When the economy gets tough, the tough get unconventional!

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In this economy, you have probably taken some dramatic steps in your organization to freeze or limit expenses. This approach, plus a focus on protecting the existing business revenue, makes economic sense and is often critical in the short-term to insure that you remain viable.

For the most part, senior executives across the U.S. and the globe have little illusion about the severity of the current economic crisis, or the chance of emerging from it soon. Most corporate leaders are taking deliberate, intentional actions to manage through the challenges, and part of that is to lower costs and increase efficiency by reducing headcount and restructuring jobs. This is the conventional response.

The conventional response. Laying off a percentage of the workforce is one option companies choose, but often is not the best way to reduce expenses. A 2001 study by Bain & Company, for example, found that it took companies six to 18 months to realize savings from job cuts after the 9/11 attacks. The actual time to realize savings is probably longer, since these numbers do not reflect the additional costs of recruiting, hiring, and training new people when the economy turned back around. Other options to decrease cost, and often better ones, include cutting salaries, reducing benefits and perks, mandating a standard number of unpaid vacation days for everyone, or offering financial incentives for voluntary separation.

For example, in a March 2009 study by Roselle Leadership Strategies, Minneapolis, that included 30 companies ranging in size from below $50M to more than $10B, 67% are making targeted cuts in workers and managers in what they deem the least critical areas, and 70% are working with vendors to reduce cost and/or inventory. Nearly 100 percent indicate they are taking some steps to reduce costs.

The specific steps they identify include: institute pay cuts, increase virtual meetings, freeze or limit new hires, close marginal business lines, reduce travel and other discretionary expenses, require all employees to take unpaid vacation time, delay the filling of vacant positions, make changes to existing health plans or 401K matching contributions, and put off various consulting expenses.

Not all cost reductions are equally helpful. The key to cutting costs effectively is to keep your organization's core competencies intact. Leaders need to have clear understanding of, and commitment to, the capabilities that differentiate them from the competition. Organizations cannot succeed long-term by making short-term decisions that undermine this strategic differentiation.

When the economy gets tough, the tough get unconventional! The challenge for leaders in trying times like these is to be courageous and strategic, and at the same time, practical and realistic. This is the paradox at the core of an unconventional strategy.

The unconventional response. According to some of the best business thinkers and operators, four strategies will help organizations build a thriving future:

- tapping into the creative ideas of the entire organization
- creating a distinct process for strategic expenditures
- investing in leadership development for the stars
- attending to the personal lives of employees.

Tap all creative ideas. While leaders seek areas in which to make financial cuts, it is important to tap into the creativity of the entire organization for future-oriented ideas. In difficult situations, leaders too often hunker down and try to make all the brilliant decisions themselves to save the organization. A better strategy is to tap into others at multiple levels to harvest their thoughts and energy.

Many corporate leaders recognize the importance of developing innovative approaches to address business challenges. One way to foster creativity is to cultivate an open and collaborative culture. The key is to develop a corporate mindset that stimulates people to think and do things differently, and then stays out of their way enough to let ideas percolate. Workforce diversity helps fuel this process.

Success often depends on leadership's ability to use open-ended questions to nurture inventive problem solving, encourage information exchange and scenario analysis, and challenge the status quo with a motivated vision. Leaders must identify the innovators in the organization, the ones that can focus on the most important kernels without getting lost in the peripheral chaff. Successful innovators can look at business challenges from multiple perspectives and identify those approaches most likely to fly in the organization's culture.

In our study, we found that fully 70% were making deliberate attempts to tap into creative ideas across the organization. How are they doing this? By asking questions and listening (57%), encouraging information exchange at multiple levels (53%), developing various future scenarios (60%), and sharing a motivating vision of the future (60%).

Create a process for strategic expenditures. Recognizing that this economic downturn will not last forever in its current condition, and that the marketplace may not return to its former condition, organizations must develop new strategic initiatives, and set aside money to fund them. These might include new products, reconfigured services, expanded marketplaces, new business models, and improved talent base.

The key here is to develop some likely strategies and allocate sufficient resources to test them. History tells us that in the lean times, future orientation rules the day. For example, from early 1973 to late 1974, the U.S. stock market experienced a 45% drop in market value. Spikes in oil and gas prices, easy credit, and a murky military endeavor (Vietnam) preceded this dramatic drop. Sound familiar? Despite these challenges, companies like FedEx, Southwest Airlines, Microsoft, Apple, Genentech, Oracle and others were born during this difficult economic time.

This next generation's growth companies will be the ones that exploit technology and innovation and learn to thrive during periods of deflation, inflation, and delusion. Even in this economic downturn, such companies will invest in new products and services, nurture innovation, leverage technology, and expand into new markets. They will expand segments of their workforce in potential growth areas, at the same time they decrease headcount in other areas.

The new growth companies will search their high potential talent pool to find innovative people and give them future-oriented projects with few parameters to limit their thinking. Since innovators need access to resources and networks of people against whom they can bounce ideas, leaders will also remove obstacles, and encourage mentoring and peer feedback.

Some companies will look for opportunities to increase the level of their talent by intentionally seeking innovative and self-motivated individuals from other companies who are frustrated at the reduced career options with their current employer. In a 2009 Deloitte study conducted by Forbes Insights, nearly half of the 300+ senior business leader respondents indicated they would focus on product development and innovation this year. Fully 40% indicated their organizations would recruit more for critical talent.

These recruitment efforts might include deliberate steps to build a marketplace brand that identifies them as a highly desirable employer. From our work with Target, for example, we know that their brand image, built on a combination of business success, appealing products, and corporate philanthropy, is a major attraction to potential employees.

In our study, 83% of responding companies indicate they are intentionally setting aside funds and creating distinct processes for developing future-oriented products or services. Most (70%) indicate a focus on expanding or re-defining existing marketplaces, while 43% indicate they are budgeting for new or re-configured products or services. About a third indicate they are creating pilots of new business models, and another third that they are exploring new product test markets.

Invest in leadership development. One type of expenditure that many organizations consider a strategic priority is to retain and develop the critical talent they currently employ, while they attract similar talent for their future needs. Downturns present the perfect opportunity to enhance and deepen workforce skills and capabilities. It is smart business to use this time to help high performing managers and high potential stars expand and deepen their leadership skills in areas like collaboration, team play, and big picture strategy.

Talented people are difficult to recruit and retain, and even more difficult to replace if they choose to leave. Retention of key talent is a major concern across many organizations this year. In the Deloitte study, nearly half of the senior business leaders who responded indicated their intention to invest in building new workforce skills despite the economic climate. The companies in this survey came from across the globe, and ranged in size from $500M to more than $20B.

Market leading companies recognize that leadership development is not just nice to have; it is essential to maintain and build competitive advantage, especially in tough economic times. For example, Toyota pulls people offline in these times and provides training. They utilize this strategy because the costs involved in providing leadership preparation and coaching are relatively small when compared to the potential future ROI. Growing leaders from within an organization by using strategic work assignments, internal mentors, external coaches, performance feedback, and structured succession planning is a strategy increasingly employed by successful organizations.

Fully 72% of those polled in the Deloitte study indicated the intention to direct limited human resource dollars to the development of leaders and high-potential individuals. The same group of business leaders indicated that 48% intended to invest in building new skills in their workforce.

We determined in our study that 100% plan to invest in their key leaders during this downturn. With more specific responses, they indicate their intention to take steps to maintain high motivation and productivity (80%), enhance skills and develop leadership capability (70%), and work to increase the likelihood once the economy turns around (50%).

Pay attention to the personal lives of employees. It seems obvious that creating personal relationships will help leaders get the most out of their employees, but most managers believe they are better at this than they actually are. Times of dramatic change create predictable stress and fear in your workplace. In the Deloitte study, an average of 44 percent of surveyed leaders indicated a decline in the morale of their employees, and almost 30 percent reported a decrease in trust/confidence in leadership.

Greater attention paid to employees' lives outside of work, and the personal toll on them caused by the changes, usually results in greater productivity, morale, and trust. Acknowledging the pressure and affirming people for their efforts creates greater loyalty and effort.

Among the methods utilized by the organizations in our study, 93% indicate they are taking steps to acknowledge and show concern for the toll taken on those who remain in their employ after layoffs. More specifically, 77% point out that they are affirming employees for their efforts and 67% indicate they are showing compassion for the emotional toll and the strain on their families. Only 30%, however, say they are providing individual or workshop-based counseling for those who remain.

Peter Drucker describes the essence of leadership as the balance between managing what you have, and creating future capacity. The dilemma in this economy is how to make the best choices in the dynamic tension between surviving now and thriving in the future. The key to the courageous response is to be adaptive, imaginative, and practical. Tomorrow's industry-leaders will be those that position themselves to move quickly and effectively when the economy inevitably comes back around. They will do this by cutting the fat, nurturing creativity, encouraging new strategic initiatives, and developing the talent that remains.