Practical Leadership

Managing Intelligently in the Era of The “New Normal”

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Abstract
This provocative article identifies seven key tenets for leaders to manage in the “New Normal”. The author has written this article by blending learning’s from interviewing several executives as well as his personal experience in working with over 120 companies across a range of industries and size. The author believes that way out of this era of “once in a lifetime” economic volatility (that mimics both elements of a depression and a recession - called a decession) is to challenge our leadership paradigms and lead very differently.

Recent economic indicators seem to indicate that the worst of the “Great Recession” is over. The forthcoming era of predicted slow growth, high unemployment, and relatively scarce capital has been characterized as the era of the “New Normal” by Bill Gross and Mohammed El-Arian, CNBC mavens and the renowned co-CEO’s of PIMCO that manages of over $100 billion in assets.

Most business leaders have never faced the magnitude of this many issues associated with business downturns – sharply declining sales; diminished revenues; reduced or even negative margins; tightened or withdrawn credit lines; diminished access to credit; and far slower sales cycles with wholesale buyers. The variety of responses that have been deployed have run the gamut of what we would call the “typical business crisis circle-the-wagons toolkit”: Review budgets and immediately cut all discretionary costs; complete an organizational review and eliminate all redundant / unnecessary functions/geographies; force rank all staff and complete reductions in force to match capacity with demand; reduce inventories; improve working cash management; secure the best / lowest cost available financing arrangements; strengthen and leverage relationships with long term customers and suppliers.

The severity and speed of the downdraft shocked, and frankly frightened even the most seasoned senior executives. We were collectively entering unknown territory, and in some respects this series of events was an unprecedented phenomenon. And it has taken several years for the financial and associated regulatory systems to recover. There have been secular changes anticipated in the way banking and business will transacted going forward. The rules of the “New Normal” were being written, and the uncertainty of the intervening period added another dimension of challenge for business leaders.

Michael Alicea is the Senior Vice President of The Nielsen Company the world’s leading marketing and media information company. The Nielsen Company employs advanced data collection methodologies and measurement science to help businesses turn new and traditional sources of data into customer intelligence to better manage their brands, launch and grow
product portfolios, optimize their media mix and establish meaningful customer relationships. Mike believes that the “New Normal” was particularly difficult for leaders because the rules of business were drastically changed. Demand was not driven by US consumers, lower cost labor pools such as China and India were emerging, the meltdown of US automobile financial services, and banking industries caused shock waves throughout the economy.

Based on our interviews with executives and personal experience in working with a wide range of clients our learning’s suggest there are 7 tenets for leading in the “New Normal”

1. **You can’t save yourself to prosperity.** One of our observations over the last 10 years has been a growing trend in leaders being promoted in ever greater numbers based on their capability to “fight fires” or manage crises. Companies should learn about what GE does to develop their managers. Leaders who are targeted for General Manager level positions are put in different operating companies to gain experience in a wide range of business cycles from high growth to retrenchment/turnaround providing their executives with a much broader experience base.

Peter Wengryn is the President of VMS a privately held company that employs over 900 people. VMS is comprised of three business units **News Monitoring Intelligence** (across all media types including TV, radio, print, internet, social media and web print); **Advertising Competitive Intelligence** (to help you stay informed of your customers and competitors advertising activities across all major media including TV, radio, print, internet, cinema, billboards); and **Professional Services** (provides metrics and relationships of activities to business outcomes i.e. how effective are your PR and advertising efforts). According to Peter “When times are tough instead of trying to survive by cutting costs I double down believing you need to take calculated risks and invest in growth opportunities”.

**Key learning’s:**

- Any junior leader can improve the financial performance of their organization by cutting costs, the best leaders use cost cutting to stabilize their business and then quickly focus on implementing a targeted growth strategy to increase the “top line”. Chensun Mills is an Account Executive at Robert Half Management Resources who are the world’s premier provider of senior-level accounting and finance professionals on a project and interim basis. She is in a rather unique position to view leadership from the perspective of a service provider having to evaluate and deliver top tier talent to organizations that are in need of leaders to address specific business issues or projects. Chensun believes the demands of the “New Normal” will dictate that leaders truly understand the pain points and expectations of their cutomers and thereby using that knowledge to drive their business model. Moreover, Chensun points out that leaders will also need to understand the impact of new influences such as social medial on their business model and begin to more heavily lean on non-traditional tools such as leveraging their personal networks in order to keep up with the rapid pace of market change and availability of new tools.
Most organizations do not utilize the full range of growth engines and really don’t know where their revenue is coming from - it’s like a black hole. The internal growth engine is primarily composed of your planned marketing efforts (the 5 P’s – Pricing, Positioning, Packaging, Promotion, etc.) and new product development. Conversely the external growth engine is comprised of mergers & acquisitions and joint ventures, strategic partnerships, licensing, and alliances. Many organizations tend to overly rely on the external growth engine if they have deep pockets because they offer the promise of a home run outcome. The downside is that you are often bidding against other players so the price becomes inflated and historically the success rate of these deals is relatively low. As part of their strategic planning process organizations should identify exactly where/how revenues will be realized and tightly align the growth engines with their business strategy. Just because you are in the midst of a recession doesn’t mean your organization can’t grow. If you doubt this just take a look at the list of the “large gainers” on any of the finance websites. “ According to Mike Alicea “too many leaders use a football prevent defense, they don’t play to win, they get overly conservative and play not to lose”.

2. Good leadership doesn’t = being liked. One of the things that makes Mike Alicea an effective HR executive is that he has spent time outside of HR in Operations and possesses very strong cross functional understanding of business. He believes the most successful “New Normal” leaders must excel at:

- Setting a vision that communicates the game has changed and engendering employee passion to embrace these changes;
- Understanding their organizations current capabilities and being data driven but decisive;
- Assessing and developing other leaders who can help them implement their vision. The development process is the critical engine that makes everything go.

Many executives we have interviewed believe there has been a “dummying down” of senior leadership over the last 5 years. As the more mature leaders retire or out of frustration “cash out”, they are being replaced by new leaders who have become experts at corporate survival and managing up. In the 1980’s-90’s a number of books and articles were written extolling the virtues of “good leadership”. As the economy tanked over the last 3 years we have observed an interesting phenomena. The leaders who had a chair when the music stopped, tended to have the best survival skills. These leaders became very adept at “managing up” and went to great extremes to avoid and not resolve conflict and at times avoid making tough decisions. Another factor in promoting these behaviors is the inappropriate application of 360° performance management systems that inadvertently rewarded leaders based on their “popularity”. The leaders who made the tough decisions were “beaten up” (and they altered their behavior to conform) or were “forced out” because they had threatened the old guard.

This is summed up best by Peter Wengryn “Show me a leader who everyone likes and I will show you someone who avoids making the tough decisions.”
Key learning’s:

- The most effective leaders don’t assemble leadership teams comprised of their friends or “yes” people who have their backs. Their teams are comprised of a broad range of people who have different styles and capabilities, who feel they are empowered to question the status quo, and focus on value creation.
- Leaders own 51% of every vote or decision made within their team. Exercise your right when you feel your direct reports are going down the wrong pathway.

3. Effective leaders must be able to think strategically but have good executional skills.
   The leaders of tomorrow must have the ability to think conceptually and strategically in understanding very complex and global business markets/challenges.

Leaders must become facile with data analysis to fully understand their markets, competitors, and customers, identify “unmet needs”, and then be able to align their business model and growth engines to increase shareholder value. According to Mike Alicea “the most successful leaders in the “New Normal” will have an external focus. They will be particularly adept at getting out and meeting with customers, use benchmarking to think outside of their paradigm and understand what are their business drivers, and be decisive at making decisions”. They also need to be able to be open to countervailing views that shake their current understanding and conventions. This reminds me of a conversation I recently had with the head of a large business segment in the Life Sciences industry. Having completed a strategic planning project with him he casually asked me over dinner one night, what did I think of his business? I answered I think you are in deep trouble. Your internal new product development process is costing you billions and all you are getting is product extensions, your business model is bloated with a number of SBU’s each with their own senior team (creating incredible cost burden your competition doesn’t have), and supply chain and sales processes should be optimized across the organization NOT at the SBU level. These are observations any good MBA should have made; they were not profound. In fact they should have been obvious to this leader and the senior team but the leader could not conceive that the underlying business paradigms were no longer appropriate, and in fact, adversely impacting financial performance. Soon after the financial performance precipitously declined and he was asked for his resignation.

Peter Wengryn believes one of the factors in his success in turning around VMS nearly 8 years ago is knowing when to dive down into the detail. He believes too many executives are uncomfortable with getting their fingers dirty and have weak implementation skills. He asserts, “You can’t solve problems unless you understand the underlying processes. I regularly meet with employees to learn in detail what they are doing.

Key learning’s:

- The most profitable growth is often around applying your core capability to an “unmet market need”. It is much harder to win the war by under pricing or out promoting the competition in an existing market. Often winning can be obtained by identifying “Blue Ocean” opportunities. This term was coined by W. Chan Kim and Renee Mauborgne
professors of strategy at INSEAD, one of Europe’s top business schools. Based on 15 years of research analyzing many different companies across 30 industries they contend that the highest growth and profits are often best generated by creating new demand in an uncontested market space they call "Blue Ocean". See Exhibit 1.

### Exhibit 1.

**Key principles of Blue Ocean**

<table>
<thead>
<tr>
<th>Instead of competing in known markets create uncontested market space. Create and capture new demand.</th>
<th>Understand where the competition is currently investing, the factors the industry currently competes on, and what customers value from the existing competitive offerings on the market.</th>
<th>Identify what factors need to be reduced below industry standards; what factors need to be raised above industry standards; and what should be created that the industry has never offered.</th>
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| **Blue Ocean opportunities can be identified by:**  
- Looking across alternative industries  
- Looking across the chain of buyers  
- Looking across complementary product & service offerings  
- Looking for unmet needs in current markets | Align your value chain in pursuit of true differentiation *and* low cost | Blue Ocean can be realized by:  
- Stop offering factors that industry takes for granted or doesn’t value (e.g. bags of peanuts on an airline flight)  
- De-emphasizing factors that should be reduced below the industry standard (e.g. offering service to your cars until midnight)  
- Increase your capability to deliver above the industry standard (e.g. customer service)  
- Offering new factors that industry has not offered (e.g. WIFI on domestic airline flights) |
4. **Too much collaboration = abrogation.** Business is not a democracy, nor does it have to be a dictatorship. An alarming trend is leaders who consciously avoid making decisions because they either lack the confidence in their knowledge of the organization or are fearful of the repercussions of making a bad decision. Reward systems (base, bonus, equity) often compensate the wrong behaviors (risk aversion) and tenure instead of value creation and outcomes.

**Key learning’s:**

- Don’t be afraid to make unilateral decisions. The voice in your head is most likely the reason you are sitting in your current executive seat. If you don’t listen to it and exercise your 51% vote you are the one most likely to not have a seat when the music stops!
- Create meaningful consequences. Most organizations today believe they have a pay for performance reward system. Behind closed doors many are still carrying a lot of “*dead weight*” because career progression in many organizations is heavily based on relationship management instead of generating results or value creation. The key to career progression has been to develop relationships with rising or key executives and ride their coat tails up the corporate ladder. Leaders need to model the right behaviors. They need to not accept mediocrity and ensure the best performers are rewarded in a tangible and differentiated way. If the spread between a “*walk on water*” and a “*treading water*” employee is a 2% pay increase difference do you really think this is creating a meaningful consequence? Leaders must decrease the population of the “*bottom feeders*” and ensure there is internal equity in their reward systems. Mike Alicea believes one of the keys is to tightly align the HR practices. According to Mike “at Nielsen we use a meritocracy based system that allocates rewards in a differentiated way. The individuals who are at the highest performance level receive twice or more the rewards of an average performer. The lowest performers get no merit increases as well as limited bonus payouts and are either coached to improve their performance, aligned with a better role, or moved out”.
- A key success factor of good leadership in the “*New Normal*” is managing the environment. Leaders must be perceived as being integrate, honoring commitments, communicating using “*straight talk*”, and dedicated to excellence.
- Too many organization cultures send out mixed signals to the workforce. Because of limited job security employees, have become very risk averse. Chensun has observed a growing number of employees focus their energy on engineering how they are perceived by senior management as a higher priority rather than making tough decisions that translate into long-term results.

5. **Understand your performance drivers.** Many leaders lack a clear understanding of the “*cause and effect*” that drives organizational performance. If you understand the drivers of business performance than you can develop leading metrics that can predict business results. For example, if you are a bio-pharma company and you analyze what drives revenue you might find that historically there is a statistical relationship between number of physician sales calls and revenue generation. A statistical analysis of past performance might reveal...
that X number of calls to physicians results in Y number of meetings. With a close rate of AB you can create an algorithm that links calls to revenues. So if you are in the middle of a quarter and you are behind in your revenues, it is now clear what you need to do to increase sales.

**Key learning’s:**

- Create a strategy map (which can be used to identify your business drivers) and balanced scorecard. Align the scorecard to compensation, budgeting, and management reporting to manage your business on a day-to-day basis.
- Once cause and effect are understood, educate and communicate this throughout the organization. This will provide employees with “line of sight” so they understand exactly how they impact the top and bottom line.
- Design and implement appropriate checks and balances to ensure your reward system has internal equity and minimizes the halo effect. One way to do this is to correlate unit performance with individual performance. For example, if you have a business unit with 40 staff and 95% of them are rated as “outstanding” and “exceeds performance” expectations than the overall unit should be exceeding its performance targets. If not, something is broken (poor performance metrics, leaders are not having difficult discussions with employees and challenging weak performance, etc.) and there is no internal equity. This sends out enormous signals to employees. Peter Wengryn has run VMS based on the following principle “If you are not being a change agent, there is no hiding here”. Another action can be to regularly review the performance ratings across a group of leaders to normalize evaluations across a common denominator. This way it normalizes the overall bar of leaders who are very hard graders and conversely raises the performance thresholds for those who are easy graders.

6. **Attract, develop, and promote leaders based on impact not on ancillary factors.** Being faddish, most organizations today spend a considerable amount of time communicating the importance of talent management. They define what is a “key position”, and who are the “ready now” successors. This well-intentioned exercise commonly turns into a fairly mechanical process of updating the names in the boxes. It’s mechanical because often a very small percentage of these “ready now” successors are actually promoted when the key positions become vacant or the folks who are promoted are perceived as a bunch of “empty suits” (no internal validity). According to Chensun, “hiring/promotion decisions need to be based on a person’s potential ability to complement the team and not be based on political issues or convenience.” She explains that in the era of the “New Normal” leaders will need to create things that have not been done before and encounter unknown events that require “intuitive navigation”. First hire innately smart athletes, not those who can only demonstrate already learned skills. Then invest in these athletes by providing enough time to obtain the right experience. During this economic upheaval investments in leadership development have been curtailed in many organizations created a considerable void in “ready now” successors. This is likely to be most felt when the economy improves and leaders start leaving their current jobs for new career opportunities.
Too many organizations have fallen into the trap of looking for the “silver bullet” that in one svelte swoop will fix a complex problem. Look at the organization charts of many companies and you can’t help but see similarities in the dominant coalition. A disproportionate number of the executives:

- Have identical company pedigrees (GE or Pepsi folks – with the naïve assumption that everyone who has worked in these organizations is a super star);
- Have similar educational criteria (All third generation Stanford University or Ivy leaguers);
- Have very similar socio-economic characteristics;
- Are promoted based on developing a tight relationship with a sponsor and NOT through achieving results (Called the Friends of X syndrome).

Netting out organizational rhetoric, too many leaders today are promoted based on their sizzle not their substance (how much impact or results they deliver). For those of you who are reading this and are taken aback, ask yourself the following rhetorical question. How many times have you walked out of a meeting with a senior executive and shook your head saying I can’t believe this person makes $500K? If it is obvious to you, it has to be obvious to the employee base. The HR practices work best when employees perceive internal equity.

**Key learning:**

- HR practices such as talent management, performance management, and compensation have to be seen as being fair and equitable and capable of differentiating those who “walk on water” from those who are “treading water”, and “under water”.
- Presidents and CEO’s have to challenge promotional/hiring decisions to ensure well designed HR practices achieve the desired outcomes.

7. **“A Players” only want to report to and work with other “A players”**. A famous sports coach once said I am only as good as the talent of my players. My leadership only makes the difference in 10-20% of the games. While these exact percentages may not translate to winning at business, directionally it causes one to stop and ponder. One of the earliest discussions I had early in my career bears restatement. I was working with a grizzled executive at UTC who once said “that for every person on my staff who isn’t holding up their own weight 10 other people know it and don’t respect me as a manager”. That conversation happened over twenty-five years ago and I still remember it like it was yesterday!

**Key learning’s:**

- Set high performance expectations, hold staff accountable for results, and get rid of the bottom feeders. “A” players won’t accept reporting to “C” players – they will get very frustrated with people who don’t comprehend what they are saying or don’t have the intestinal fortitude to make the tough decisions.
- Key talent does not stay with a company because of compensation, the most common reason why key talent leaves is due to poor leadership.
According to Mike Alicea “to be successful in the future a leader must be a broad thinker, fully understand the markets they compete in and the overall global ecosystem, be a strong developer of other leaders, and skillful in engaging employees during execution”. These types of decessionary (has some of the elements of both a depression and recession) periods are particularly challenging because they require leaders to have both cost rationalizations skills, deeply understand their organizations business drivers to be able to identify which aspects of their internal/external growth engine should be tapped to increase their top-line, and management decisiveness and vision to execute a business plan moving forward. To achieve this organizations will need to do a much better job of aligning their HR practices (e.g. performance measurement, performance management, and rewards/recognition). Lastly the talent assessment, acquisition, and development processes have to better designed and managed so a culture of high dedication to excellence replaces the all too prevalent culture of hunkering down, risk avoidance, and managing up.