



# THERE IS A BETTER WAY TO WEATHER THE DOWNTURN

## What Post-Recession Winners Know And Do

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### INTRODUCTION + PERSPECTIVE

History provides lessons and guidance on how we can make better decisions. That's why some of the world's best business schools build future leaders by reflecting on past cases and learning from the decisions made and actions taken.

But COVID-19 is presenting a set of circumstances that none of us has ever experienced before. Is there a business school anywhere that has a case on *Leading Through a Global Pandemic-induced Depression*? The implications of this pandemic – and the actions taken by public health officials, political leaders, and corporate officers – will shape global consumer behavior, perhaps for decades to come. The International Monetary Fund has called this The Worst Economic Downturn Since the Great Depression<sup>1</sup> with Chief Economist Gita Gopinath writing that “the magnitude and speed of collapse in activity that has followed is unlike anything experienced in our lifetimes.”

This presents a unique dilemma for us all: **How do we take action to lead, and emerge strongly from something that we (individually and collectively) have never experienced before?**

The comforting news is that while today's circumstances are unique, recessions are recurring events. And there are a number of things that post-recession winners know that can benefit you and the people around you. We explore those insights here.

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<sup>1</sup> <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>

## A LACK OF CONTROL: UNCERTAINTY, UNPREDICTABILITY AND THE FUTURE

Results matter. Public companies' performance scorecards are evaluated quarterly, with consequences for their stock price, access to credit, cost of debt, and ability to carry out strategic plans.

Leadership teams play a vital role in this dynamic. Most of the time, a leader's value is tied to their ability to plan for and lead through the unanticipated. **But this is where we run into our first issue.** In their book *The Art of Strategy*<sup>2</sup>, Dixit and Nalebuff (of Princeton and Yale respectively), accurately highlight that “much of strategic thinking remains an art... Science and art, by their very nature, differ in that science can be learned in a systematic and logical way, whereas expertise in art has to be acquired by example, experience, and practice.” This is why, when a nominating committee is assessing candidates for senior roles, they look for experience. Does the candidate have relevant “been there before” frames of reference they have lived through? What counts as pandemic and aftermath experience? Leading through the 2008/2009 recession might help. Running an airline immediately post-9/11 would be additive. Global pandemic experience, coupled with an understanding of running a global supply chain and likely consumer behavior in the midst and emergence of a depression – preferred.

The challenge is that no one has this aggregation of experience. And this is where the art comes to the fore.

As humans, we have demonstrated that we can adapt – successfully – to changing circumstances. There are times when we *Thrive* (we race ahead to try new things, experiment, innovate, and take risks) and other times when our actions are instead dominated by a *Survive* response (hunker down, resist or kill off external threats, and focus on preservation). Knowing that we have these two response paths within us is helpful. What we aren't comfortable admitting, though, is that our inner *Survive* or *Thrive* states are activated in different ways, many of them unconscious. **This presents our second dilemma:** We have to work really, *really* hard to overcome the unconscious triggers when they are not to our benefit. Daniel Kahneman revealed a model of our brains processing information predominantly in two different ways – one system being more deliberate and intentional, and the other being more instinctive and emotional – and both being influenced by any number of biases that we don't actively control.<sup>3</sup> In others words, to some degree, we are all biologically predisposed to making decisions which may not be the best ones under stressful circumstances.

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<sup>2</sup> Dixit, A., and Nalebuff, B. (2008). *The Art of Strategy*, New York: Norton.

<sup>3</sup> [https://en.wikipedia.org/wiki/Thinking,\\_Fast\\_and\\_Slow](https://en.wikipedia.org/wiki/Thinking,_Fast_and_Slow)

### POST-RECESSION WINNERS UNDERSTAND THIS

**Fear is the biggest driver of our crisis response.  
We can – and must - take steps to mitigate fear  
if we want to achieve the best results.**

According to David DeSteno, psychology professor and Director of the Social Emotions Group at Northeastern University, when it comes to the impact of this pandemic, “Our decision making is bad enough when the disease is hypothetical. But when the disease is real – when we see actual death tolls climbing daily, as we do with the coronavirus – another factor besides our sensitivity to losses comes into play: fear.”<sup>4</sup>

Fear, in turn, is exacerbated by three factors: lack of **predictability**; lack of **control**; and lack of an **end in sight**<sup>5</sup>. Knowing then that these are the primary drivers of fear, and in turn of our Survive response, *post-recession winners know that they need to take immediate action to shift all three of these dimensions.*

From our experience, the winners who emerge from this recession better than before will be those who not only understand their businesses and their value chains, but who have a passing understanding of how our brains work. Because unless you operate in an entirely automated environment with no people involved, your performance will depend on how effectively you are able to harness the potential of your workforce. This will be the single biggest differentiator for success.

### POST-RECESSION WINNERS UNDERSTAND THIS

**The single biggest differentiator for post-downturn success is  
the ability to harness the potential of the workforce -  
during *and* coming out of the downturn.**

In their well-researched Harvard Business Review piece on *Roaring Out of Recession*<sup>6</sup>, the authors demonstrated unequivocally how only 9% of 4,700 public companies “flourished after a slowdown” – with the best performing companies relying on layoffs much less than their peers. Layoffs, while a factor in weathering the downturn – and certainly more urgent and prominent across some industries than others – should not be the cornerstone of your strategy. But beyond minimizing layoffs, how can you better harness your workforce’s full potential during this crisis?

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<sup>4</sup> <https://www.nytimes.com/2020/02/11/opinion/international-world/coronavirus-fear.html>

<sup>5</sup> Rajity Sinha, Yale professor and director of the Tale Interdisciplinary Stress Center.

<sup>6</sup> <https://hbr.org/2010/03/roaring-out-of-recession>

## A. CREATE A SENSE OF PREDICTABILITY

Our brains are wired from birth to perform most efficiently in a predictable environment.<sup>7</sup> You see a toothbrush in the morning and you “know” what to do with it. You see the traffic light turn red on your morning commute and you “know” to stop. You see the security turnstile at the office and you “know” to pull out your access badge and swipe it.

We “know” these things – and millions of others – because they are familiar and predictable. We would be flat-out exhausted by 10am each day if we had to think critically about every single thing we did, every action we performed. We crave predictability.

Today, predictability is at an all-time low. We don’t know if or when we will be going back to work. We don’t know whether we will be able to find household staples at the supermarket. We don’t know if that cough we had yesterday was the onset of COVID-19 or “just a cough.” This uncertainty is magnified if you’re running a business or a function with responsibility for making decisions that have broad implications on many other people. And absolutely expect that uncertainty to be amplified if you think your job is at risk.

The post-recession winners are already hard at work creating a sense of predictability where there is little or none. That is not to say that the winners themselves have all the answers; indeed they are often working at odds with their own personal uncertainties. But they know that they need to overcome this and establish areas of predictability to help others eliminate this as a cause for fear.

Here is what the winners do:

1. **Predictably provide information.** Set up a cadence for communication to the organization. Let everyone know that at 10am on Tuesdays there will be a recorded video call where you’ll outline the latest information you have. You will address the state of the business, acknowledge how people on your teams are going above and beyond to delight each other and your customers, etc. Even if you don’t have an “update,” open up the call at 10am on Tuesday (or whenever) and just be there. That predictability reassures your organization that there is one less thing they need to worry or wonder about.
2. **Predictably run the business.** Modern businesses have been designed with processes and systems to optimize efficiency. Whether or not they perform perfectly is not of prime importance right now. What is important is to continue as much ‘business as usual’ as makes sense. So, if your performance review process is usually an April/May activity, it is important that it continue – even if you decide to simplify it this year. For example, customer appreciation events typically conducted in April in-person can be shifted to virtual events instead. The point being: they still occurred. Take an inventory right now

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<sup>7</sup> Cognitive Reflection test - Shane Frederick 2005 Yale University <https://www.aeaweb.org/articles?id=10.1257/089533005775196732>

and make sure you aren't unnecessarily delaying or cancelling an element of predictability that you could continue with some logical delivery modification. Understandably, cost reduction across the board is a major focus right now – paring expenses that are a drag on working capital and free cash flow. Communicate the decisions you need to make and minimize the surprises. Surprise is the opposite of predictability. And our brains don't like surprises.

3. **Predictably celebrate progress.** Find the progress and the results (both big and small) and celebrate these – because there is progress being made every hour *somewhere* in the business. The winners identify and communicate this progress as part of their daily routine. Celebration and appreciation cause our brains to increase the flow of dopamine, a neurotransmitter that plays a huge role in how we feel pleasure and pain. This introduction of more dopamine contributes to a state of Thrive - *I feel good, and that makes me want to do more so I can get more of this feeling*. When more people are functioning this way, you create powerful momentum that others can see and feel, even when working remotely.

## B. CREATE A SENSE OF CONTROL

By now we have all heard the stories of employees getting an email to join a video call and being laid off within two minutes. (The actual audio recording is rather horrifying<sup>8</sup>.) While you may need to lay off employees to preserve cash, think about *how* it is done, and the impact that will have on the people who remain employed as well as those laid off. Whatever sense of control they had evaporated in about 120 seconds – along with any motivation to fight for the company's survival and success.

Post-recession winners already know that undermining people's sense of control is to be avoided at all costs, and they take action to avoid falling into this trap.

Here is what the winners do:

4. **Clearly define what can and cannot be controlled.** This is delicate, in that COVID-19 and the ensuing economic contraction is something that no individual leader can control. However, the winners know what they *are* in control of, and convey that to their teams. We are already seeing the winners coaching their teams to clearly articulate and differentiate what they can control and what they can't – and to then focus the work on what they can control. As people make progress on the controllables, highlight and reinforce those achievements. Making progress communicates control, at least to some degree, and reduces fear at the same time.

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<sup>8</sup> <https://dot.la/bird-layoffs-meeting-story-2645612465.html>

5. **Use processes and tools to frame how the work is done.** Leading any organization comes down to thinking about *what* needs to be done, and *how* it is done. The *what* dimension is specific to each business. Yet it is the *how* dimension that can have greatest impact during times of uncertainty. It is not uncommon to find leaders over-indexing and spending up to 80% of their focus on *what* is being done, and very little focus on *how* work is done. *Winners reverse this.* Where control is in short supply, winners create a sense of control by focusing on *how* the work is done. They fine tune processes to yield expected results. For example, call centers are inundated right now with an overwhelming increase in volume. The winners are focusing on processes to optimize the call flow and ensuring that the agents have all the information they need to deliver the best service possible to their customers. They adjust capacity to meet demand and listen to the agents communicating what customers are calling in for. They are proving that their processes and tools are working, in turn helping their employees to feel more in control. All of this removes some uncertainty and instills a greater sense of control.
6. **Give everyone a role.** At the highest level, this reaffirms that your employees matter. You want people to know that their contribution adds value and makes a difference. It seems as though every company with an advertising budget has commissioned a TV commercial to communicate how we are “all in this together.” Most of them are pointless, but an interesting one from Kraft Heinz USA has shop-floor employees talking about the role they are playing<sup>9</sup> for the company and the country. One such employee explains that she is doing her job for all the people in America who are in some form of lockdown. It is a powerful example of being able to show up with determination and focus amidst uncertainty. Her role conveys pride and purpose. As this recent powerful story illustrates, we are seeing this sporadically, but not nearly often enough<sup>10</sup>.

But there is more to this than a sense of purpose. It comes down to employees knowing that they can make the right decision to do what is right. We are seeing winners embracing a management philosophy that sounds a lot like **entrepreneurial initiative**: if someone has a smart idea on how to fix an issue, let them run with it. Put a few guardrails in place, then let them do it. Don't committee it to death. Don't expect a PowerPoint rationale. Trust that smart people, working together, will make smart decisions. And when it works, celebrate it and send the message that everyone is empowered to impact the operation. And if it doesn't work, celebrate the attempt, learn from it and move on.

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<sup>9</sup> <https://www.youtube.com/watch?v=5J4O5KBp1FA>: “Given the current situation, we are all affected by what is going on in American today. And I was asking myself like what could I do. I feel proud that along with my colleagues I have been called upon to do what we can in this situation. I feel like I am doing it for all the families in America who are not going anywhere. We are here. This is bigger than all of us - but together we can get through this.”

<sup>10</sup> <https://www.wsj.com/articles/the-workers-at-a-lysol-plant-have-a-mission-now-11587482618>

## C. CREATE A SENSE OF THE FUTURE

Whether referring to COVID-19 or the resulting global economic downturn, we don't know how long this will last. The inability to see beyond the next two weeks of lockdown or the rolling school suspension dates leads us to exhibit short-term thinking, and makes positive aspirations difficult to maintain. Even if, in December 2019, you felt good about helping your company to change the world, you're less likely to be thinking that today – unless, perhaps, you're racing to invent a COVID-19 vaccine.

For most of us then, the conversations within companies and in the media have been reduced to the shortest term: the price of oil (or our stock price) today, when we will emerge from a lockdown, what summer vacations will feel like if they're able to occur, etc. Winners are helping to shift this mental model to rediscover aspirations for the future. They are not losing sight of the opportunity that they have to impact the world – to make a difference. They may be somewhat less bullish, but they are confident that they have been relevant and will remain so (though perhaps differently) as we emerge from the current conditions.

Winners know that emotions are contagious<sup>11</sup>. By helping ever-larger numbers of people feel that a positive outcome is realistic and attainable, you're building a movement – an unstoppable engine – that can get you through almost any adversity<sup>12</sup>.

Here is what the winners do:

7. **They answer the question: “What can we achieve?”** Amidst the frenetic scramble to stay afloat and adjust to these new conditions, effective leaders still paint a shared picture of why their company should exist right now and how it can create a positive impact today and in a post-COVID-19 world. This is not a nice-to-do exercise – the research bears it out<sup>13</sup>. Whether you manufacture t-shirts or kitchen utensils, or operate vital services like a utility or healthcare organization, inviting everyone to be a part of attaining this aspiration is a powerful way to get results and mitigate fear. The winners know this, and will race out of a depression faster with everyone aligned around the impact they are going to have. They talk about the role that they play in leaving a mark on the world. Higher productivity targets don't get people excited, but making a difference does – what a story to be able to tell together.

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<sup>11</sup> <https://www.theatlantic.com/science/archive/2018/01/willpower-isnt-the-best-way-to-get-things-done/550766/>

<sup>12</sup> <https://journals.sagepub.com/doi/full/10.1177/1745691617692106>

<sup>13</sup> <https://www.frontiersin.org/articles/10.3389/fpsyg.2015.00670/full>

## CONCLUSION + ACTION

Ultimately, post-recession winners know that results matter. They understand that they need to counteract our innate, yet unproductive fear response. In fact, they don't have to do anything to dial up this fear response - it is all about managing it. They do this by overcoming the unconscious actions and emotions that drive fear, which in turn affect performance and results. They are attuned to how fear dominates thinking and performance, and aggressively take action to minimize uncertainty and predictability in order to increase our sense of control and to provide leadership that reaffirms a sense of the future.

These are not intuitive actions, and they are hardly easy. Indeed some (like setting up a regular division- or company-wide call to communicate even if there "isn't anything to update on") may seem counterintuitive or even frivolous. But this is what the winners do that most don't, which is why they will emerge from the crisis ahead of the pack.



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