



White Paper



Leadership consultant and Smeal College of Business professor Albert Vicere outlines five key perspectives that leaders should adopt to turn an economic crisis into a force for positive change. Weaving together reactions and insights collected through interviews with CEOs and business thought leaders, Vicere drives home the adage that we create the future we desire, and with an action-oriented, optimistic spirit, it is well within any leader's reach.

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Surviving the Terrible Two(thousand)s: A Participant's Guide

Dr. Albert A. Vicere

Executive Education Professor of Strategic Leadership

Smeal College of Business

The Pennsylvania State University

President

Vicere Associates, Inc.

It's scary at the moment. Most of us never foresaw the depth and the breadth of this economic trough. The reality of the problem is underestimated. There's not likely to be a meaningful recovery until 2010. It's ultimately a failure of leadership. But it's a great time to reinvent a company.

The above paragraph is actually a collection of statements culled from a series of interviews conducted with a panel of nine business and thought leaders in order to assess how organizations were dealing with the pressures of today's economic crisis.

Six of the panelists were CEOs of small to mid-sized companies, the type of companies that tend to emerge first and fastest from an economic downturn according to recent reports from The Bureau of Labor Statistics and Forrester, among others. One was CEO of a well-established NGO. One was the dean of a major business school. The final panelist was a professor who has interviewed hundreds of CEOs over the past decade as part of a major research initiative.

The insights gained from a dialog with the panelists are summarized in this paper. Overall, they painted a bleak picture of the business environment in the near term and posed a number of cause and effect relationships related to the downturn, but ultimately they highlighted a potential upside to this period of economic and financial turmoil.

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THE CONTEXT

The current state of the economic crisis is well known. Some pundits are calling it a “mega meltdown,” with over five million jobs lost, corporate profits down nearly 75%, and the stock market down 50% at its most recent low. Even the current market rally was seen as temporary by many of the panelists—what might be called a “reflexive response” by Merrill Lynch economist David Rosenberg, or a “dead cat bounce” by someone with less of a flair for economic linguistics.

The culprit, all agreed, was a financial system run amok, with unbridled credit controls, mounds of debt, negative savings rates, and enormous complexity. All agreed that in hindsight, it was a disaster waiting to happen, yet the intensity of the resulting implosion was far greater than most anyone could have imagined.

Joe Cavinato, Head of the Supply Chain Leadership Program at Thunderbird School of Management, has interviewed hundreds of senior executives and CEOs over the past decade. He noted that, recently, the senior executives he has met with seemed to fall into three categories. “About a third of them have a deer-in-the-headlights look about them,” noted Cavinato. “They’re stressed and seem to be unsure of what to do next. Another 40 percent are focused primarily on cost cutting and talk little about the future. But the last 20 percent seem to be seeing all of this as an opportunity.”

SENSING (and Seizing) THE CHALLENGE

Jim Thomas, Dean of the Smeal College of Business at Penn State noted that, “To get through this on a positive note you need a plan, four or five key priorities.” All seven of our CEOs seemed to concur, and each of them shared some candid observations on the business environment and what they and their companies were doing to take advantage of the economic chaos.

Bob Joyce, CEO of The Westfield Group, a leading insurance and financial services company, noted, “In tough times like these, you can’t just cut. You have to lead, keep emphasizing customer focus, investing in new processes and new technologies, developing new markets.”

Christina Gold, CEO of money-transfer and payments leader Western Union, said her company, which operates in 200 countries, sensed the downturn coming by observing shifting consumer demand for their money transfer services. “We made adjustments and cut costs where we could. But we also defined priorities for continued investment that could move us into the future.”

Sam Bieler of pretzel purveyor Auntie Anne’s, Inc. echoed the sentiment, “we started adjusting when we saw signs of a slowdown 18 months ago— things like increasing levels of unemployment

and declining foot traffic in malls, one of the key venues for our stores. We began watching costs, not filling open positions. But at the same time, we started looking for new locations, launching new products, working with our franchisees to maintain customer connection and position ourselves for the future.”

Ed Stack, CEO of retailer Dick’s Sporting Goods agreed, “We could see a shift from earnings to liquidity as the driver of our business’ performance. So we reduced inventories, were able to get deals from vendors who had excess stock, took advantage of that by passing the savings on to our customers. As a result, we’re still selectively adding locations while our competitors continue to retrench and close stores.”

Craig Damos, CEO of The Weitz Company, a Des Moines-based construction firm, framed the mindset, “We had to make tough decisions—freeze wages, cut dividends, adjust retirement contributions, all designed to build our coffers so we could save jobs. But we’ve also involved employees in generating ideas for cutting costs, and we’re training people to work on new projects in different parts of the world. We’re staying focused on the critical things that will take us into the future.”

TAKING ADVANTAGE OF THE SITUATION

“The financial crisis was caused by a failure of leadership,” noted Henry Givray, CEO of SmithBucklin, the world’s largest association management firm. “But it’s also leadership that can get us out of this mess. A great management team can make the difference in how all of this impacts your business.”

Dean Thomas acknowledged the wisdom of that philosophy, adding, “This really is a great opportunity for reorganization and refocusing, a great opportunity for recruiting and reinvention.”

Sean Rush, CEO of NGO JA Worldwide, Inc. (Junior Achievement), an organization dedicated to helping young people through free enterprise education, felt that the dramatic nature of the downturn actually provided an opportunity for leaders regardless of sector, “The sheer compression of the recession surfaced problems within organizations quickly, giving leaders time to position the organization for the updraft.”

“We’re using the situation to rebuild our leadership team, and we’re looking for different thinking and different skills,” said Western Union’s Gold. “Although we’ve cut costs in many areas, we’re maintaining our investment in leadership development and on key strategic initiatives that will drive future growth.”

Joyce added, “There are big opportunities out there on two fronts—the chance to reorganize and get the right people in the right places, but also to bring in both outstanding talent from

universities and experienced people who are looking for new opportunities and organizations.”

Rush suggested the not-for-profit sector had some special advantages in the face of the downturn, “There is a shift in values taking place. The best and brightest are looking past Wall Street. They want to make a difference, and that’s great for organizations like us.” SmithBucklin’s Givray concurred, “For Gen Y employees, service is the highest priority—making money is important but not the ultimate.”

Western Union has turned that focus into the impetus to start a foundation that supports their customers in some of the world’s most troubled economies. Noted Gold, “It’s a way of giving back and it’s important to both our customers and our employees, especially in difficult times like today.”

SO WHAT’S A LEADER TO DO?

“As the pressure has built, I have become less patient, even sarcastic on occasion,” said Joyce. “So I’ve asked my staff for real time feedback—tell me if I’m going too far.”

“For me, it’s staying on message,” said Bieler, “staying pragmatic and transparent.”

Thomas was emphatic, “Right now it’s critical for leaders to be available, accessible and engaged.” Damos talked about regular meetings with employees at all levels. Rush concurred, “You need to be enthusiastically evangelizing, selling the vision and new directions.”

All of the panelists noted that this was no time for hands-off leadership. “You need to be out there helping people to be more introspective,” said Stack, “Helping them to understand that what we’ve done in the past won’t work in the future.” Stack also noted that it’s a great time to study competitors, go after opportunities and market share, “It’s not a time to sit back and watch. There are so many opportunities out there.”

IS THERE ECONOMIC LIGHT AT THE END OF THE TUNNEL?

“It may take a while, but of course there is,” noted Givray. “Some organizations will die, some will barely survive, but some will come out even stronger.”

Cavinato noted that this is a time of transformation. “There will be big changes, big developments leading to new businesses, new industries and a new economic order. With the demise of the securities analysts and most companies being shaken to the core, my hope is that more longer-term and rational thinking people will move into leadership positions.”

When asked what could block progress, Gold called for leaders to step up to help overcome negative sentiments like xenophobia and the over-involvement of government in business. Stack echoed her sentiments, “We need to keep the spirit of entrepreneurship and motivation that has helped build this economy.”

Joyce injected a sobering thought, “There’s more to be worried about now than there is to be excited about.” At the same time, he issued a challenge, “Leaders need to keep pushing for the future. There will be some big winners out of all of this. But you have to stay focused on the opportunities.”

Thomas summarized, “This is an opportunity of a lifetime to make changes and position an organization for the future. But you need to act on it.” Givray echoed the sentiment, “It’s all about leadership,” he noted, “Finding the right people, getting them engaged, and keeping them focused on the future.”

And what’s likely to happen if leaders do take appropriate action? Stack put it succinctly and elegantly, “Companies that are prepared and stay focused can go to the moon.”

SHARED WISDOM

The dialog reinforced the magnitude of the economic crisis of the day, but it also pointed to some opportunities, some chances to make “omelets out of broken eggs,” as suggested by Naseem Nicholas Taleb in his book, *The Black Swan: The Impact of the Highly Improbable*. The panelists seemed to suggest five key perspectives for turning economic crisis and chaos into a force for positive change.

- **Look out.** A striking similarity across all of our panelists was their intense focus on developments external to their company—social, trends, economic shifts, technological developments. They tended to refer to these trends as the context for critical business decisions, not only to maintain essential financial stability in a challenging economy, but also to identify opportunities for generating future growth and competitive advantage.

Early action as a result of the recognition of external pressures that were impacting business, whether it be declining foot traffic in malls for Auntie Anne’s, liquidity pressures for Dick’s, or shifting labor markets and trends for Western Union, provided the platform for each business leader to stabilize their business under difficult circumstances, and to frame future opportunities for growth.

- **Look around.** The external context may have helped panelists to create platforms for future growth, but an awareness of competitors’ responses to that external

context also was evident. A combination of tracking competitors as demonstrated by Dick's, moving into new markets as emphasized by Weitz and Westfield, aggressively pursuing available talent as discussed by Western Union—all were deemed as necessary steps to defining opportunities for growth and development, often at the expense of less-aware competitors.

- **Look in the mirror.** A platform for growth and an awareness of the competitive environment are essential, but the ultimate ability to execute against those growth opportunities seemed to be predicated on a leader's ability to inspire, energize, and deploy their leadership teams.

Westfield's Joyce asking for personal feedback, SmithBucklin's Givray extolling the importance of leadership and culture, Junior Achievement's Rush calling for enthusiastic evangelism, Western Union's Gold discussing the establishment her company's foundation and the need to give back—all were examples of the kind of active, personal leadership deemed as critical by the panelists in times of chaos and crisis.

- **Look to your team.** To a person, panelists saw the downturn as both an opportunity to build and rebuild their leadership teams. Rather than just a time of downsizing and cost reduction, the downturn was seen as an opportunity to find the right people, get those people in the right places, and make the tough but necessary decisions that would lead to the emergence of each organization's leadership team for the future.

- **Call for action.** The final key theme that played across the dialog with all of the panelists was a call for action. Especially in difficult times, leaders must spot trends, analyze competitors, build teams, engage employees, and create energy. They also must channel that energy in a positive direction, move the organization into new markets, new businesses, and new eras.

In many ways, the late Peter Drucker may have captured the action-oriented leadership spirit of the panel when he said, "The best way to predict the future is to create it." Our panelists, to a person, seemed to see the creation of their organization's future as their top challenge. As they discussed the future, they framed new targets, new goals, and new levels of achievement for themselves, their teams, and their organizations. They discussed the future as if, with some focus and effort on the part of themselves and their team, it were well within reach.

Dr. Vicere is a long-standing and significant contributor to executive education at Smeal. He has earned a number of MBA Excellence in Teaching Awards and was a recipient of the Institute for Management Studies' Distinguished Faculty Award. Dr. Vicere has been listed among the 50 top leadership coaches and was profiled as a "next wave guru" in leadership development by *Business Horizons* magazine. His latest books are *Leadership by Design*, published by Harvard Business School Press, and *The Many Facets of Leadership*, published by FT Prentice-Hall. In addition to his faculty duties at Penn State, he consults in the design, development, and delivery of strategy, leadership, and organizational processes. Dr. Vicere teaches on several Penn State executive open and custom programs; namely, the Executive Management Program, and *Aligning Strategy, Leadership, and Culture: Keys to Competitive Advantage*. He can be reached by e-mail at a.vicere@vicere.com.