PRESPECTIVES

Harvard Business Review on Managing Through a Downturn (Boston: Harvard Business School Publishing, 2009), pp. 206, U.S. $ 22, (p/b), ISBN 978-1-4221-7562-0.

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What does it take to 'manage' through a downturn? Are there specific managerial techniques that can be identified over and above the range of approaches in general management? Should firms attempt to merely 'survive' during a downturn? Or, is a there a way to 'thrive' by planning for the long term? These then are some of the questions that this anthology of essays from HBR sets out to address. The contributors to this volume include faculty and writers from HBS and the editorial team of HBR. There are also representatives of firms such as Novell and strategy consultants from Bain. What all these contributors have in common is a preoccupation with relating managerial techniques, strategic approaches, communication frameworks and psychological interventions that are required to turnaround firms during downturns. The notion of a downturn can be interpreted either as a specific period of inadequate economic activity or more generally as a structural situation in which firms find that growth has 'stalled'. These moments represent, as it were, an existential crisis for the firms which must now rethink their 'theory of the business', since they have probably gone as far as they can go with their original business plan. What should firms do in such macroeconomic scenarios? Should they wait it out? Or should they proactively decide to re-do their business model? What are the situations in which they should wait it out? What are the situations in which they should rethink the business model? In either case, how can they be sure that they are doing the right thing? These then are some of the questions that arise from both a theoretical and a practical point of view. While the case studies of the firms included in this volume attempt to answer these questions, it is not necessarily the case that the insights generated thereby are easy to transfer into a theory of general management. They are probably better understood on a 'case-by-case' basis even though the range of questions that are relevant to thinking through the strategic options available in a downturn are common to almost all the essays featured here.

There are, broadly speaking, three strategic options for a firm during a downturn: stay in the same place, move upward or move downward. Which of these options turns out to be relevant depends on which firm is in contention, which sector of the economy or industry it belongs to and the severity of the downturn in question. Furthermore, firms may not have the strategic autonomy that is required to do what must be done during a downturn, since they are affected by socio-economic variables that are beyond their ability to control. What then are the competitive dynamics at play during downturns? How must firms negotiate the relationship between the internal and external aspects of how they are situated within a given socio-economic context? What are the attributes that are required to pull through these situations? Diane Coutu, a senior editor with HBR, argues that the quality that firms and its leaders need the most is 'resilience', since this is the quality that differentiates the survivors from those who give up or blame circumstances for doing so. Coutu's goal is to demarcate the frame within which resilience can be studied; she argues that three important abilities that resilient individuals have are the willingness to confront difficult situations, find a sense of meaning and purpose, and improvise when the rules are not clear. She invokes anecdotes, examples and brief caselettes from a range of sources and theories including psychoanalysis to understand how people behave in extreme situations. She concludes by invoking the anthropological notion of 'bricologe' as an approach that will help to not only formulate strategy but also lead in difficult situations. It is not only possible to manage downturns, argues Darrel Rigby of Bain, but actually move upward by understanding the three phases that must be navigated during a downturn. In order to do so, executives must learn not to panic, but focus instead on their core businesses, keep a lid on costs, hold on to their customers and resist the temptation to diversify. While Rigby's advice is sensible, it is good to close-read the actual examples that he adduces to see how much similarity there is between the firms that he studies and those to which a hypothetical reader belongs in order to avoid the sense of disorientation that comes from not knowing whose advice to take. There are, however, situations when growth stalls to a point that not only can push a firm to a crisis but make its leaders wonder whether growth can be reactivated in the future. Matthew Olson et al. therefore argue that firms must be alert to the symptoms of stalled growth which include the inability to manage innovation, lack of sufficient talent in the firm and a reckless and premature abandonment of the core business. What is required in these situations is an objective 'strategy review' from the point of view of the venture capitalist that can provide feedback on whether or not any of the initiatives generated by the firm are worth funding, and, if so, to what extent. This is an interesting piece of advice that firms should think-through, since strategy reviews are usually done by strategy consultants rather than venture capitalists.

What must firms do if, as a result of these strategy reviews, they decide to attempt a turnaround? Rosabeth Kanter of HBS, who is a leading authority on change management and leadership, argues that it is important to get a handle on the 'psychology of turnarounds'. Kanter sets out the trajectory of decline which produces a host of symptoms ranging from denial, scape-goating, turf battles, learned helplessness and passivity. It also becomes increasingly difficult - if not impossible - to do any sort of collaborative or group/team-based work in such situations, since a sense of mutual suspicion and lack of respect between co-workers produces a relentless sense of despair. How should a leader in a turnaround situation find the social capital and energy needed to communicate the need for change? Kanter invokes caselettes discussing Gilette, the BBC and Invensys to find out what insights can be generated from their attempt to turnaround their operations. She argues that nothing less than the viability of strategic leadership as an approach to managing firms is at stake in such situations. Turnarounds then are an opportunity to understand not only organisational behaviour, but also the role that leaders can play in harnessing their human resources by restructuring the acceptable levels of candor and communication in the firm. A downturn moreover provides the firms with the sense of urgency required to do so. But the key insight here is that it is the excess generated by focusing relentlessly on 'customer service' that will make it possible for the firm to find the energy and social capital that is needed to weather the psychological demands that change will make on the firm. What else can a firm draw upon? Chris Zook of Bain argues that there are three categories of assets that are relevant; they include 'undervalued business platforms, untapped insights into customers and underexploited capabilities'. He studies companies such as Dometic and Novozymes for the insights that they offer. The transition that Novozymes made from making enzymes for use in detergents to 'bioengineered specialty enzymes' by making better use of underutilised capabilities in the firm is a case in point; underutilised capabilities in this instance included a knowledge of 'genetic and protein engineering' for which there had been no previous commercial application. Transiting between core competencies and capabilities is not the same as diversification, but an attempt to deploy capabilities that are already in place, albeit those whose value remains unknown until a breakthrough actually happens. It is therefore important for firms to understand that identifying core competencies in the 'plural' is more important than a singular notion of core competence, especially if they wish to find the 'next core business'.

While the ability to think and lead strategically and identify core competencies is an important prerequisite to lead during a downturn, it is also important to understand that the cognitive patterns of leaders are dictated by the 'zeitgeist'. Anthony Mayo and Nitin Nohria of HBS therefore argue that the six important variables which determine the context of a given business must be well understood. These six factors include 'the level of government intervention in business, global events, demographics, shifts in social mores, developments in technology and the strength or weakness of the labor movement'. Mayo and Nohria have studied business leaders in great depth, and argue that on the basis of their extensive database, there are three important 'archetypes' of leadership; these include that of the entrepreneur, the manager and the leader. Each of these is important in its own way and the differences between these archetypes can be understood in terms of how they respond to the challenges, needs and demands of the zeitgeist. Not only do these archetypes co-exist in society, but are, in a sense, a recurring pattern that is available in the data sample that they locate in terms of separate decades. The anthology then makes a sudden and abrupt transition to discussing the need to manage cash effectively during a downturn. The contributors to this section include Tom Copeland of Monitor and Eric Schmidt, then CEO, of Novell. Copeland argues that the preoccupation with cost-cutting - as a tool to navigate crises in the contemporary zeitgeist - does not differentiate sufficiently between different types of cost-cutting that is required to increase cash flow. It is therefore important to formalise the processes involved in reviewing budget proposals in firms in order to prevent the duplication of investments, utilise assets more effectively and develop better 'capacity measures' in the firm. And, finally, Schmidt, explains, in an interview, how he led successfully in 'rough times' by focusing relentlessly on managing cash flow, minimising inventory and investments which, in turn, will generate further cash flow. The categories in contention in this anthology include the psychological, strategic and socio-economic contexts involved in 'managing through a downturn', and the financial disciple involved in managing 'cash flows' effectively to keep the business going. The anthology, needless to say, would have gained a little more if the transitions between the different sections were made smoother through editorial comments or the actual sequence in which the essays have been placed in the volume. This, however, is a book that business leaders and consultants will gain a lot from despite the minor blemishes mentioned above; the notion of 'managing through a downturn' is not just an interesting theme in business economics, but has the potential to be an area of research in its own right.

Author's Profile

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