders. This may be the best time to bring in advisors and disseminate their expertise throughout the organization. It may also be time to consider outsourcing to save money.
Bound: Promote the right people into key jobs. Adding additional responsibility when several other variables are shifting can be a recipe for disaster. Be clear about which positions truly contribute to the strategic success of the organization and fill them with extra care.
Bounce: If you do have to execute a reduction in force, do it swiftly, boldly, and with clear communication. Don't cut the dog's tail off an inch at a time! On the opposite end of the paradox, avoid frantic knee-jerk moves. There is a myriad of material on effective downsizing; read and follow it.
Bind: Retaining top talent is always essential. In a downturn, retaining and engaging

the most valuable talent in the most critical positions can be the difference between declaring bankruptcy and hitting the numbers for the quarter. Talk to key people, let them know they are valued for the long term, invite them to help shape your future strategy, involve them in solving problems, help them see the impact of their work, and ask them to share with others how your organization is responding. You can engage them in your company’s response to the crisis even if you cannot pay higher salaries.

Practice #2: Manage Performance. Across the board, companies are reducing merit pay, freezing salaries, eliminating retention bonuses, reevaluating benefits, and tightening management control. A natural result of such action is a drop in employee morale. Therefore, it is essential to maintain transparency, credibility, and employee confidence by keeping promises made in relation to performance management and related consequences (both good and bad).
One potential problem in a bad economy is that disengaged employees “quit and stay.” In other words, employees who despise their jobs and feel that their workloads are unfair and unmanageable would leave if they had a place to go, but since there is no better solution, they stay and only do the bare minimum to get by. There is no magic formula to address this problem, but there are two solid solutions. The first is a focused effort on good leadership and rigorous performance management. Leaders know their people and what they are motivated by. In times of crisis, best practices around engagement are especially critical. The manager who has five direct reports will ultimately be the determining factor in keeping those five people motivated and creating clear expectations about performance with a clear performance management system (more on leadership below). The second solution to the “quit and stay” syndrome is implementing practices such as the GE Workout to help engage people and identify what work can be eliminated so that workloads remain manageable. Workout was conceived after GE had gone through a series of reductions and workloads felt insurmountable. A critical piece of performance management, is managing the priorities and workloads of those being evaluated.

Practice #3: Consistent, Clear, Constant Communication. As we discuss in Leadership Brand (Ulrich and Smallwood, 2007, pg 164-173) a critical element of creating confidence is ensuring world-class communication to all stakeholders. When leaders candidly talk about business realities and how they are thinking and responding to them, employees may replace confidence with hope. Confidence-building communication starts at the top, as exemplified by GE’s CEO Jeff Immelt. Immelt and his team are in the process of outlining four key priorities for the company during the downturn:

• Keep the company safe by managing risks
• Operate with excellence and accountability,
• Build the future
• Lead, motivate, communicate.

At GBMC, senior leaders have agreed to spend at least 2 hours every week in personal, informal communication with employees. They are prepped with key messages, and share honest, yet optimistic confidence in the direction of the organization and the future.

In addition to communication from the top, RBS, GE, and others are investing in internet, video, and other electronic communication tools to ensure personal interaction without incurring travel expense. From town hall meetings to web-chats to podcasting, consistent, clear and constant communication is essential for creating confidence.

Practice #4: Organizational Structure. In some industries, such as the current investment banking sector, crisis (and government) mandates a change in organizational structure. Other industries, such as the auto industry, are so badly hurt by the economic crisis that survival will only happen with deep and significant change in organizational structure. These firms must look for new ways of working and restructure quickly to meet regulatory or market demands. Meanwhile, as described in Step 3 above, all organizations should look for opportunities to consider using the crisis as an opportunity to rethink organizational structure. For example, Campbell’s and the Church of Jesus Christ of Latter-day Saints – while not facing the same, the financial hemorrhages the banking and auto industry are combating – are leveraging the current crisis to implement organizational redesign ideas they’ve been discussing for a number of years.

Practice #5: Risk Assessment. Finally, when implementing all four practices listed above, leaders will avoid losing stakeholder confidence when they ensure rigorous risk assessment and abatement. During times of difficulty, regulators will be extra wary and less lenient, the media will jump on any perceived misstep, and investors will sell when they hear the smallest portent of stormy weather. Leaders should assemble “risk abatement” teams, who are specifically tasked with ensuring the company pays extra attention to any potential problem. Practices 1-4 are opportunities to generate stakeholder confidence. Practice 5 is designed to retain stakeholder confidence.

(ii) Reinforce correct leadership behaviors.
While prominent CEOs may make headlines as they are interrogated in government hearings or during press conferences, all leaders are under scrutiny and attack during times of crisis. Wrapped in fear of the unknown, employees, customers, suppliers, investors, and even neighbors and family members dissect leaders’ every word, question every motive, and often accuse and blame leaders for failure, regardless of where the blame belongs. As leaders face an environment of heightened accusation, heightened defensiveness, and real collapse of business endeavors and personal savings, it can become easy to either hide or over-react. This type of behavior obviously deteriorates confidence, which in turn, accelerates a vicious cycle of doom and gloom.
To create confidence and eschew reckless behavior, companies should reinforce correct leadership behaviors – especially during times of crisis. In a recent article we outlined five key principles of leadership which endure through both good and bad times (For details on the points listed below read: Leadership Development – Principles that Deliver Results, Ulrich & Smallwood, RBL Institute Press, Dec 2008):

1. Focus leadership development on results Invest in leadership systems, not just individual leaders
2. Identify unique leadership differentiating competencies
3. Make the training experience business related
4. Measure what matters

A number of RBL Institute companies are finding stability as they focus on reinforcing correct leadership behaviors. Despite difficult cut-backs in a number of areas, Kellogg’s is leveraging it’s Leadership Academy to deliver cost-effective, but impactful material to help leaders remember top priorities and learn essential skills for managing in a downturn. RBS continues to survey over 170,000 associates to provide leaders with real-time data on perception of performance, successes, and areas for improvement. With data in hand, the RBS leadership development team has prepared “in-the-moment” material and support for managers who don’t have time for long-term training, but are still in desperate need of support at a moment’s notice. And GE continues to fill its leadership courses at its Crotonville leadership development facility and persists in managing its rigorous performance management process.

At a more personal level, leaders under business crisis face enormous personal demands. HR leaders may have an opportunity to help leaders manage stress. Dialoguing with leaders about how they are doing at a personal level may open a dialogue that helps the leaders have the personal resources to cope with the high demands.

Leadership is the most likely channel for creating confidence. It is also the most common confidence vacuum. During difficult times, the best companies focus on ensuring correct leadership behaviors are delivered.

(iii) Rethink strategy.

A final action item for confidence-creating leaders in times of crisis is to make space for blue sky, even when it feels like the sky is falling. If there is an “ideal time” for prudent leaders to rethink corporate strategy, it is amidst the tumult of a crisis. For example, with pressures from government, investors, unions, employees, and strong foreign competition, leaders in the auto industry might use the current crisis as a way to discover a new way of doing business. Rethinking strategy might include redefining the business model, shedding some products or services, simplifying work processes, consolidating manufacturing, targeting R&D investments, targeting valued customers, or consolidating industry excess capacity.

Nokia is a good example of a company that has been able to dramatically transform itself in the face of difficult circumstances. In 1865 Nokia was a wood-pulp mill using then-innovative hydropower technology in southwestern Finland. In the beginning of the 20th century, the company began to explore rubber manufacture and through the economic depression in the 1930s the company morphed into a full-blown rubber company, producing boots and tires. In the meantime, Nokia’s owners began to invest in cable and electronics as they saw a connection between their power generation capability and the future of cable and electricity. By 1967 the company began to manufacture military mobile radio technology, and during the downturn of the early 1980s Nokia released its first car-phone. During the recession of 1991 Nokia released the worlds first GSM mobile phone and quickly became the world’s largest manufacturer of mobile phones. By 2007, Nokia had produced over one billion of the world's three billion cell phones. However, in May of 2008, just as the world started to feel the effects of another global recession, Nokia announced that it intended to transform itself into an Internet business rather than a telephone company and by November of 2008, Nokia ceased mobile phone distribution in Japan. While many of its competitors scramble to stay afloat during crisis, history suggests that Nokia will find success as it continues to transform and innovate. Rethink strategy. Rethink your business. Leverage economic change outside of your control as a catalyst for change and innovation within your realm of influence.

Conclusion

Don't let a good crisis go to waste! Codify the new business reality. Outline the challenges and paradoxes of the new environment. Unearth the opportunities created by the crisis. And take action by reshaping people and organization practices, reinforcing leadership behaviors, and rethinking strategy. We began by quoting David Smick's assessment of the importance of confidence in the survival of our current market system. We close by encouraging all leaders to stop, simplify, and look for opportunities amidst the melee. Rather than getting overwhelmed and overreacting, leaders can create confidence during crisis, and they and their organizations will be the better for it.

(Endnotes)
1 We are grateful for input from discussions with: Fiona Whittaker, Royal Bank of Scotland (RBS), Keith Lawrence, Procter & Gamble (P&G) Kathleen Wilson-Thompson, Kellogg's Paul Fama, General Electric (GE) Mark Thomas, Greater Baltimore Medical Center, Ralph Christensen, Church of Jesus Christ of Latter-day Saints, Lorraine Murphy, Campbell's.