

# The RESOURCE

## LEADERSHIP IN A SLUMPING ECONOMY

**M**illions of jobs lost. 401(k)s down 40 percent. Consumer confidence shaken. There is nothing like a slumping economy to get our attention. However, once the initial shock subsides, many employees bury their heads in the sand and say, "All we need to do is hang tough and wait it out."

Effective leaders know better. They not only recognize crisis when they see it, but they know they must be proactive in order to survive. They also know that employees need a combination of reassurance and a sense of urgency in order to keep a business moving.

### Reassurance

Employees need to hear words of reassurance from their leaders. However, a special kind of reassurance is needed. They do not need to hear, "Just hang in there; we'll get through it." A better approach is to remind employees individually and collectively of their talent, initiative, and resourcefulness. Remind them of their successes, the challenges they have overcome, the improvements and innovations they have made, and the value of the products they produce. Employees need to hear that their leaders believe in them and their ingenuity.

Reassurance also requires leaders to portray the economy accurately. The economy is not uniformly depressed; in fact, some sectors are thriving. More than 90 percent of people who want to work have jobs. Consumers willing to spend can find many bargains. There is a great deal of money "on the sidelines" to be invested as opportunities arise. Fuel prices are down from their historic highs. The message in this for employees – it's not all bad.

### The Fear Factor and Urgency

The upside, if there is one, to a slumping economy is the fear factor. This may seem counterintuitive, but seasoned leaders know that they can use fear constructively to create a sense of urgency among employees. Leaders do not have to create fear among employees; it's already there. But it must be channeled in a positive direction. This involves several steps.

First, employees must clearly understand that "waiting out this recession is not an option." In other words, things will not get better just by doing business as usual. Severe and painful economic forces are at work and those who keep their heads in the sand will lose out. Recession is a time to, as Ray Betler of Wabtec says, "focus on competitive advantage and differentiation, not marginalization."

Second, fear can give employees a sense of urgency about operational excellence. In any company, many opportunities for improvement never get off the drawing board because employees

are too busy getting work out the door. As product orders slow down, time becomes available to address earlier suggestions for operational improvement and efficiency. Fear gives employees a sense of urgency about doing things smarter, cheaper, and faster.

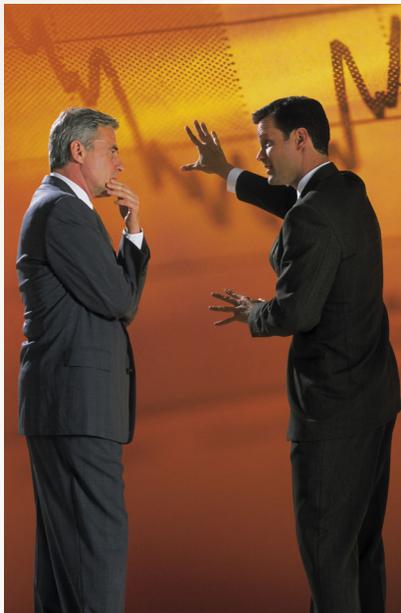
Third, fear can give employees a sense of urgency about expanding revenue streams. Whether it is further penetrating one's existing customer base, launching one's product(s) in a new market, or providing added value to your existing product line, employees can find new ways to satisfy customer needs.

Leaders know that they personally do not have to have all of the ideas for improving business operations, enhancing products, or creating more revenue streams. In times of crisis, great ideas come from all levels. It is a leader's job to encourage idea generation with a sense of urgency.

### Follow-Through

Once ideas are generated, the leader and his team must pick the best ones for implementation, with emphasis on "quick hits." Ideas that can yield immediate results are best. They boost morale and generate more ideas. Replicating this process over and over creates a snowball effect, with ideas leading a company out of the doldrums. A collection of small ideas for improvement will add up to significant savings or revenue generation.

For many companies, there is no more "business as usual." But, by reassuring employees and then encouraging idea generation, leaders can successfully navigate the turbulent economic waters.



## STRATEGIC DOWNSIZING: FAIR AND PERFORMANCE-BASED

In times of economic downturn, companies out of necessity need to cut costs by reducing staff. If reducing head count is not done strategically, however, companies will cut competencies and talent, which reduces their ability to compete when the economy recovers.

A more strategic approach is for companies to focus staff reduction on talent and key competencies needed to deliver business results. It is possible to do so in a legally defensible manner, using objective survey measuring methods. These methods yield a ranking of employees based on measuring competencies such as technical expertise, job knowledge, customer service focus, etc. From the objective rankings of employees across competencies, it is clear which employees are stronger overall and which are not.

### Legal Defensibility

During downsizing, emotions can run high and it is not unreasonable to expect that some aspects of the downsizing process will be challenged. Careful planning is the key to a successful downsizing program. The top management team, with the assistance of financial, legal and human resources professionals, must succinctly and objectively set forced reduction goals and develop a process that will be legally defensible.

In restructuring and downsizing, both the real and imagined fear of legal action has a profound effect on companies' strategies. As a result, an often used approach is the "seniority method," in which employees with the longest tenure are retained in an organization, while newcomers are severed. This approach, however, can harm a company's ability to compete successfully in the marketplace. The same is true for so-called early retirement programs.

### Ranking Employees

A better approach is a forced ranking of employees. If this is to be conducted successfully, a ranking system must be based on an accurate, objective employee measurement system that is legally defensible and that is perceived as fair and equitable by employees.

Companies such as General Electric have popularized this approach, culling a predetermined percentage of employees from the bottom ranks as needed. This has the advantage of retaining the strongest and highest performing employees.

However, a big problem with most forced ranking systems is the mechanics of the ranking process itself. Using a simple 5-point Likert scale or a 9-box may result in charges of subjectivity, favoritism, arbitrariness, etc. It is easy to game the system if all the raters know that any employee rated at a certain level is "on the bubble" or that someone else automatically is "a keeper."

A better way to rate employees uses direct comparison of employees on the different competencies. This results in a more objective and defensible ranking of employees. That is exactly what PSP's Wyvern comparison system accomplishes.

### Fair and Equitable Rankings

The Wyvern OJQ ([www.wyvern-ojq.com](http://www.wyvern-ojq.com)) has a history of meeting these objectives in many of the world's most successful and best-managed companies. It is a defensible system that reduces the potential for charges of bias or discrimination. Indeed, the OJQ system has had a remarkable record of freedom from serious legal challenges.

The Wyvern OJQ can be applied to employees at all levels of an organization. It achieves a high degree of fairness by maximizing objectivity, minimizing biases, and allowing performance to be ranked from all perspectives, not just from the top down. The OJQ provides for a direct comparison of people on specific criteria, reducing subjective interpretations of "satisfactory" performance. It also eliminates errors such as "halo effects" and rating all employees the same.

In addition, the OJQ minimizes the impact of an individual rater. It takes multiple raters' perceptions and opinions into account in a unique way, using sophisticated software to achieve a consensus among raters. This process lends fairness and objectivity to the ratings, factors that are particularly important in a forced reduction program.

A fair and equitable ranking system like the Wyvern OJQ is a key component in a successful downsizing program. Such a system works best when it is embedded in a process that clearly explains the reasons for downsizing to employees, and also provides considerable help to displaced workers.

When employees have confidence in an objective and equitable rating system, and employers provide outplacement services, respect and good will can be maintained during the difficult process of downsizing. The result can be a leaner, more efficient, and more productive company.



## STAYING UNION-FREE IN DIFFICULT ECONOMIC TIMES

**D**uring difficult economic times, it is not unusual for company management to be perceived as less open and candid in their communications about the current state of the business and what the future holds. Employees are naturally concerned about potential layoffs, and management, of course, is often afraid to share information or say anything for fear people will jump to conclusions. The net result is lack of communication from management and a heightened rumor mill among employees. This becomes fertile ground for unionization, as employees are fearful about their future. Adding to this difficult situation is the high likelihood of the Employee Freedom of Choice Act being passed, making it easier for unions to organize employees.

### The Importance of Two-Way Communication

How should company management respond? First, be open with your employees about the difficulties of the business situation and what the company is trying to do to respond. It is important to take both a short-term and a long-term view. Emphasize the best interest of both company and employees. Employees want to receive information on the good and the bad, have a chance to ask questions, and give their perspective on issues. Open communication, both formal and informal, allows you to gain a better understanding of what your employees want and need, as well as what they fear.

With this type of exchange, you are much better prepared to respond to important issues, whether these are expressed or held inside by employees. While you cannot make promises in these situations, by engaging employees, exchanging information, and listening conscientiously, you will go a long way toward creating a more positive atmosphere. Laying the foundation for openness and trust makes a difference in whether employees feel a need for a union to represent them.

### Key Questions to Ask

Every employer should ask these important questions:

- ❖ Do your employees understand what is expected of them on the job and how this is directly related to company profitability and its ability to provide jobs and security?
- ❖ Are rules and policies consistently enforced by supervisors and managers?
- ❖ Are employee complaints and issues discussed openly and handled quickly?
- ❖ Is discipline handled consistently and with due process?
- ❖ Are managers and supervisors perceived as treating employees with dignity and respect and maintaining a positive work environment?
- ❖ Do employees feel they are being fairly compensated in their pay and benefits?

Often, the best way to answer these questions quickly is through a confidential employee opinion survey. A well-designed survey provides a ready forum for two-way communications and can cover a lot of ground quickly. A survey and its follow-up provide a means for a company to show that it is concerned about its employees and wants to do something about problems. Feedback from a survey will show you which procedures and programs are

working and whether particular managers and supervisors are accidentally creating an atmosphere that might encourage employees to vote for a union.

### Effective Management and Supervision

Your supervisors and managers are the face of the company to your employees. The effectiveness of their leadership and communications is a strong determiner of whether employees feel a need for union representation. How do you determine which

supervisors and managers have the skills to effectively engage employees in a work climate that reduces the felt need for union representation, while at the same time demonstrating the skills necessary to carry out your business plan?

Individual 360 degree surveys quickly enable you to see how supervisors and managers are perceived by various employee groups, including their direct reports, peers, and internal customers. 360s also can be a basis for development, helping managers improve in areas that can be critical in fostering union avoidance. Do they, for example, have good listening and other emotional intelligence skills? Are they consistent in carrying out policies or do they play favorites? Through a 360 review, you can determine which managers need additional development and which ones may be misplaced in their role.

Managing your company successfully means holding every employee accountable for doing the job effectively. Union avoidance is not simply being nice to employees. Supervisors and managers earn the respect of employees when they hold all employees accountable and do not play favorites or allow some employees to slack off, causing others to work harder.

### Selecting the Right People

Ultimately, effective employee selection is the best way to build a foundation for avoiding unionization. Good selection and interview techniques help companies avoid hiring employees who do not have the skills, work ethic, or people aptitudes to help create a positive work environment. These same selection procedures also apply for supervisors and managers, who have the most significant influence on the life of employees and how they view the company as a whole. If employees do not respect their supervisor or manager, it greatly increases their likelihood to vote for a union whether an Employee Freedom of Choice Act is in place or not.

Maintaining a union-free environment requires action on many fronts to address issues that could cause employees to feel they have nothing to lose if they vote for union representation.



# WHAT'S NEW @ PSP

## RESOURCES FOR LEADERS IN A SLUMPING ECONOMY

Ram Charan, a noted expert on business strategy and a long-time coach for some of the world's top CEOs, gives practical advice for facing the global economic meltdown in his new book, **Leadership in the Era of Economic Uncertainty: The New Rules for Getting the Right Things Done in Difficult Times**. Today's economy is scary, he says, but it also can be exciting--if you are prepared.

Adaptability is an increasingly necessary skill for leaders. **Adaptability: Responding Effectively to Change** by Joan Gurvis and Allan Calarco is a recent addition to the Center for Creative Leadership's series of brief guidebooks aimed at leadership challenges. It provides timely guidance on understanding and developing the skill of adaptability.

"A leader's most important role in any organization is making good judgments—well-informed, wise decisions that produce the desired outcomes," state business professors Noel M. Tichy and Warren G. Bennis in the *Harvard Business Review* article "**Making Judgment Calls: The Ultimate Act of Leadership**" (October 2007). They outline the phases of the judgment process and emphasize the importance of successful execution.

Harvard Business School Press has developed its Pocket Mentor series to address contemporary management thinking in many areas. **Managing Crises**, a 2008 edition, discusses how you can minimize the impact of a potential disaster by avoiding, recognizing, managing, containing, and resolving a crisis.

In **Motivate Like a CEO: Communicate Your Strategic Vision and Inspire People to Act!**, Suzanne Bates, an executive coach, author, and speaker, explains how you can become a successful leader who inspires and motivates people to work toward a common vision.

- ❖ Conducted 360 survey reviews as part of a leadership development program for executives and middle managers in a global chemical company.
- ❖ Assessed and consulted on selection of plant managers for a manufacturing facility in Monterrey, Mexico.
- ❖ Developed career development plans to help managers in a global manufacturing company focus on leading with emotional intelligence and impact awareness as part of a change management strategy.
- ❖ Created competency models and provided behavioral interviewer training to identify candidates who best demonstrate competencies for job success.
- ❖ Developed an online screening tool to assist a public school district in new teacher selection.
- ❖ Provided the executive team of a non-profit eldercare organization with leadership development services.
- ❖ Continued PSP's extensive work with electric utilities across North America in selecting successful power system operators.



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