Unconventional Wisdom in a Downturn

by Robert S. Kaplan, David P. Norton, Stewart D. Friedman, BV Krishnamurthy, Tamara J. Erickson, Jeffrey M. Stibel, and Peter Delgrosso

"What best practice challenges the conventional wisdom about what to do in a downturn?" *We put that question to our team of management bloggers at harvardbusiness.org. Following is an edited selection of their provocative responses.*

Protect Strategic Expenditures

by Robert S. Kaplan and David P. Norton

Many executives react instinctively during economic slowdowns by cutting discretionary spending across the organization. But such an indiscriminate slash-and-burn response is a big mistake because it fails to distinguish between short-term operational and long-term strategic programs. Unless the downturn threatens a company's existence, executives should focus on rooting out operational slack and inefficiency, not on modifying or sacrificing strategic initiatives, which build capabilities for long-term competitive advantage.

To help companies preserve and strengthen their strategic programs, we developed a new expenditure category, *strategic expenditures* (or StratEx), to supplement the traditional capital and operational expenditure categories. We have found that unless StratEx are segregated from the other categories and protected, managers will view them as discretionary. Faced with short-term economic hardship, managers often defer or transfer funds from their strategic initiatives to achieve near-term financial targets—a principal reason why most organizations have so much trouble sustaining their strategy execution processes.

Two companies we have worked with have effectively cordoned off StratEx. Nordea, a leading bank of northern Europe, created a separate process for planning and funding its strategic initiatives. After the annual meeting that updates the company's strategy, strategy map, and balanced scorecard, the executive team identifies the strategic initiatives required to achieve the performance targets on its scorecard. It then assigns one of its members to sponsor each project and funds those initiatives under a separate budgetary authority. The initiatives' sponsors follow up with monthly progress reports to executive committees.

Ricoh, a manufacturer of office automation equipment, creates a strategic investment fund for projects not included in its normal operational and capital budget. Working from the company's three-year strategic plan, business and functional units prepare and submit detailed proposals for funding the initiatives identified in their own respective plans. A team comprising the CEO and members of the strategy and planning office analyzes each proposal in depth and allocates capital from the strategic investment fund to the projects they deem most important. The CEO and strategy and planning office meet quarterly to monitor the progress of the projects.

During a downturn, companies attempt to eliminate the slack and inefficiencies accumulated during the recent growth period. But their attempts to cut fat and waste often slice into newly growing muscle, bone, and tendon. Creating a StratEx funding category helps companies continue to build capabilities for the future while eliminating the excesses of the past.

Dial Down the Stress Level

by Stewart D. Friedman

The knee-jerk response in an economic downturn is to wring greater productivity out of your workforce by making employees work harder. But this can hurt more than help, by fueling resentment and burnout. A smarter approach: Be open with employees about the business problems you face, and invite them to be part of the solution while encouraging them to meet critical needs in other parts of their lives. Do this right and you'll reduce stress, decrease wasted time, boost trust, build resilience, and improve productivity.

Contrast three approaches you might take as the manager of a solid performer when times are tough:

- "Hey, Sarah, we're having a bad year, so if you want any kind of bonus at all, you're going to have to suck it up and work harder than ever before. Sorry, I know it's tough, but that's just the reality."
- "Hey, Sarah, I know that there's a lot of pressure on you now, on all of us, really, and I want to make sure you're getting it all done. Let me know how I can help."
- "Hey, Sarah, I know that there's a lot of pressure on you now, on all of us, really, and I want to make sure you're taking care of all the things that are important to you—not only at work but in other areas of your life, too—so that you don't burn out. What small changes could you try here that would make things easier, so you'd have more energy to focus on performing well for our business? We desperately need your best efforts!"

The first option helps Sarah face the harsh reality and ties economic incentives to her performance. But you've not dealt with whatever other stressors Sarah is facing or explored what's really driving her. That means the burnout risk is high, and the energy she might bring from her most powerful sources of motivation remains unused. The second option shows your empathy and desire to be supportive, but it's so passive and vague that she probably won't even be convinced that you're serious about providing real support—much less be inclined to change her actions.

The third option has the greatest chance of producing the results you want because, my research shows, the more attention you pay to employees' lives beyond work, the more you'll get out of them at work—especially during times of great stress. If you acknowledge the pressure Sarah is under and show that you think about her as a whole person, you will most likely be rewarded with loyalty and extraordinary effort.

Of course, although you are sending the message that you value her ideas and are willing to try them, you are not telling Sarah she can do whatever she wants. Her experiments should be made up of little changes, like shifting her schedule to avoid rush hour, which she might try for a month or so, and they must benefit your business as well as her life beyond work.

Smart experiments are designed to produce what I call *four-way wins*. They're intended to benefit work, home, community, and self (mind, body, and spirit) all at once. (For details, see my book *Total Leadership: Be a Better Leader, Have a Richer Life*.) When people undertake those experiments, they shift some of the attention they have disproportionately allotted to work and dedicate it to the other domains. The result is surprising: Satisfaction and performance in *all* domains, including work, goes up.

Use Downtime to Enhance Skills

by BV Krishnamurthy

In even the best of times, organizations often pay lip service to professional development. Excellent frontline workers might receive better titles or become project managers without actually having learned how to deliver a group's work on time, assure quality, and stay within budget. Even experienced managers may be so preoccupied with quarterly, monthly, weekly, and daily reports that they have no chance to learn something new—or to unlearn what's become obsolete. A downturn presents the perfect downtime to enhance the skills your people really need to excel.

"Are you kidding?" you might ask. "When times are tough, professional development is a luxury." Not so. Often that's precisely when there is enough breathing room in the daily work flow to give your people the chance to better themselves. Employees at all levels can be sent for training to improve their team-building, collaboration, process ownership, and other skills—which pays off when economic normalcy returns.

For example, in response to the economic downturn of 2000–2002, Alliance Business Academy started conducting annual team-building exercises at a top Indian software company. Working with two of the company's 200 teams a year, ABA focused the training on endeavors such as completing joint tasks, clarifying group values, and improving team processes. Since the program started, trained teams have been 50% more productive, on average, than untrained teams, according to aggregated measures of quality, time, and cost. This year, the company is putting five teams through the program. ABA has replicated the results at a major aerospace company and a large European engineering conglomerate.

Such professional development pays off most with employees whose team skills are poor but whose impressive individual performance precludes letting them go. A joint research project between ABA and two European business schools has borne that out. In a study of 36 companies in the manufacturing, financial services, and transport sectors in five countries, star performers with poor team skills became change agents within their firms after going through two cycles of team-building exercises lasting 10 days each. Teach solo high performers how to collaborate better, focus on the big picture, and consider the organizational implications of their work, and you'll reap sizable rewards.

Of course, casting a downturn as an opportunity to fine-tune skills is not easy. Various stakeholders' anxieties about the short term need to be assuaged and framed in a long-term context. That includes the people whose skills are being improved. They need to have a broad enough view of how their professional development fits into organizational goals to be sufficiently motivated to make the downtime investment pay off. And they must be confident that the organization's culture will tolerate honest mistakes as they progress and grow.

Those caveats notwithstanding, actively seizing a downturn as an opportunity can reduce the pain of the current one and can soften the blow of the next. Those are luxuries you can't afford *not* to indulge in.

“Give *Me* the Ball!” Is the Wrong Call

by Tamara J. Erickson

Almost all executives I know feel the weight of obligation deep in their bones. They feel a duty to the owners of the business and to customers, of course, but perhaps an even greater one to the employees and families who depend on the company for their livelihoods.

So it’s no surprise that, in troubled times, many leaders believe it’s their job not only to call the shots but also to personally execute the key plays. That’s the nature of leaders. Faced with a crisis, executives often shout, “Give *me* the ball!” Executive instinct drives greater control—they review costs, tighten approval criteria, redirect key decisions to higher levels, ensure everyone is as busy as possible, narrow the business scope, and so on. Small teams of executives attend secret retreats to review options even as meetings that would bring all the troops together are canceled. As a result, authority becomes centralized.

What leaders frequently forget in the heat of crisis is that the wisdom of crowds applies within their own companies. Instead of hogging the ball during a downturn, they ought to tap the ideas and the energy of the entire organization. When times are tough, leaders should:

Ask great questions. Challenge the organization to respond by setting intriguing and complex goals. Don’t narrow the focus of your questions to the mundane or overspecify how teams should approach challenges. Articulate a compelling mission that will get people to rally.

Build trust across the organization. Don’t cut out meetings, intensify internal competition, or reduce investments in learning. Increase your firm’s collaborative capacity by building relationships and encouraging the exchange of knowledge (see “Eight Ways to Build Collaborative Teams,” HBR November 2007).

Challenge the status quo. Ensure that your team is regularly exposed to diverse points of view and experiences. Don’t cut travel or fall back on tried-and-true players. Bring in new voices and new ideas—and take them seriously. Get outside your business sphere. Encourage brainstorming and scenario analysis. Don’t abandon training and experimentation. Invest in your people.

Jorma Ollila followed these principles during his tenure as CEO of Nokia. Consistent with the company’s deep traditions of teamwork and global collaboration, he encouraged newly hired leaders to travel to form personal relationships with the diverse array of individuals around the world who would affect their performance. And he never sacrificed his goal of achieving a wireless information society.

Leaders can strive toward ambitious goals during tough periods at their firms and still manage to share obligations broadly. Downturns are no time to tighten control. They’re opportunities to inspire your people to become more spontaneous and innovative. Pass the ball.

Discounts Can Be Dangerous

by Jeffrey M. Stibel and Peter Delgrosso

During tough economic times, companies often rush to reduce prices on their products and services. That seems like common sense: People can't afford to spend as much, so charge less to keep them buying. But discounting has its perils.

To be sure, discounting is effective when done wisely and strategically. It can get consumers excited about a product, encourage them to buy more, and help your short-term bottom line. However, whether the purchase is a hot dog, a handbag, or a stay at a five-star hotel, customers want good value for their hard-earned money. The price of something is often an important determinant of its perceived value, as Dan Ariely points out in *Predictably Irrational*. Often, the more consumers pay, the more value they ascribe to a purchase. If you discount prices purely to boost sales, buyers may begin to question that value.

Consider Abercrombie & Fitch, which lowered prices by roughly 15% during the 2000–2002 downturn. When the dust cleared, the company realized that it had sacrificed much of its brand's cachet and lost significant market share. A&F didn't recover until 2004—and then only after returning to higher prices. In August 2008, having learned its lesson, the company announced that it was considering another price increase, despite a decline in second-quarter profits. The goal: to enhance what the CEO called the "iconic status" of the brand.

But discounting is so easy that some companies simply can't resist. Starbucks, which posted its first-ever earnings loss in July, has begun to offer lower-priced options, such as a cup of coffee for $1, with free refills. This strategy may boost sales in the short term, but we suspect that, as with A&F, it will hurt the Starbucks brand in the long term.

Discounting is not always a bad idea, though—there are safe ways to lower prices. Earlier this year, Chrysler discounted something that does not affect its core brand: gasoline. It guaranteed to purchasers of new cars a price of no more than $2.99 per gallon of gas for three years. The idea was to subsidize the fuel that a new car uses, not the car itself. It's similar to what GM did in 2001 by discounting its financing rather than its cars. Obviously, the auto industry has more problems than brand deterioration. Nonetheless, this is smart marketing during a downturn: It couples the appeal of a discount with an implicit message about the value of the core product.

So if you're eyeing a simple, traditional discount strategy during the present slowdown, first consider the potential for damage to your brand and then evaluate the brand insurance that a more nuanced approach may offer. If you inadvertently shatter your brand's mystique, reestablishing the value proposition to consumers may be tougher than you expect.