



*Notes to Friends of the Firm 2008-II*

## **Retrieving the Killer Instinct**

Reality trumps perception.

In our continuing campaign to provoke thought we've consulted a panel of 43 corporate executives and national consultants\* who we know well, and whose first hand perspectives of management, business and reality are highly valued. The observations below are primarily theirs, as they offer us insight into our customers, suppliers and competitors – and ourselves.

### **Views of Business Financials**

Counter to the blanket media pall, disappointing financial results are not universal. But they do warrant consideration.

Our panel of respondents notes a number of external factors impacting their organizations' changing financial results. Certainly the buying behavior of their challenged business customers is having the expected effect on sales, and the conservatism of consumers has impacted every business in the supply chain. Our panel's top line results generally are down. Yet in some cases, business performance is ahead of last year, but below budget. One consumer products executive notes that where branding relies on a "luxury halo", this is not playing well. Consumers are shifting toward value alternatives.

As for the trend of financial results, the consensus is that there will not be any sustained turnaround until late 2009 – a view that, since the survey, has become a popular one. The expectation is that during the next year we'll see the downward trends flatten out. It's anticipated that the pain will lessen as corrective and preemptive actions taken by business finally have some quantifiable effect. Our respondents in, or serving, challenged industries such as automotive, appliances or home building are most concerned. They see the ranks of challenged industries continuing to grow. But as

noted, poor results are not universal. In medical products and certain consumer products, for example, results, trends and hopes, are reported to be positive.

*[For reasons that can only be inferred at this point, there is a disparity of responses to questions related to current business financial health, and the trends. 69% of consultants reported their clients' businesses are currently performing below net income plan, compared to only 31% of executives who reported that their businesses are currently performing below plan. The views of each regarding net income trend produced precisely the same %age responses, despite our shuffling the order of available answers. Our own observation of the disparity between consultants' and executives' perceptions is that successful executives generally tend to be optimistic. Consultants, by their nature, are looking for underlying issues; and their perceptions may be colored since, an economic downturn, they generally feel the impact before their clients. Our panel's mix of executives and consultants seems to have given us the balance we were after.]*

### **Views of the Economy**

*The responses of executives and consultants were completed in September and despite the then competing public and political arguments, 71% of respondents held a negative view of the*

*overall economic climate. The public and political arguments have since evolved. Thus it's a reasonable assumption that more recent events have almost certainly intensified this already negative view.*

Our panel sees a continuing disparate impact by sector. They cite the need for their own improved leadership since most all measures of financial health would otherwise dive, and they expect little substantive help from state and federal governments. They note that China will continue to be “brutally price competitive” and India, Southeast Asia and Middle East competition will continue to grow. Our panel sees overseas competitors intensifying their pursuit of our customers. “Competition is crawling out of the woodwork”.

Where certain industries don't have an especially negative view of their environment, they do acknowledge that the overall economy is tough – and contagious. Respondents suggest that the businesses that prepare now for the eventual upturn will be best positioned, but they also cite that “most decisions appear to be more defensive, trying to hold your own”. One large consulting firm observed that their government and private sector work is rather stagnant and only their healthcare practice is growing. “There's just too much uncertainty.” And an executive of a leading retail firm, noting the risks in hand wringing inaction, points out that if we're not already in a recession, “we run a greater risk of *talking* ourselves into a recession than *working* ourselves into one.”

### **Agility, Responsiveness and Action**

*In making recent key business decisions respondents, overall, feel that decisions should have been made sooner, and consultants were even more emphatic in that view. 42% of executives felt that their decision timing was about right while only 21% (exactly half) of consultants felt that their clients' decisions were well timed. Merely 7% overall felt that recent key business decisions should have been delayed further*

Some businesses face paralysis nurtured by excess caution, over-analysis, fear or bureaucracy. There have been questionable attempts to protect top lines while sacrificing

profitability. Some smaller businesses have taken on what they described as “costly delays” to maintain a commitment to employees. Still others acknowledge wrestling with the confluence of variables: the economy in general – real or perceived; customers who have taken a deeper and more prolonged hit than projected; the turmoil and costs of a re-structuring, re-staffing, or acquisition initiatives.

One executive notes his company's focus on the present. They are concerned about what may be coming, but not dealing with it now. His business has become very reactive, and is finding it difficult to hold onto its core strategies.

A partner in a large, national law firm observes that in decisions with legal implications, “perhaps because of the stakes, clients defer decisions in the unspoken hope the decision will never need to be made. This sometimes compromises options.”

A medical equipment executive observes that the “correct path is to analyze the situation, decide and move on”. You can be cautious in decision-making without slowing the process.

*Moving from decisions to actions, only 26% of our total panel reported no change in year ago decisiveness. 38% reported greater agility in response to the times. 63% of consultants observe their clients' implementations are proceeding more cautiously than a year ago.*

The victims of indecision include business expansion, capital investment, marketing initiatives, business systems improvement and the hiring of additional or replacement talent. In the acquisition of new businesses, products or relationships, due diligence periods are being extended. Acquisitions are also being delayed as “many businesses are trending downwards and the valuations are misleading”.

Where the need for downsizing or restructuring is acknowledged as essential, many of these initiatives are being delayed by aversion to the risk associated with any change. In addition, capital is being preserved to protect the core business, delaying yet other investments. The reluctance to change is also keeping some businesses from embracing new selling opportunities unless they're clear, certain and immediate.

Not surprisingly the effect of personalities is also more in evidence as “ego and corporate politics” further frustrate timely action.

### **Positioning for 2009 - 2010**

*To deal with challenges in the current climate, 71% of our panel reports that their businesses and clients are giving greater consideration to structural changes than a year ago, although implementation is delayed. As for new leadership, 41% of the panel reports that there are key leadership openings for which the right candidates have not been pursued or attracted. Getting to the details:*

Many organizations are just implementing Lean initiatives or episodic downsizing. In contrast, change for others is coming through their ongoing “lean journey” or institutionalized rightsizing. One business reports that their prior year’s introduction of Lean has already had a significant year over year favorable impact on agility and costs. Organization “flattening” and the narrowing of the spans of control are not uncommon.

Our panel reports cases where the capacity to change has been improved by having better actionable data and processes, compared to a year ago.

Some are going so far into their business model as to get into “how the mousetrap was built”.

Not all are focused on the short and medium term. Some are also “positioning for rapid growth when the economy turns around”, making sure they have the right resources to match their ambitions. These efforts are not uncommonly including the upgrading of leadership fit and caliber. “Marginal performers cannot be tolerated as there is more talent available due to the general business conditions and the uncertainty of when a recovery will materialize.” Where more seasoned talent is needed, some respondents are intensifying their employee development. One CEO reports that the global shortage of certain talent has driven the organization to a “more robust executive development review process with accompanying succession planning”. Another alternative to recruiting or working with the employees they have is to try and manage with interim leaders.

Viewing the world from the perspective of small to mid-size businesses, it was observed that “national economic difficulties present opportunities for small companies to strengthen their management and technical talent.”

In any case, “finding the right talent is taking long, or longer, than in past.”

Some businesses explained their indecisiveness as a conscious wait for the election, or evidence of an upswing in the economy. However they do recognize the risks associated with avoidance or postponement. \*\*

### **The Path Through: Retrieving the Killer Instinct**

If not now, when?

It’s no surprise that the current business climate has driven the dilution of decisiveness and agility – in some cases to an extreme. Listening to fellow business leaders, and to consulting experts who provide business counsel, helps us to better understand our own environments and to see alternative paths through this tangle.

Our panel was very generous in sharing their experiences. First, and again, “depending on your business model, industry, customer profile, competitiveness and other factors, not all businesses track with the overall picture.” Second, leaders who have not previously worked through a recession will have a different view from those who have. And third, those whose markets are narrowly focused on the US, or a single customer segment, are undoubtedly having different experiences from those working more globally.

Some leaders are looking for hopeful events – e.g. the bottom of the housing free fall; the continuing moderation of energy costs; the passing of the election (and there was no preference expressed for the outcome). Through the impassioned questions of our year ago Notes, we asked “*Why not wait? For what? A sudden economic counter cycle, a new President, the cavalry? We know that if you wait for the ultimate pain to develop, it probably will. We also know that you may then be cornered into forms of instant relief with your options limited to quick and dirty consolidating, frenetic cutting, possibly even mortgaging the*

*business's future to get through the short term...."*\*\*

Now, for some of the more specific suggestions advanced by our panel.

Stay committed to your vision, understanding that the tactical or strategic routes may change. Stay focused on targets and a "day-to-day obsession with timely execution". "Problems that are swept under the rug become larger, not smaller."

"Put creativity to work before capital" and be ready to rebound with a very lean machine.

Make adjustments quickly and don't defer hard decisions. They won't get easier until after 2009 (this recovery is going to take a long time). Without citing specifics, it was noted that leaders should look to the bursted dot com bubble and how those survivors survived.

Take advantage of your competitors' hunkering down. Remain very visible in the marketplace – for near term advantage, and to be front of mind as your customers recover.

Recognize that you're operating in a tension fueled environment. "Now is not the time for the executive team to be pessimistic. They must be seen and heard at all employee levels. Take the time to explain market realities and what they, and the company, can do to overcome barriers and capitalize on opportunities. Sell hope." And take a hard look at your management team – are they right to manage in this different environment and position for ongoing change?

It's clear from these observations that your business is not alone. Caution is certainly important "so long as it doesn't tie business in a knot" or "allow more agile competitors to seize opportunities and position".

Hope is good. But just hoping, waiting and trying to get along are not so good. Surviving or thriving demands that we take prudent, faster, bolder steps – that we retrieve the killer instinct.

---

\* [Our many thanks to the panel of 43 leaders, who TowerHunter knows well, who responded confidentially to our inquiries, and who, in essence, wrote this letter. They include: 27 CEO's and other key executives from a cross section of industries, in organizations ranging in annual revenues from \$18 million to \$80 billion; and 16 lead business consultants (including financial, legal, governance, operations, human capital) who reported on their clients' businesses. Respondents' operations are global, although US concentrated; and their business headquarters span 19 states. [The collection of our panel's responses was completed in September, 2008.]

\*\* In our Notes of one year ago, *Business Versus The Economy – Business Can Hold the Line*, we anticipated the current challenges and offered our own insights for thought and action. If you'd like a copy of that Letter, please email Stan Davis at [sdavis@towerhunter.com](mailto:sdavis@towerhunter.com).

*"Every morning in Africa, a gazelle wakes up. It knows it must outrun the fastest lion or it will be killed. Every morning in Africa, a lion wakes up. It knows it must run faster than the slowest gazelle, or it will starve. It doesn't matter whether you are a lion or a gazelle — when the sun comes up, you'd better be running." - Author Unknown*

---

Copyright © 2008 Stanley H. Davis and TowerHunter, Inc. All rights reserved. [sdavis@towerhunter.com](mailto:sdavis@towerhunter.com)

**TowerHunter is a national executive search consultancy working with clients to find great leaders, from its offices in Washington, DC, Pleasanton, CA and Phoenix AZ; and Providence, RI and Wakefield, NH.**