

# 8 RECESSION LEADERSHIP PITFALLS

HOW TO SPOT + AVOID THEM

*to come out stronger*

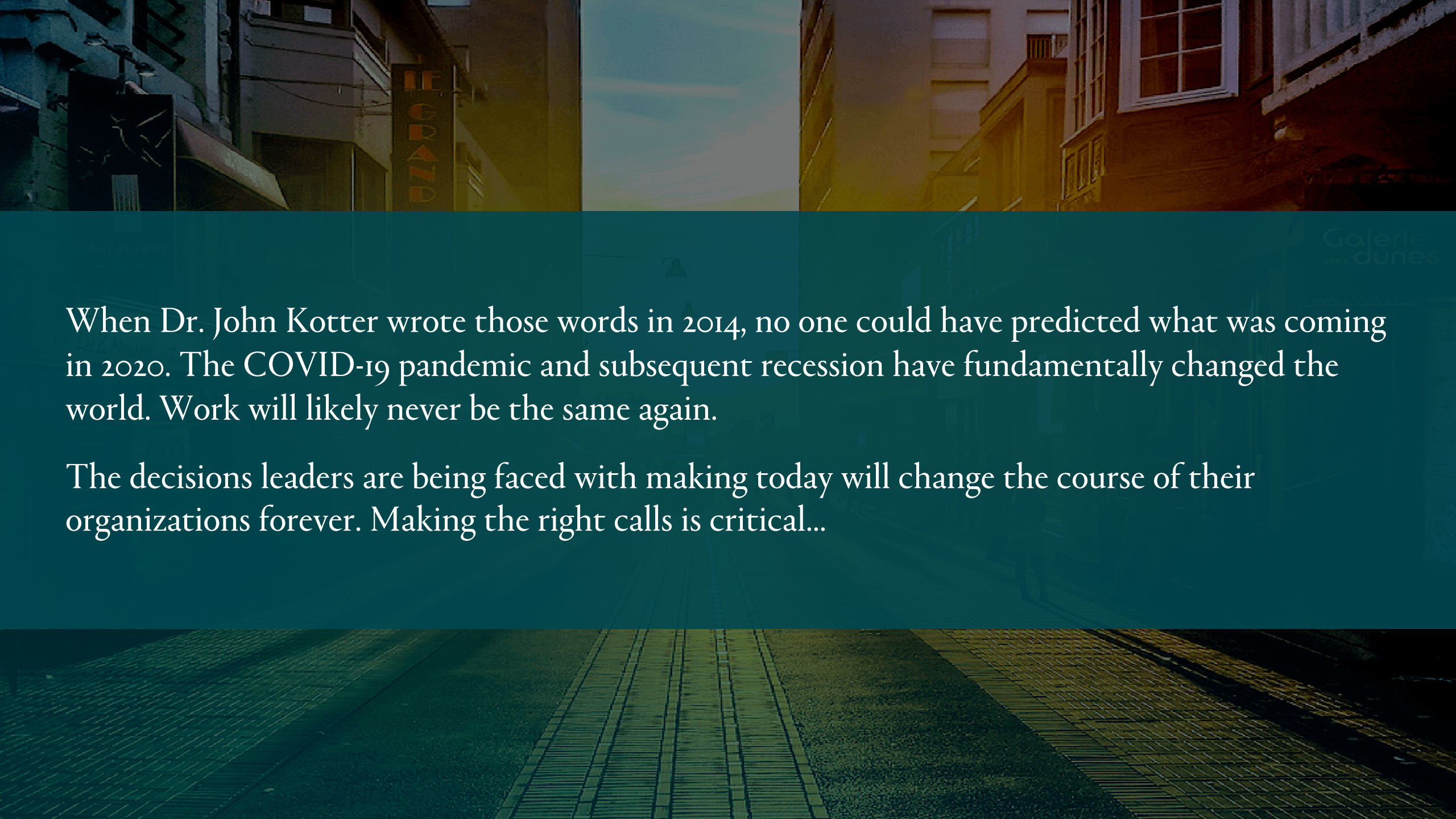


## A FEW WORDS FROM OUR FOUNDER

The world is now changing at a rate at which the basic systems, structures, and cultures built over the past century cannot keep up with the demands being placed on them. Incremental adjustments to how you manage and strategize, no matter how clever, are not up to the job. You need something very new to stay ahead in an age of tumultuous change and growing uncertainties.

*John Kotter*





When Dr. John Kotter wrote those words in 2014, no one could have predicted what was coming in 2020. The COVID-19 pandemic and subsequent recession have fundamentally changed the world. Work will likely never be the same again.

The decisions leaders are being faced with making today will change the course of their organizations forever. Making the right calls is critical...

**KOTTER CONDUCTED A SURVEY OF  
820 PROFESSIONALS ABOUT COVID-19 AND  
HOW THEIR ORGANIZATIONS AND LEADERS ARE RESPONDING**

*— one data point stuck out*



**ONLY 19% HAVE  
CONFIDENCE THEIR  
ORGANIZATIONS WILL  
RECOVER QUICKLY.**

A person is looking through a hole in asphalt. The view through the hole shows a city skyline with a tall building and an airplane flying in the sky. The scene is overlaid with a green tint.

**KOTTER HAS  
LONG STUDIED  
AND WORKED  
WITH ORGANIZATIONS  
NAVIGATING RECESSIONS AND  
UNEXPECTED LARGE-SCALE CHANGE.**

**AND WE'VE LEARNED A FEW THINGS ABOUT THE LEADERS WHO  
GET IT RIGHT** — *even under the worst of circumstances*



**WHAT FOLLOWS  
ARE 8 OF THE  
MOST COMMON  
PITFALLS WE  
SEE LEADERS MAKE**

*plus some good news*



**FOR EACH PITFALL, THERE ARE SIGNS TO WATCH OUT FOR AND  
ADVICE TO SIDESTEP THE PITFALL ALTOGETHER**

*let's go →*

# FOCUS SOLELY ON *short-term* STRATEGY

## SIGNALS + SYMPTOMS →

- Reactivity vs. proactivity
- Doing a lot of the same things as your competitors
- Freezing or inaction

## THAT ARE TRIGGERED BY →

- Ambiguity and lack of certainty about the future, limiting the ability to see beyond short-term needs to shore up the business

## AND LEAD TO THESE UNINTENDED CONSEQUENCES

- Narrow focus, likely missing opportunities
- Slowed profitability or growth coming out of the downturn

# WHAT YOU CAN DO ABOUT IT

- Balance defensive with offensive decisions and strategies
- Utilize focused energy to get closer to customers and the market
- Harness the urgency for change to drive innovation
- Capture + plan to sustain new ways of working



Following the 2008 financial collapse, Target identified the immediate short-term changes that were needed to meet the shifting needs of their customers. They abandoned some of the more immediate capital initiatives of expansion by real estate acquisition, and they doubled down on their rollout of fresh grocery to get more traffic in stores. With that rollout, they revamped their supply chain (particularly related to food products) to gain more control. That shift away from the identity as a department store and more of a hybrid between that and a grocery set them up to continue to grow in the following decade, which was capped off with record stock prices in 2013.

*success story*

# RELYING ON A BURNING PLATFORM APPROACH TO *drive action*

## SIGNALS + SYMPTOMS

- Sense of fire-fighting
- Lack of broadly coordinated action
- Lack of knowledge sharing

## THAT ARE TRIGGERED BY

- The many crises arising daily, and the constant media focus on “breaking news” issues

## AND LEAD TO THESE UNINTENDED CONSEQUENCES

- Deep, prolonged sense of fear throughout the organization
- Missed opportunities in the market, resulting in limited sales/market growth coming out of the downturn

# WHAT YOU CAN DO ABOUT IT

- Relentlessly seek opportunity, even in the midst of crisis
- Revisit/prioritize short- and medium-term strategy to chase after opportunity
- Engage talent from up, down, and across the organization in strategy execution



*Certainly we need to be prudent. But in a more rapidly changing world, finding opportunities in crisis probably reduces your overall risk.*

John Kotter | *A Sense of Urgency*



# DISTRACTION FROM CORE ORGANIZATIONAL *culture + values*

## SIGNALS + SYMPTOMS →

- Distrust in leadership – questioning the organization’s commitment to its core tenets
- Disengaged workforce that’s slow to act
- Severe imbalance of workload

## THAT ARE TRIGGERED BY →

- Overwhelming pressures on economic performance

## AND LEAD TO THESE UNINTENDED CONSEQUENCES

- Delayed, underperforming, or missing targets for critical initiatives
- Low employee engagement scores and loss of reputation in the talent market
- Voluntary turnover – whether immediate or delayed

# WHAT YOU CAN DO ABOUT IT

- Ground decisions and communications in your organization's core values whenever possible
- Find opportunities to bring the voice of the employee into strategic decision making.



*Great urgency that drives people in a dozen different directions achieves nothing.*

John Kotter | *Accelerate*



# PRIMACY OF *cost cutting* TO PRESERVE MARKET SHARE

## SIGNALS + SYMPTOMS

- Short-term, immediate cost cutting focus without consideration of longer-term sustainability
- Exclusive focus on defensive strategies, ignoring offensive strategies
- Need to do “more with less” rather than focusing on working differently

## THAT ARE TRIGGERED BY

- Pressure from the market and shareholders to soften the economic blow

## AND LEAD TO THESE UNINTENDED CONSEQUENCES

- Immediate cost savings, but longer lasting financial strains
- Slower to “bounce back”
- Post-downturn growth limited by the under-funding of critical functions



# WHAT YOU CAN DO ABOUT IT

- Maintain and emphasize a multi-stakeholder view
- Activate diverse teams to tackle creative approaches to both cost-cutting and revenue generation simultaneously
- Continue to find ways to invest in innovation



During the financial crisis of 2008-2009, Hyundai was the only car company to sell more cars in 2009 than in 2008. Recognizing the uncertainty that most people were feeling, Hyundai launched the Hyundai assurance campaign, which included a promise to buy back consumers' cars if they lost their jobs. By reframing the uncertainty of the recession as an opportunity, Hyundai was able to dramatically increase sales.

*success story*

# OVER-INDEXING ON *layoffs* AS DOMINANT COST-CUTTING MECHANISM

## SIGNALS + SYMPTOMS

- Low employee morale
- Limited focus on offensive strategies such as market development and asset investment
- Insufficient focus on sustainable operational efficiencies

## THAT ARE TRIGGERED BY

- Pressure to preserve cash and keep the business viable

## AND LEAD TO THESE UNINTENDED CONSEQUENCES

- Ill-equipped to innovate and grow quickly after the downturn
- Decreased or slower return to profitability
- Disproportionate effort required to rebuild employee morale
- Loss of organizational identity in both the talent and customer markets
- Need to rebuild talent post-downturn

# WHAT YOU CAN DO ABOUT IT

- Balance and prioritize sustainable offensive and defensive moves
- Engage those closest to the work to find creative operational efficiencies
- Focus on the skills and workforce required to rebuild post-restructuring



In a facility of beauty supply manufacturer COTY, over \$1 million was spent on waste-water treatment from a third-party supplier until a floor worker questioned, “Why can’t we sell the water as a raw material for other industrial processes?” Doing so turned a million-dollar expense into a \$130,000 annual revenue stream and reduced CO<sub>2</sub> emissions by 111 tons per year—making them more sustainable and competitive.

*success story*

**TOO MUCH  
TIME SPENT  
ON *planning,*  
TOO LITTLE TIME  
SPENT ON  
*execution***

SIGNALS + SYMPTOMS 

- Strong risk aversion
- Frustration with lack of progress
- Reliance on incremental or conventional process improvement approaches

THAT ARE TRIGGERED BY 

- Assumption (or advice from a consultant) that a strong plan will enable faster execution

AND LEAD TO THESE UNINTENDED CONSEQUENCES

- Incremental improvements at a time when significant leaps forward are critical
- Failure to realize target outcome: cost savings, revenue goals, EBITDA, etc.
- Inability to respond quickly to changing market conditions

# WHAT YOU CAN DO ABOUT IT

- Leverage the network effect to accelerate strategy execution
- Communicate the vision (and guardrails) broadly, and then allow your people to determine how to execute
- Focus on creating an adaptable organization, with a willingness to take risks



*If the culture you have is radically different from an 'experiment and take-risk' culture, then you have a big change you are going to have to make - and no little gimmicks are going to do it for you.*

John Kotter | *How Do You Create a Culture of Innovation\**

\*Fast Company | 2012



# EXECUTIVE TEAM LEADS WITH A *war room* MENTALITY

## SIGNALS + SYMPTOMS →

- Sense of anxiety and constant anticipation
- People feel change is being done *to* them, rather than *with* them
- Underutilized talent – too many people sitting idle “on the bench”
- “I’ve got this” attitude from leadership

## THAT ARE TRIGGERED BY →

- The perception that the job of leaders is to carry the burden during times of crisis

## AND LEAD TO THESE UNINTENDED CONSEQUENCES

- Lack of broad empowerment to take action, resulting in many critical initiatives never getting off the ground
- Minimal, if any, innovation
- Inefficient use or underutilization of resources

# WHAT YOU CAN DO ABOUT IT

- Bring the outside in – engage the voice of customers and employees to expand thinking
- Find creative ways to redeploy underutilized resources to high-need areas



A global IT organization was struggling to overcome decades of bureaucracy in service of becoming a nimbler strategic partner to their business. In addition to rigid ways of working and thinking, they were encumbered by a forced-ranking system, which subscribed to a number of conventional metrics for measuring talent. A series of global teams were launched to tackle critical priorities like speed and innovation. One team member, rated in the bottom quintile of performance for years, realized an eight-figure annualized cost savings for the business. Her discovery was so eye-popping that the senior leadership team began questioning the reliability of their ranking system.

*success story*

# INSUFFICIENT *transparency* AND INFREQUENT COMMUNICATION

## SIGNALS + SYMPTOMS

- Lack of clarity around strategic direction
- Employees making inaccurate assumptions or anticipating the worst
- Active and detrimental rumor mill

## THAT ARE TRIGGERED BY

- A sense that leaders need to have all the answers before communicating

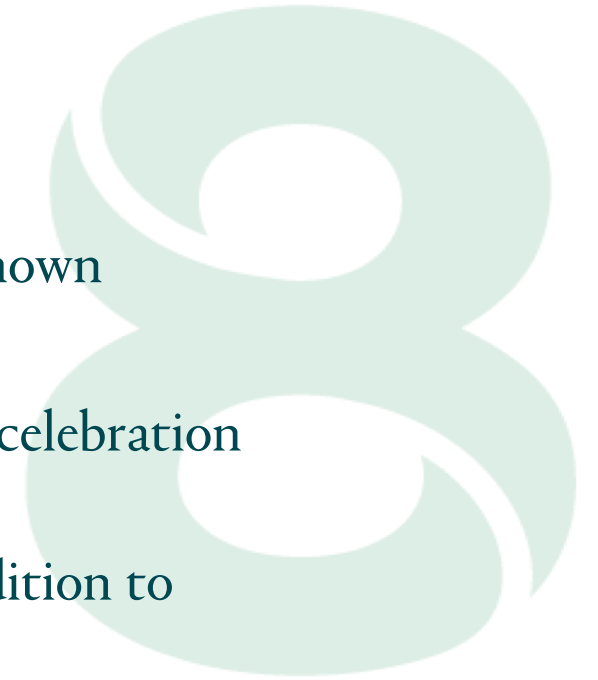
## AND LEAD TO THESE UNINTENDED CONSEQUENCES

- Lack of trust in leadership
- Decreased productivity and performance
- Increased business risk due to misaligned or misdirected action



# WHAT YOU CAN DO ABOUT IT

- Regular, open communication about what is known and what is not known
- Create opportunities for two-way dialogue
- Celebrate wins, progress, and leading indicators of success - even when celebration may, at first, feel insensitive during difficult times
- Humanize communications, acknowledging the personal impact in addition to the business impact of the crisis



*Good communication is not just data transfer.  
You need to show people something that addresses their anxieties,  
that accepts their anger, that is credible in a very gut-level sense,  
and that evokes faith in the vision.*

John Kotter | *The Heart of Change*





**ANY ONE OF  
THESE PITFALLS CAN DELAY OR  
SLOW AN ORGANIZATION'S EMERGENCE  
FROM THE DOWNTURN.**

**YET THEY CAN BE SPOTTED** — *and avoided*



At Kotter, change is all we do.

If you need help navigating the next normal, we're here.

