



## Trends

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### **Managing for High Performance in an Uncertain Economy**

The global business and financial crisis has reminded all of us that managing during times of economic turmoil is a critical business capability. Uncertainty and fear often rule the day during these times, yet some companies are able to meet the immediate challenges while also positioning themselves to rebound more quickly than their peers when the economy recovers. How do they do it? How do some companies manage downturns effectively while others falter?

To help answer this question, Accenture performed an historical analysis of another difficult economic period: the recession of 1990 to 1991. We looked at the financial results of 850 of the largest companies in the United States from that period, and conducted in-depth interviews with 40 senior executives who helped manage their companies through those recessionary times.

Our research found that companies that emerged as winners from the recessionary period in the early 1990s exhibited distinctive strategies and management behaviors in three general categories:

1. Relatively conservative financial management focused on generating cash flow.
2. Resilient strategies emphasizing organic growth.
3. Rapid/decisive execution based on knowledge of how the company creates value.

### **Financial Management**

Companies that emerge from a recession as winners tend to be more conservative in their financial management strategies. They understand the importance of freeing up cash and buying down debt to enable better decision making when a downturn occurs. Eighty-three percent of the executives we surveyed described their approach to financial management as conservative. In contrast, only 45 percent of the poorly performing companies take this stance. As one metals company executive put it, by running lean in the good times, his company can be more aggressive than its competitors when times get rough.

A strong cash position enables innovative companies to be more flexible during a recession. Many of these companies hold performing, semi-liquid assets in lieu of cash to give themselves both financial returns and a downside cushion at the same time.

## **Strategic Positioning**

Across all the companies in the group that outperformed their peers during the 1990-91 recession, executives structured their companies to succeed in a recession before it actually arrived. Companies that repositioned during good times did better than those that waited for a downturn to rally the will for strategic change.

"The strategy should be employed long before the downturn comes," emphasized a senior executive in the retail industry. His company managed to maintain a consistent ROIC during and after the recession of the early 1990s, while his closest competitors fell off the mark considerably over the same period. "It starts with good strategy planning on the front end," said this executive, "making sure your company's operating systems have robust detection tools and the right sort of levers to manage the business in the details."

Winners forged resilient strategies and stuck with them; they focused on managing fewer businesses well; and they emphasized organic growth over acquisitions unless they were in a position to consolidate their industry. Only 8 percent of the winning companies ramped up acquisition programs in the downturn of 1990-1991, in contrast to 45 percent of the losers.

## **Distinctive Execution**

The more successful companies execute in several distinctive ways during recessionary periods. We found that winners:

### **Act Decisively When Trouble Is at Hand**

The best performers watch for downturns and take action quickly. By contrast, executives in more poorly performing companies may accept that their industries are slowing down but hold their breath in the hope that things will get better before any difficult actions are necessary. The chief financial officer for a railroad spoke from the experience of the early 1990s: "We waited to respond to the downturn until we saw the impact on the operating line. By then it was just too late."

### **Set Priorities Based on a Detailed Knowledge of How the Company Creates Value**

The winning companies did not just cut costs during the downturn; they cut the *right* costs. And they diverted resources to activities with the best chance of creating value. How did these companies make the correct calls? Unlike most executives, the leaders knew explicitly how they make money, and they made sure everyone else knew that, too, not just those in the finance organization. Top performers in general know how their products and services stack up against those of the competition, why customers prefer doing business with them and exactly what the company has to do to turn a profit.

### **Leverage Unique Information Systems**

The better-performing companies invested in information systems that provided the financial and management reporting used to make better decisions and to respond to market events more quickly. In describing his process for turning around his business, one retail company's former chairman said, "Even though I was afraid we could not afford it, we spent \$150 million for the best information system in the industry. Every morning, we knew how we did the day before and how we were set up for the day ahead."

## **Collaborate with Enterprise Customers to Improve Value Propositions**

The winners reach out to their enterprise customers to better understand the pressures they are facing. This allows them to provide new products and services that meet customers' needs and cement relationships. Companies taking this approach improve performance during both good times and bad.

A former semiconductor industry executive agrees: "Downturns are a great time to be involved with your customers, to work with them and find ways to reduce your costs as well as theirs." Through a collaborative relationship with enterprise customers, good companies are able to maintain quality and innovation in their products during a downturn.

## **Price for Profitability**

Winners work themselves into an advantaged cost position during good times and then use their pricing flexibility to pick up market share during a downturn. One transportation executive noted: "We lowered our prices to gain market share. We took some business from the truckers and some from the railroads. We won it on price."

A veteran executive from a North American high-tech company added, "Our competition is smaller companies that do not have our scale or manufacturing flexibility. We pick up market share by booking four- or five-year contracts at prices they cannot match." However, in the downturn, winning companies walk away from bad business, and losers do not. The companies that perform poorly accept unprofitable sales in an attempt to hold onto market share. An insurance company executive lamented: "We had conflicting goals. We wanted to grow, but we had to meet the competition in price. As a result we put business on the books that was under-priced."

## **Emerging as a High Performer**

By cultivating financial flexibility, creating resilient strategies and executing decisively based on key value drivers, strong leaders can and do shape economic downturns into significant opportunities for their companies. They successfully gain market share, forge new customer relationships and strengthen product and service capabilities in support of current profitability and future success.

Making the most of a downturn is as much about the decisions a company makes during strong economic times as it is about the decisions made when a recession hits. Executives who manage for high performance in an uncertain economy understand the fact that they must remain relentlessly focused on value creation. Successful executives infuse this concept throughout their organizations and take proactive steps in both good times and bad.

*Article by Brian McCarthy and Jane C. Linder; Outlook Point of View October 2008, No. 3, [http://www.accenture.com/Global/Research\\_and\\_Insights/Outlook/ManagingEconomy.htm](http://www.accenture.com/Global/Research_and_Insights/Outlook/ManagingEconomy.htm). Brian McCarthy is a senior executive with the Accenture Finance & Performance Management service line. Jane C. Linder is a former senior research fellow at the Accenture Institute for High Performance Business. She is currently president of the Progress Board, a consulting company that focuses on innovation.*