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Smart Management Through the Downturn

Not since 1990 have we seen a downturn in the economy as we have for the past five months. Most indicators point to only a mild improvement through the middle of this year. While the downturn—okay, recession—was tough in the early 1990s, you have to go back to the early 1980s to see one that had the global scale as the one we're experiencing now.

Even before the Sept. 11 disaster, we saw the warning signs.

- Sales were steadily declining.
- Prices were plummeting.
- Consumers (business and individuals) said they couldn't afford products or services.
- Buyers were more cautious and were searching for better values.
- Reports of layoffs, increased bankruptcies, wholesale corporate reorganization filled the business pages and business press.

Unique Challenge

Firms in the water processing and management industry face a unique challenge. Management must walk the tightrope of maintaining a positive balance sheet while developing new solutions and protection schemes for dangers that may possibly arise. There is heavy demand from the government and public to protect and insure the quality of our water supplies. At the same time the rush of funding has been remarkably lacking.

CEOs have been given the unique opportunity to grow their firms rapidly and garner marketshare by introducing new, revolutionary products and services. With the creative support of designers, engineers and individuals who are willing and able to think outside the box, firms in the industry can offer services and capabilities that were thought to be impractical even early last year.

Growth and marketshare will be captured not by companies most willing to make large, long-term investments in research and development, but by companies guided by CEOs who solicit and encourage open information exchange internally. CEOs who sit in corner offices and dictate decisions without input from the people in the trenches will continue along the old, tried and proven paths.

This is the time for the adventurous water processing and management industry CEO to expand his business in new and different ways by focusing on his major asset—people.

Marginal Growth

The U.S. economy grew slightly more than a paltry one percent during the past two quarters. While market sectors may be off it isn't true of every company.

- Compaq sales have been bleeding red ink for two straight quarters while Dell steadily meets its numbers.
- HP that has had visions of becoming a service leader has watched sales tank for three quarters while IBM has worked aggressively and maintained its momentum.

As the dark clouds hung overhead and the drops of recession began to fall, some observers predicted that businesses had learned from the 1990s and wouldn't resort to huge layoffs, which resulted in the loss of thousands of experienced employees damaging the firms and impeding their recoveries.

Are firms doomed to make the same mistakes … again? Many will. Some won't.

When everything is going right it takes a real fool to fail. Or as the unknown author stated "In a hurricane, even a turkey can fly."

Short-Timers

Many of our chief executives have been in their chairs only for a few years. They've experienced the good times. Look around at different companies. Most of the CEOs have been in their corner offices for fewer than four years. They replaced seasoned professionals who the board of directors felt "weren't making it happen fast enough" or "weren't achieving the growth we expect."

In these boom years, many CEOs crowed about their successes as compared to their predecessors. They were quick to take credit and became disassociated from their company and its culture. They demanded and received extraordinary pay increases compared to the people who actually produced the success.

Fortunately, few CEOs in the public and private water protection and management industry have achieved that disconnect. Firms that have lost this touch will have problems because in recent years managers didn't really have to know much about what they were managing. Their focus was that they could leverage their company in the short-term to enhance their salary compared to their competitor's CEO's salary.

Don't believe that's true? Just look at the national turnover rate for CEOs. The average chief executive can expect to stay in the job for slightly more than four years. That's not enough time to learn about the organization, its strengths/weaknesses and determine how it will earn future profits.

In recent months where uncertainty was the rule rather than the exception, we've seen boards of directors and shareholders act predictably by replacing senior management with someone who has vision, who leads from the front and who acts on gut instinct. These individuals tend not to draw from experience or listen to/work closely with their staff.

"In a hurricane, even a turkey can fly."
-Author Unknown

The organizations that rebound the most rapidly are those with managers who bounce ideas off each other and capture/use the best of these ideas.

Downturn Novices

According to a recent study by the Center for Effective Organizations at the University of Southern California (USC), the problem is that fewer than 40 percent of today's senior executives have no experience in leading firms through a downturn. They react to the situation by slashing costs. They reduce headcount through a fancy phrase called redundancies, they cut travel budgets and slash marketing activities. At the same time they eliminate bonuses, reduce IT investment and cut back on training.

In the USC survey, only 30 percent of the CEOs viewed the downturn as an opportunity to win market share or gain advantages over their weaker competitors.

Certainly firms must cut costs when they are under profit constraints. But reducing customer service and training are false economies.

Companies that recover most rapidly lean heavily on their core strengths and focused strategy to ride out the recession and even gain ground. Too many CEOs focus on operational effectiveness and proudly proclaim that is their strategy. Items such as better inventory management, zero defects and business process reengineering do reduce losses or increase profits, but they also can be easily copied.

Winning CEOs, especially in this industry, must seek out those sustainable advantages that others only can copy with great difficulty. For example, Southwest Airlines certainly established an entirely new type of business. No frills, food or service, no interconnecting flights but very low fares set a pattern that has been nearly impossible for conventional airlines to copy. The company has sustained iteslf even through this downturn by having a close-knit, highly involved workforce. Everyone in the organization shares the pain equally without workforce redundancies or layoffs.

Pick a New Space

Until just this past year Southwest had only one president who was more of a cheerleader, windmill tipper and coordinator than corner office CEO. Having tapped his former assistant to step into his shoes there is no animosity when tough decisions are passed down because employees know that the actions have been taken for the good of the team and the good of the airline.

In recessions, the best CEOs and the best companies focus on their best customers. We all know that 20 percent of your customer base produces 80 percent of your profits. Why dilute that profit by broadening your customer base or focusing on taking customers from your competitor? Let them waste money trying to win 20 to 40 percent of your customer base that actually cost you money. Instead, invest and enhance customer service to that 20 percent. Determine how to do more for and with them. It costs almost nothing to expand that relationship whereas it will cost dearly to replace that business.

When you are struggling to simply keep the company going, none of this is easy. Fortunately, few CEOs in the water processing and management industry have only a year or two left before they make the jump to the next company and bigger pay package. So, this short-term recession is the best time to focus the company on its core strengths, values and goals.

The best firms in the industry have been battered and bruised by downturns before and those that look inward for ideas and assistance usually weather the storm better than those that are headed by someone who slashes and burns at the first sign of adversity. For these CEOs it's not a matter of if they will survive this recession but rather how much stronger will they be in the fourth quarter of next year when a healthy economy returns. WQP

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