

WHEN IT'S TIME TO LEAD YOUR COMPANY THROUGH A "HUNKER DOWN."

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Winston Churchill once said, "When going through hell, the best course of action is to go through it." Hunker Down is a special form of business hell. The focus of this article is to help leaders manage their way through it.

THREE STARK OPTIONS

In response to stark financial conditions, business leaders have three options. One option is to alter strategy by ejecting money losing products/services and focusing on more lucrative products/services. The second option is to exit from the marketplace with dignity or lack of dignity. Being acquired is a dignified exit. Bankruptcy is an undignified exit. The third option is to keep the fundamental strategic focus constant while lowering cost structure. This is called Hunker Down. The assumption behind Hunker Down is that the fundamental business forces that once made the business highly profitable will once again emerge once stark times are over. A second underlining assumption behind Hunker Down is that companies that retain a long term focus will be better positioned to gain market share and profit margins when the business cycle finally gets better.

For example, on February 11, 2008 the WALL STREET JOURNAL noted that retail store GAP, Inc. suffered an 18% decline in March same-store sales compared to the same month in 2007. The retail industry as a whole suffered its worst March performance since 1995, reflecting consumer concern with rising unemployment and higher costs for food/energy.

Customers were turning away from pricey apparel shops like GAP in favor of discount chains like Walmart and Costco. GAP CEO Glenn Murphy decided to focus on profit margins even it means a short term reduction in sales. He will not participate with competitors to heavily discount merchandise to lure customers into buying.

HUNKER DOWN MAY BE A GOOD OPTION

When we conducted research for this article, more than one CEO angrily said that Boards ought to fire any CEO who proposed Hunker Down as a strategic option. Superficially Hunker Down might appear to be a defensive justification for doing nothing in the face of a changing business climate.

In our view, Hunker Down may be a viable strategic option provided that the CEO has made a good case to justify why the two underlining assumptions described earlier are valid. For example, once you respond to downturns in the market by offering cheaper versions of existing products/services, you may simply be cannibalizing higher margin products. This is probably the rationale behind the GAP decision.

It is a business legend that stodgy IBM transformed itself from a company organized to sell technology hardware into a global technology services organization. But not many organizations can pull off this type of transformation. Some organizations have strategic constraints placed by their legal charters. For example, Boards of community hospitals that serve the poor might perceive it a violation of their fiduciary responsibility to ask the State to agree to allow the community hospital to transform itself into a specialty hospital catering for the affluent. Some organizations are so locked into unique market positions, It is easier to create a new company than to ask the existing company to transform itself. A community college will never have the financial resources to become a world class research institution like the Massachusetts Institute of Technology. And MIT would have to destroy much of its infrastructure to transform

itself into a community college serving Cambridge residents. Even if it needed the revenue, The Four Seasons Hotel chain is not going to fill up rooms by accepting people on welfare assistance needing extended stays. A full service law firm is more likely to Hunker Down in response to economic challenges than it is to turn itself into a specialty practice focusing exclusively on bankruptcy. A high quality French restaurant can alter its menu and portion sizes more easily than compete with McDonalds in the hamburger market.

The stronger the brand, the more likely the company will engage in Hunker Down in response to stark economic times providing that the CEO can make a compelling case that “trend is not destiny.” It is the responsibility of the Board to make sure that the CEO has made that case effectively.

Making that case is not easy. The business media tends to proclaim every twist in the economic cycle as a fundamental turning point in business history. Remember the "New Economy" that arose with the Internet and the predictions that brick and mortar based retail establishments had no future? “Stay the course” can require more communications skill than responding to chatter masquerading as wisdom.

Assuming that the Board accepts the rationale behind a Hunker Down strategy, how does one attract, retain, and motivate talent? The rest of this article will focus on providing ideas for managing through the three phases of Hunker Down.

THE THREE STAGES OF MANGING THROUGH HUNKER DOWNS

The first phase of Hunker Down focuses on downsizing the employee population, scrapping programs, tightening collections, centralizing functions, and examining inventory control. During this first phase, business leaders may sound like they are trying out for the Weight Watchers Cheerleaders Squad: "We've Got to Become Lean!" and "We've Got to Get

Rid of That Fat!"

The emergence of a trimmer and more efficient organization completes the first stage of Hunker Down. Too many leaders think that the first stage is the entire Hunker Down operation. This failure explains why so many Hunker Downs fail.

The second stage consists of creating *esprit de corps* among employees who remain. Creating such a spirit is challenging. During this second phase, one often finds:

- High Stress Levels. Employees must perform their regular jobs; they must also perform the jobs of others who were let go. If the company aspired to be no better than stingy in providing termination benefits and outplacement assistance to the last group of employees who were let go, these stress levels will only be higher.
- Lack of Confidence About the Future. Employees are unclear about the company's future and their own future with the company. They seldom accept management's assurances that a recent round of layoffs signals the end of layoffs. Hunker Down assumes no major strategic shift. Some employees will view this as a fatal decision and may spread dissention.
- Personal Financial Concerns. Stock options are under water. Salary increases barely keep up with inflation, causing true downward economic mobility for employees and their families.

Enhance *Espirit de Corps*

We define *esprit de corps* as sense of pride due to high customer and technical competence. These twin goals must be accomplished among employees who are complaining about their high levels of stress, fear of the future, and downward economic mobility. Enhancing *Espirit de Corps* during a Hunker Down may seem counterintuitive. But it is a better way of focusing employees than focusing on day-to-day survival. A good way measure *Espirit de Corps*

is to ask the question, "I would recommend this company as a place to work if asked by a friend or colleague" People can rate their response on a 0 to 9 scale, with 0 defined as "never" and 9 defined as "almost always." This is one way how SVP HR Steve Sheehan of Thermo Fisher Scientific, Inc. has adapted Fred Reicheld's work.

Work teams with a median score between 0-4 are "hurting puppies" that need attention. Their negativity could contaminate others, including customers. Work teams with a median score of 7-9 will be those groups with high *Espirit de Corps*. They are doing something right. Focus attention on those group leaders as role models.

Taking a base line measurement of *Espirit de Corps* during a Hunker Down is a good way to establish a measureable base line for your organization and for different work teams. Goals can then be established to move the measurement up.

In taking measurements at this time, it is important that the data not be used to target negative employees for termination, as it would lead to the rational conclusion that every time management conducts a survey of employee opinion, it is on a hunt to find justification to fire people. Work teams that do score poorly need watching. The mere fact that a team leader knows that his/her scores "stick out" is motivation to do something. Work teams that score relatively well need public praising and their leaders ought to receive some type of financial recognition.

COLONEL POTTER AS A MANAGEMENT MODEL

As leadership development consultants, we are most helpful to our clients when we can present concrete role models. The measurement approach outlined above can help determine if there are any appropriate in-house management role models.

If there are no useful in-house role models, one well known role model is Colonel Sherman T. Potter (played by Harry Morgan) in the popular television series M*A*S*H. The

series is off the air but it continues to run on local cable networks. DVDs can be rented or purchased. The M*A*S*H unit consists of U.S. Army health care professionals who must function in a competent manner under battle conditions. Like corporate employees, they struggle with overwork, stress, and fear for the future.

Colonel Potter's leadership task was to insure operational effectiveness while keeping morale up. This is exactly the Espirit de Corps we speak of. The fictional Colonel Potter's biography can be viewed at the following link:

http://en.wikipedia.org/wiki/Sherman_T._Potter

Why is Colonel Potter a useful role model for managing the second phase of Hunker Down?

Be Shirt Sleeve. The nature of any medical emergency facility is that it can easily go from overmanned to undermanned to overmanned. During times of under manning, Colonel Potter would become a surgeon. In a similar vein, no CEO should be too proud during times of stress to spend time as a customer service rep or help in the warehouse. It is the symbolism here rather than the specific content expertise that is important in keeping morale up.

Keep Status Images Low. Beyond the mandatory insignia of rank, Colonel Potter managed to avoid images suggesting that he is better off than his fellow soldiers. Status symbols are particularly obnoxious to employees during Hunker Down. As we mentioned earlier, employees may perceive that their living standards are falling. What is financially irksome to a CEO can be catastrophic for employees. We met one CEO returning from a business trip from to San Francisco. When he came back, he spoke glowingly about the great restaurants he went to and the wine tours he made. This conversation was in front of his secretary who was planning to cut out her vacation so that she could keep up with utility payments. This CEO was so engrossed with his conversation, he failed to appreciate how much he was eroding his secretary's morale.

Many senior executives drive leased cars paid for by the company. At the expiration of

the lease, they are contractually able to obtain a new car with a new lease. From the perspective of drivers, they may not be getting anything "special." It is simply an exchange of one leased car for another. From the perspective of employees struggling with monthly car payments on old cars, seeing top management drive up to the parking lot with a brand new car does not enhance spirit de corps. Consider keeping those old cars on lease or getting a lower status new car on a new lease.

Party Time. During times of crisis, Colonel Potter could usually be found with his troops in the operating room...not in the office writing memos. He was often an active participant at M*A*S*H parties. If not out with customers, CEOs should be strolling around the plant as often as possible. Learning the names of employees can be extraordinary important during times of stress. Shake their hands. Let them know that this is a stressful time and you are grateful for their cooperation.

In the absence of ability to provide employees with significant financial rewards, take every opportunity to celebrate small success. These opportunities could include the obvious (movie tickets or a prepaid gas card When the company exceeds sales goals for the quarter). It is also useful to celebrate minor movements in the right direction. Examples in this latter category might include "Fred Kept a Key Customer Account That was On the Verge of Leaving." In this situation, all employees of department might get Dining coupons for jobs well done by an individual in the department. This helps foster a positive *esprit de corps*.

When someone does a service that advances the company interests, reward the person immediately. Do not wait until the end of the quarter or the end of the year. Tie the reward to the behavior in a concrete manner. Middle managers' desks should be stuffed with coupons that can be redeemed for movies, dinner, flowers, etc.

Small, frequent celebrations are better than infrequent, large events. Have a Hero of the Month Party. All employees get pizza, salad, and soda.

Quantity Beats Quality. The quality of the celebration is less important than the quantity of

events that celebrate achievement. The goal is to produce *esprit de corps*. Quantity beats quality also should be reflected in compliments. Colonel Potter was never reluctant to tell his staff, "I really appreciate what you did....."

Organize Employees in the Plans for Better Times. The end of stark economic times is only clear in retrospect. Plan on a brighter future during the darkest of times by involving teams in planning a coherent approach to building the business once the cycle begins moving in a positive direction. This focused attention on the future and helps the company foster *esprit de corps* and helps the company be one of the first out of the starting gate ready to implement a growth plan.

THE THIRD STAGE OF MANAGING THROUGH HUNKER DOWN.

The third stage of Hunker Down is when the CEO decides to implement the growth plan in the absence of decisive economic signals that stark times are over. Moving early gives the company first mover advantage if the bet is correct. But it also means a return to the first stage of Hunker Down if the bet is wrong. Having used time during the second stage to build *Espirit de Corps*, the employees will be ready to move during stage three. If business leaders wait to implement growth strategies until the signals are perfectly clear, they will surely be running behind their competitors at a critical time.

And if the bet is correct, it is time for company leaders to get their new leased cars!

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