

# The Time Is Now: It's Bottom's Up

*By Phil Harkins*



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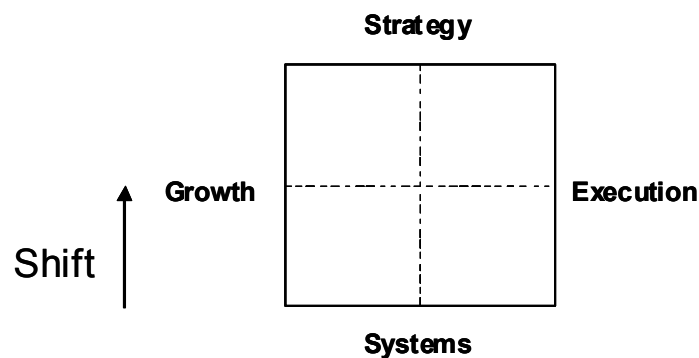
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## What Leaders Should Know About Leading Out of Bad Economic Cycles

Recently, sitting with a CEO, he exclaimed in frustration, “No one seems to know where we are in this recession. Are we on the way down or are we on the way up? It’s hard to know if this is a V, a U, a W, or an L.” I listened carefully and simply responded, “What’s your plan at this point of this cycle?” He quickly said, “We are having enough trouble just staying in the game, reacting to what’s happening to us every day.” He paused and then asked, “What’s your advice?” I responded that the best companies seem to find a way to consistently make decisions ahead of the curve. Furthermore, all economies are cycles. There is only one way to win—be proactive. Don’t get caught behind the curve. Conversely, losers react to what’s happening in the cycle while winners make decisions in front of the curve. I further explained that this economic cycle started a number of years ago and too many companies failed to prepare, plan, and get ready for the downturn. Many were in denial. It was almost as if the general business climate was, ‘Let’s ride it as long as we can.’ It seemed then a better a way to go. This article is about staying ahead of the curve—providing advice gathered from solid research to attack opportunities now—those that are a chance of a lifetime.

The major point is that the time is now to make the right decisions and to innovate and drive new initiatives, getting ahead of others on the way out of the recession. We do not propose that organizations stop the tremendous work that has been done to hold the line on expenses. Rather, it is clearly to balance and aggressively pursue new opportunities while others are frozen. In short, it’s about a balanced approach which we call going left (for growth) and going right (for operational excellence) at the same time.

**Figure 1 – The Focus Alignment Map**



We will attempt to answer seven questions:

1. What is it that winners do differently to get better results in the lowest point in down economies?
2. What are the specific hurdles that a business has to overcome to get ahead of the curve at the bottom of recessions?
3. How do business leaders recognize the signals and gatepost at the bottom so they can lead to recovery?
4. How do you get the right people to do the right things without upsetting or rocking the boat and losing momentum in the down part of the curve?
5. Since it is all about timing, what are the leadership and management techniques to keep the organization focused, inspired, and motivated to drive through to the recovery?
6. What is it about this cycle that can be understood so that leaders can plot a course to recovery?
7. What can we learn and gain from what the losers do?

## **What We Don't Know**

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It's true. No one knows for sure whether this recession is a straight down and straight up recovery. Economists seem split. The point is: it doesn't matter. The economy is in a bad spot and history teaches us that's where enormous opportunities lie. Coming out of this recession will leave the weaker on the sidelines. Warren Buffet calls them "cigar butts"—no one wants them. He loves to pick them up cheap. We are in the part of the cycle where it's unclear whether it's a W—down, a little up, a little down, and all the way up, or an L—which is what happened to the Japanese economy 20 years ago—down and a long slow recovery up. More like a hockey stick. The majority of the experts seem to be convinced that this is a U, that is a down, across perhaps for as long as 2-3 years (at the bottom of the U), and then up. No one knows for sure how wide the U is. So, what does a company do in a U? The answer to that question includes the following:

1. Be a first mover—get momentum while others are stuck
2. Upgrade in key positions—there is great talent that want the chance of a lifetime
3. Stay focused—by being vigilant to not give up on the gains that have been made as a result of streamlining
4. Innovate with blue sky drivers—those who aren't afraid of the current state of the economy
5. Separate new ventures—so these can have green fields to innovate and move quickly

## What We Do Know: Recessions Are Good Things—Why Waste a Good Recession?

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Economic downturns get rid of waste and weed out less effective competitors while opening up enormous opportunities. Peter Galuszka, in looking at winners and losers in the past four recessions, makes the following comment, “Recessions, unfortunately, are uneven affairs. They don’t start all at once in the same industrial sectors and don’t show recovery in all sectors at once either.” Consider this bold and audacious statement which is counter-cyclical, “some of the greatest successes in creating new products, programs, and service offerings are often cemented at the bottom of Bear markets.” Take the case of IBM in 1990, in the midst of a harsh economic cycle. They made a number of decisions ahead of the curve that dramatically altered the way they were going to market. As a result they morphed from a mainframe company to a top outsourcer and a major consulting company. They seemed to adopt the simple sailing metaphor. When the tide is out, you can see the rocks and the winning sailboat is not often the fastest sailboat. It’s the one which strategically maneuvers to catch the wind first after a lull. The birth of many great companies happened in depressions: Procter & Gamble, IBM, General Electric, General Motors, United Technologies Corporation, FedEx, Burger King, and CNN. Some of the most impressive innovations were spawned in crisis (the radio, automobile, and computer are good examples). In hard times, great leaders emerge, assume the helm, and identify the pathway to the new economy.

We don’t know enough about cycles and what it does to culture. We actually know a lot more about recessions and have lived through them. Some remember the aftermath of the recession in the 30s that continued on into the 50s. Spending patterns changed. Families refused to go to banks for a long period of time and some preferred to keep their money in a tin box under the bed. To them, it seemed safer than a bank. Restaurants suffered for two decades. Retail slumped. The Great Depression was a long, long U. Some believe that this current U will be similar to the great depression.

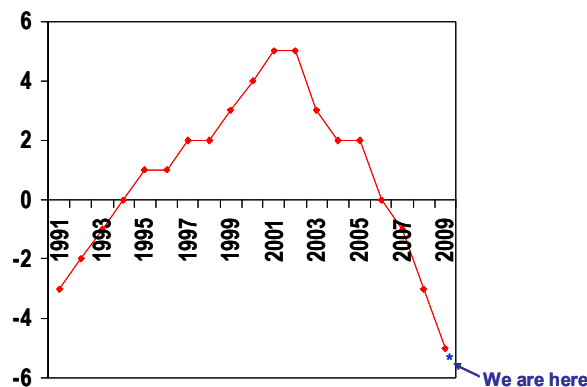
We can conclude the following based on what we know or suspect:

- ◆ We are at or near the bottom of this recession
- ◆ Coming out of this recession is going to be a U not a V or W
- ◆ We aren’t sure how long/wide the U will be—suspect it could be 2-3 years
- ◆ There are enormous yields for companies in the U because of the severity of the downturn
- ◆ There are specific actions that can provide guideposts and rails to hold onto for organizations so they can seize market positions
- ◆ Companies need to stay focused on recovery while energizing the organization to hold steady

## Cycle Theory Can Help in Understanding Recovery Strategies

In preparing the research for this article, we studied major recessions over the last 100 years. We could see a clear pattern of six, perhaps seven, economic cycles with consistent ups and downs—one every 16-17 years on average. What is clear about cycles is that there is always an up in the cycle and there is always a down. In fact, it is the degree of the difference between the high and the low which is interesting. Very high highs have corresponding low lows. The other is the breadth of the cycle itself. What we can be sure of about cycles is there is always going to be an up because there always has been. (Refer to Figure 2 – the cycle we are currently in.)

### Figure 2 – The Current Cycle



The master cycle theorist was Pitirim Alexandrovich Sorokin, a Russian born sociologist who was considered to be one of the father's of sociology. His major contribution was "social cycle theory." The reason that it's important to this article is that he demonstrated in his research that all of history can be explained in cycles. He added context and content to this theory by helping to create understanding that behavior of people can be plotted, and cultures change in cycles. His research is useful because it proves that decision making in cycles is predictable and the power in understanding cycles is in staying ahead of the curve. With this in mind, leading out of this U is an opportunity for making decisions along the part of the curve that we are in. In short, if this is a U and is going to be a 2-3 year bottom, organizations should be making decisions ahead of the curve that will position them like IBM did to lead the charge for their industry almost 20 years ago.

### Staying Ahead of the Curve

Staying ahead of the curve is very difficult to accomplish, yet critical, particularly at this point of the cycle. Cycle theory is pivotal to plotting the course of direction. What's so different in this cycle is that companies, much like a depression, have done extraordinary things to cope with the realities of business (we think this is because companies have started behind the curve). In the first 2-3 years of the down cycle, companies had to overreact, drastically cutting people,

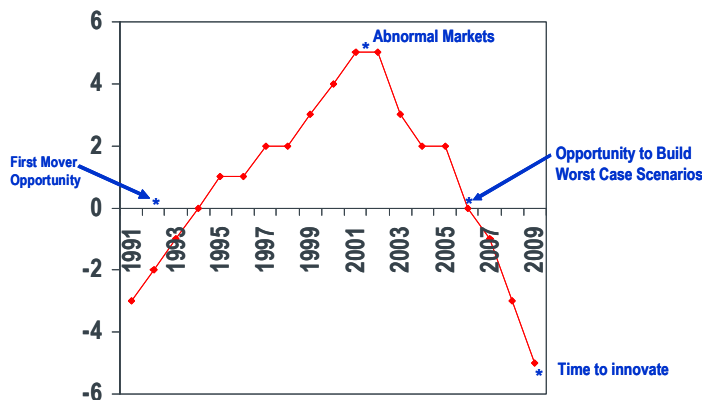
cutting pay and benefits. We can find no other time since the great depression where companies have actually cut pay, benefits, and bonuses in mass. In a recent survey, more than 50% of companies in the United States have cut or are planning to cut people, benefits, and pay.

There are some significant barriers to staying ahead of the curve that include:

- ◆ Ignoring pivotal decision points on the curve—missing the shifts on a curve can cause a series of bad decisions
- ◆ Denial of the realities of the curve—things always change
- ◆ Not facing up to the worst possible case—companies have a tendency to avoid bad news

All three major barriers result in having to play catch up, potentially slowing the organization down, missing good opportunities, and disempowering the organization to parallel process blue sky opportunities with holding course on the current path of efficiency and effectiveness.

**Figure 3 – Decision Points**



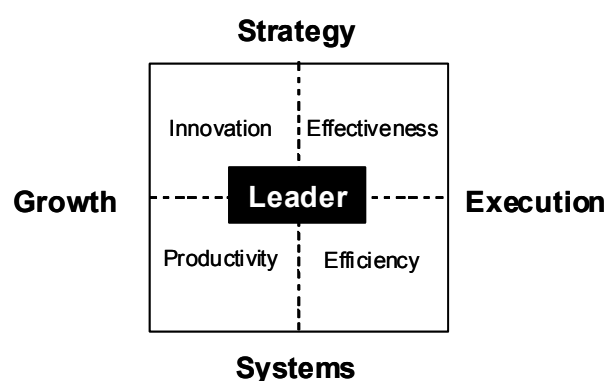
The inability of organizations to stay ahead of the curve has the tendency to freeze people, slow decision making, and stifle innovation. These conditions inside of organizations make it very difficult to lead, stay ahead of the curve, and get ready to drive into the new economy. This is where we believe we are at in this economic cycle—Time to innovate (see diagram above). Smart organizations get ready for the new economy and stay lean and mean in order to fight the battle and drive through adversity. Take a moment and look at the curve as depicted in the diagram in Figure 3 above and notice the decision points on the curve. There are only three major decision points: the start of the economic cycle—determining the game plan in the coming wide open market; the second decision point—at the top of the cycle—determining actions to take to get ahead of the curve in going into the downturn; and the third decision point is the critical one and the one we are at today: taking charge and attacking blue sky opportunities. The best companies step away from the day-to-day battle to look at what could be while “holding on” to the current operating plan. Experienced leaders know that the fastest and best way to innovate while executing with dogged determination requires getting pockets of energy aimed at the right product, program, and service offerings. They do this by following three steps:

1. Actively searching for opportunities that others are missing.
2. Supporting these new opportunities with passionate champions as a chance of a lifetime charter to work outside the usual confines of the organization. The reason for this is to keep everyone else focused on current business—no diversions.
3. Supporting these start-ups as new ventures, keeping them safe from the bureaucracy—systems and processes that confine and slow down initiatives.

## The Work of Leaders at the Bottom of the Cycle

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Figure 4 – The Focus Alignment Map



We believe the work of leaders in cycles is to manage all four dimensions on the model in Figure 4. We call this the Focus Alignment Map—or the work of leaders. We see it this way. Leaders need to do four things to manage cycles: 1) set direction, which is strategy; 2) help the organization to execute against that strategy with focused drive; 3) create systems to support the execution of the plan and 4) find new opportunities to grow. In Figure 4, note that we have drawn in the management tasks which make the organization effective, make the organization efficient, make the organization productive, and make the organization innovative.

On the way down an economic cycle, companies have all they can do to focus on surviving to the bottom—managerial activities are aimed at creating absolute efficiency and productivity, i.e., getting everything done for less and getting people to become as productive as possible at every level of the organization. It is very difficult for organizations to focus upper left while in the mire of survival. Where we are today at the bottom of the U is an enormous opportunity to create new initiatives (far left) with executable plans that don't interfere with what is currently going on inside the organization. This requires a shift (see above). Best in class examples are IBM and Intel—both completely shifted their entire business in recessions while continuing to execute against current orders and customer needs. In short, companies can't stop what they are doing in a down period. They must stay on top of things, i.e., being absolutely cost effective and getting people involved to produce at the highest possible levels. In short, keeping the organization lean and trim. At the same time, in order to lead into the new economy, they need to be able to shift and shift rapidly into areas where they drive through innovation, creating new opportunities, with people in the center who are free to execute.

*Who are these new people and how are they different from the people that are currently in the organization?*

## **What Happens to People in Downturns**

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To answer this question it's important to consider that people respond in different ways at different times of cycles. People fall into three categories under economic stress: some freeze and are immobile (we call them snowmen), some plow ahead (plowers) and will just execute against a plan, and there are a small number who we refer to as passionate champions who thrive in down cycles. They are driven by achievability, believability, and transferability. In other words, "define it, live it, and drive it." It's helpful to know that people in organizations are not aware of cycles at all. It is the leader's job to drive through cycles and to understand a time tested principle that people and organizations naturally freeze under constant pressure at the bottom of cycles. Snowmen—they need to be moved, as decision making becomes slower and change seems less permissible. What leaders need to do is to continually remind the troops where they are going and how they are going to get there.

Leading out of a recession is an opportunity to redefine and re-energize. This requires being able to skillfully maneuver around achievability, believability, and transferability—a simple technique of being able to define to an organization where the new opportunities are, which is the achievability, getting a few very passionate people to believe that they can take charge of these unique opportunities and then gather around them some plowers on small teams who can drive alongside.

## **Why Do Leaders Miss the Up Tick at the Bottom of the U?**

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Even when leaders can see the right things to do in the bottom of a brutal economy, i.e., the very bottom of the U where people are in the doldrums, it is counterintuitive to move. Why? Many leaders have gone to boards, advisors, investors, and the like and reported over and over again what they are doing to cut expenses, to focus the organization in the core businesses/core competencies. To move in a new direction and introduce a new business model, a strategy to attack that requires new resources, new energies, tests the very nerve and courage of leaders. What leaders need to do at this particular time is to remember that the status quo is not an option in a U. In fact, the very thing that needs to be done is exactly different from what the organization has been telling people to do month over month and quarter over quarter going into the U. Imagine what it must have been like for a Steve Jobs to go his Executive Committee and to his Board in 2000-2001 and talk with them in the midst of a financial down time to convince them that they should invest and spawn a whole new team aimed at a business that would take Apple in a completely new direction—iPhones. He showed true leadership, turned Apple around, rebirthed the company in a counterintuitive way that few could realize. He did it with a relatively small team of individuals who were clearly passionate champions, who set achievability, believability, and transferability in place, with the drive and energy of a locomotive on a fast track. Nothing was allowed to stand in their way. They were non-mainstream. The rest of the Apple businesses continued with cost cutting, smaller numbers of resources expected to produce higher levels of output.

## Balancing

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The hardest thing for leaders to do in leading the organization into the next up cycle at the bottom is convincing those around them that it is time to move. While it seems that the status quo is the only thing to do—hold on, wait for the economy to shift. Those that wait for the economy to move are usually 2nd or 3rd movers and are too late to catch the wind and are forced to play catch up. Doing it is another thing.

A famous quote from Alice in Wonderland that “when you don’t know where you’re going, any road will get you there” does not apply in this case. In fact, it is the opposite. The leader’s job is to know exactly where to go and to set achievability so clearly that others can believe. A big mistake that many leaders make is letting go of the reigns too soon on new initiatives and appointing others to lead the new venture. Most of the great recoveries at the bottom of recessions are led from the top. We call this the difference between project leadership and project management. A new initiative at the bottom of the market is a project. Consider Steve Jobs introducing iphones as a concept of the future. If he had simply just handed that off to a passionate champion and said, “Good luck. Let me know how it goes. I’ll support you in every way,” the results would not be what they are today. Steve Jobs, like many great leaders, held on to the leadership of the new concept until that very time it had momentum of its own, and only then assigned it to someone else to lead and execute. This simple premise is an absolute mission critical success factor that we have observed over and over again. Stay on top of new initiatives from a leadership position until they are failsafe and there is a clear path to winning. Then support it in every way. There is no wisdom for a fast handoff and sitting on the sidelines to support and applaud.

## So What Are the Answers to the Seven Questions?

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***Be a first mover.*** Recognize and define the moves that will provide the nexus for the organization to get ahead of the curve on the way out. Spend all the necessary time to strategize and to pick the right moves—the two, no more than three, opportunities that the organization will invest in with the right resources who can operate under pressure to deliver with chance of a lifetime charters.

***Get blue sky passionate champions involved in the front-end of new initiatives.*** They will take charge and create the energy to inspire others around them. Plowers will continue to plow in straight lines as long as they know what they are supposed to do and there are passionate champions in front. The leader’s job is to balance, keeping people focused on the current state while leading new initiatives into the future state. As they say about the hard things in the Navy, “this is tough duty.” Keeping the new initiatives separate from day-to-day activities cuts down the amount of necessary smoke that is created by new initiatives and lessens the chance of diverting those that are responsible for keeping the ship afloat.

***New initiatives require clear charters, constant monitoring, and reinforcement.*** Purpose driven day-to-day actions will overtake the many stumbling blocks and hurdles that will be thrown in front of them. Spend the time in the design phase working with a handful of people to set the rules of the game in place.

**The Time is Now.** Over and over again leaders need to say to all that the status quo is not an option particularly at the bottom of an economic cycle. Even if the organization has traditionally been behind the curve on the way down, at the bottom of an economic cycle, adjust, pick up steam, and lead innovations with new vigor and energy. With organizational resources depleted and in some cases energy at an all time low, there are two predictable organizational actions to get ahead of the cycle moving into the new economy. Appoint a leader who believes that there is the chance of a lifetime opportunity. The second is set a bold target. Apply the achievability, believability, and transferability formula.

## **How to Avoid Confusion and Mixed Messages**

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Leaders need to know how to maneuver between two normal organizational reactions—fear and confusion. Why is the organization taking on new things when we have reduced people and benefits? The answer, of course, is communication. Leaders need to be consistent in what they say and what they do. They can't flinch. Words like, "I think this will be a potential solution for us to perhaps bridge the gap into the new economy," are not strong enough language for what organizations will believe. People need to hear the passion, see the strategic thinking behind the passion, and then witness passionate champions who are forging ahead, taking down everything in the way to get there. Remember no one would have thought that iphones would lead Apple to the front of the pack. No one, for sure, would have thought that IBM in 1990 would be one of the largest consulting organizations in the world. Watch what GE is about to do today in embryo stem cell research and application. They are not standing still. Will General Motors make the turn and survive the U? Will they have the strength to cut down and drive with efficiency and productivity while innovating a new product strategy? Will Delta and Northwest bulldoze through their problems and create growth opportunities for the next economic cycle? Have Goldman Sachs and Morgan Stanley already innovated their way through in an industry that was pronounced dead on arrival? Bet on it.

Cycle management is not often stated as a prime part of the leader's job description. Yet, fundamentally that is what leaders are asked to do.

## **Summary**

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I hope that this article has influenced you to consider attacking chance of a lifetime opportunities in the doldrums of the current dire economic cycle. It is counter intuitive to move out when others are hunkered down—to see and create blue sky opportunities when the seas are stormy is a gift waiting to be opened we shouldn't ignore.

For those running businesses it is not about changing direction, it's about spinning off key resources, internally, to build chance of a lifetime opportunities. Don't stop what you are doing. Stay focused on critical success factors to deliver on promises and commitments while opening up doors to the future. You may never have the same chance until another bottom of a really bad cycle. Remember always that there are rules of leading in cycles:

1. Stay vigilant on timing. Be aware of where you are at in a cycle and get ready for the next phase.

2. Be both analytical and intuitive. The wisdom of cycles is to be countercyclical when everyone is going in one direction, consider the other.
3. Get the right people doing the right things along cycles. People are different. Some do better in rising tides. Some extraordinary people love low tides. They see more beach.
4. Stay balanced. Focus and alignment are key to riding cycles. At the bottom, where we are at for only God knows how long, pick only a couple new chance of a lifetime opportunities. Keep them close to you with a few blue sky people that don't divert the energy from staying afloat.
5. The uptick will come. Don't be wishing you had seen the bottom when you are in it. Seize the opportunities others are missing.

On a personal note, for those of us who have been through other similar times, let's not say I wish I had another chance to buy that property at the bottom of the market that was truly a chance of a lifetime. The time is now: It's bottom's up!

## Linkage

Linkage is a global organizational development company that specializes in leadership development. We provide clients around the globe with integrated solutions that include strategic consulting services, customized leadership development and training experiences, tailored assessment services, and benchmark research. Linkage's mission is to connect high-performing leaders and organizations to the futures they want to create.

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