

Brief

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Leadership in the era of economic uncertainty: new rules for getting the right things done in difficult times - Ram Charan

Ram Charan practiced what he preached when he produced this book at the end of 2008 as the banks started collapsing. He did not predict the downturn by prescience, writing doom-mongering predictions for the previous year or two. He did it by responding extremely fast, writing this book in a few months through the unfolding collapse of Wall Street, the need to prop up the auto industries, the plans for massive government interventions and the first months of the recession.

He and his publishers have produced a book in a couple of months when it normally takes a couple of years. He did what he advised businesses to do immediately at that point: throw away normal strategic planning assumptions and start acting super-fast to survive the recession and emerge in a stronger state. It is well worth reading at any time – flaws and all.

Four big thoughts

The book includes a wide range of rules and recommendations that can be distilled down to four big themes for business leaders facing a 'tsunami' (as Ram Charan calls it, because of the speed and power of a major downturn):

- ***Manage by cash only:*** forget accounting devices such as profit or Total Shareholder Return. Make all your short and longer-term decisions on the basis of the impact on cash and cash-efficiency - doing everything you possibly can to strengthen your cash position. Galvanise your whole organisation around understanding and doing this. Make your decisions about products, capital investments, choice of suppliers, lay-offs and everything else on a cash-flow basis.
- ***Move to continual fast-cycle, flexible planning:*** forget annual plans and strategies, set quarterly targets, adjust them monthly, and monitor them daily or weekly. This is not an abandonment of long-term for short-term. It is more like behaving as if you had a SatNav system that allowed you to instantly take a detour whenever you needed to, without losing sight of the end destination.
- ***Get more feedback, give more feedback, faster, more directly than ever:*** as a leader, spend more time among frontline employees, customers, suppliers and the market, listening and looking for the tipping-point evidence of change. Spend more time looking at hard data (daily sales figures instead of monthly), but just as much time listening anecdotally to those with a finger on the pulse. Above all, as a leader, don't get your data second or third hand,

from colleagues possibly giving you their edited and managed versions. He also urges leaders to keep communicating directly with employees and customers, building confidence based on a credible story of tackling the challenges which everyone can see exist. (For an interesting example of failure on this issue see our *Brief on bank failure: We can all learn from the collapse of the banks: The lessons from UBS on flawed top team behaviour, poor use of data, inappropriate reward and missing co-ordination.*)

- **More cooperation, faster, across silos:** as a further driver of well-informed speed to action, ensure that the different parts of the organisation talk to each other far more seriously and frequently. The sales team to the production team, the finance people to the supply chain people, the R&D people to the marketers, and so on. If necessary, change the pay incentives of managers to reward the outcomes of such behaviour.

War story - DuPont meets recession and acts fast

In mid 2008 the CEO of DuPont noticed that just-in-time orders from car manufacturers, major customers for their paint products, started drying up almost overnight. The CEO thought about it, briefly, and immediately called the 17 standing 'corporate crisis' teams into action. Over four days a new company plan was developed. It was immediately communicated to employees (and to shareholders).

The message to employees: The communication to employees had three interesting parts.

- The first was a detailed description of the plan, including recognition of the wider context, the thinking, the goals and the new actions.
- Secondly, the message included access to advice and support for employees worried about their pensions and savings that were dependent on either DuPont shares or the stock markets in general - important recognition that employees would have several worries about the wider banking-led crisis.
- Thirdly, each employee was asked to identify three things they could do immediately that would conserve cash - including by reducing costs.

Fast feedback: Then, only a few days later, the company conducted polling across the organisation to see how well the employees understood what was going on, to determine their psychological reaction to everything (were they scared, energised, demotivated, calm?), and to see whether they were actually doing what was needed. Overall, in well under a month, the CEO had initiated action, produced a new immediate business plan, communicated it, turned it into action and gained feedback about progress.

Plan for becoming smaller but stronger

These thoughts are driven by a significant assumption by Charan - a very useful one for all leaders to consider: "The new reality is that, barring acquisitions, your company will be smaller in two years than it is today... in the end you will have fewer customers, fewer products, fewer facilities, fewer people, fewer suppliers - and a stronger company, that will emerge from the storm stronger, better, more flexible and better positioned than the competition."

He points out that whether this turns out to be true for all companies does not matter – it is the safest planning assumption.

This key proposition is played out across the short 125 pages, looking at it through the eyes of various key people: the CEO, the CFO, those running sales, operations, supply chain, HR, communication and so on - a chapter for each.

Stonecourt View: Charan's book has some predictable strengths and weaknesses. It reads very well, and has a great sense of urgency, which feels more like a good piece of real-time journalism than a book by an academic or consultant. It states some very important, big things that should be said, without worrying about nuances. On the other hand, being written in a hurry, it could do with some thoughtful editing, removal of significant repetition, and the supporting of the large amount of assertions with a few more examples or evidence.

The key themes of cash, speed, focus, flexibility, feedback and connectivity are vital ones to success. Charan is also very persuasive on the need to be visible, open, credible and frequent in communication; and on the need to spend extra time managing the effectiveness of the executive team to align and galvanise everyone.

The book does not say anything brand new, or provide new evidence, or new solutions, but most of what he says is probably right.