# How to Manage Your Team in a Downturn (and Come Out on Top)

By Lindsay Blakely
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Layoffs have truncated staff; cost-cutting measures are threatening projects, and morale is in the toilet. From the manager's perspective, getting the most out of employees in this kind of environment can seem like a Sisyphean task. In fact, it's a perfect opportunity to rejigger processes and fix what's broken — and managers are uniquely positioned to do just that. Here's how being candid with your employees, rewarding them in creative ways, and enlisting them to help make hard decisions can not only keep your team motivated but pull your company out of its slump.

### Things you will need:

- Any additional cash that can be set aside to reward the top-performing members on your team.
- Constant attention. It's your sole task right now to improve the mood in the office so that everyone can get back to work.
- **Informal Meetings:** Give employees frequent opportunities to openly discuss — and ask questions about — the business situation the company is facing.
- **Employee Buy-In:** Now is the time to leverage the expertise of your team. Motivate and engage employees by including them in the problem-solving process.
- **Transparency:** The middle manager plays a crucial role in communicating messages from senior leadership. Maintain loyalty from direct reports by giving them what they deserve: honest explanations for what went wrong and how the company plans to move forward.

step 1

## Set the Tone

### Goal: Lower the anxiety level in the office by being candid about the challenges — and opportunities — ahead.

It's easy to blame the economy for all the reasons a company is suffering: Customers are cutting back on their expenses, advertisers are trimming their budgets, and stock prices are sliding. These problems may, in fact, be attributable in part to the downturn, but going with the "It's the economy, stupid" defense sends a subtle but potentially dangerous message to employees: It implies that the situation is totally out of the company's hands and left in large part to fate. This is exactly the kind of attitude that raises anxiety levels in the office and disrupts employees' focus on the problem at hand: turning business around.

"Have the confidence to not completely blame the economy," says Stanford business professor Bob Sutton. "If employees believe that leadership can break things, they'll believe that leadership can fix things, too."

**Don't just rely on the CEO's message.** An e-mail from the top explaining why the company is in the red can't tell employees much, which means mid-level managers need to be the interpreters. Speak to employees in small groups and be as candid as possible about where the company stands. This is also a good time to suss out any rumors. "Organize quick events to ask what people have heard and to answer any questions they have," says Dave Logan, a senior partner at Los Angeles-based consulting firm Culture Sync.

**Open the books.** Giving employees the numbers behind company performance clarifies where the business needs to change and how their jobs connect to the bigger picture. But be warned: "If you're going to be transparent, take the necessary time to teach employees about how the business works," says Rich Armstrong, general manager of the Great Game of Business, a coaching firm that teaches open-book management. He advises managers to start with what employees probably already understand, like operational numbers, and then connect the dots with how those numbers increase gross margin and generate cash flow. Above all, keep finance jargon to a minimum.

**Focus on the future.** There's no need to sugarcoat it: Pulling the company through the downturn isn't going to be easy, but emphasizing the challenge can have its benefits. "It's a great time for [your employees] to realize that they can play a role in discovering opportunities for the company," says Vince Thompson, a former manager at AOL and author of the book *Ignited.*

## Hot Tip

### The You in Team

If a company is going to stay resilient, the staff's collective commitment and collaboration are essential. In this environment, simply making an effort to be more visible and available to employees can spark productivity and bring the team together.

For example, if you normally work within the confines of a walled office while your team toils away in the cube farm, grab your laptop and set up shop in a cubicle near them — even if it's only a couple of times a week. Start showing up to the smaller meetings that you usually skip, or rearrange your travel schedule to cut down how much time you spend out of the office. In short, don't wait for employees to take advantage of an open-door policy. Go to them first, and ask how their work is going. This isn't about micromanaging — it's about knowing firsthand what they need.

step 2

# Enlist the Team to Fix What's Broken

**Goal: Motivate employees and find out how and where the business needs to change.**

Traditionally, the top execs decide the strategy and let it trickle down. The problem with this tactic is that it rarely makes the emotional case needed to mobilize employees around a common goal, says Paul Bromfield, a principal at Katzenbach Partners, which has advised companies like Aetna, Credit Suisse, and Pfizer. "This is about problem-solving and discipline, and that's where employees come in," he says. "Companies should be harnessing employees in the effort to identify where to cut costs and how."

Not only will utilizing workers' expertise make them more invested in the company's success, it also gives management a more honest look at what's not working. Senior leadership tends to focus on just one area of cost-cutting, Bromfield says, like products, headcount, or moving operations off-shore. Employees, on the other hand, can use their collective wisdom to eliminate clumsy (and costly) procedures across divisions.

Here are four guidelines for involving staff in the process:

**1. Identify key influencers.** "If you're really going to mobilize people, you can't do it from the top," Bromfield says. Find the key employees who hold sway in their departments and get them to embrace and spread the change effort. These are the people who know how things really work (not just the way they're supposed to work) and have a way of bringing together the right people to get things done.

**2. Let teams do the problem solving.** Form groups around the influencers and motivate (rather than mandate) employees to identify what's slowing down business. Often the best place to start is to look for processes and bureaucracies that annoy the team. Set a basic timeframe to achieve cost savings, but let each group work at its own pace.

**3. Make it a conversation.** Schedule brown-bag lunches or other informal venues to talk to employees about their findings and where they might be hitting roadblocks. In the early 1990s, Bromfield's former client Texas Commerce Bank held focus groups with thousands of its employees to find out what procedures most frustrated bankers and customers. Using the feedback, the company nearly doubled its $50 million cost-savings goal.

**4. Follow through**. Many cost-savings programs fail because management implements the initiative only halfway or lets inefficiencies creep back after meeting short-term goals, which won't sit well with employees. Adopt the changes wholesale or not at all.

## Big Idea

### Keep Top Performers Moving

In an ideal world, the upside of a downturn is that recruiting qualified employees becomes easier. With more candidates in the job market, now could be the time to find new talent if your company has the resources to continue hiring. But managers shouldn't forget about the top performers already on staff, say Monster executives Steve Pogorzelski, Dr. Jesse Harriott, and Doug Hardy, authors of a recent paper on how companies should invest in employees when business slows down.

When the economy's bad, it's easy to think that employees are grateful to have jobs at all. But layoffs and budget cuts may cause good workers to look for better opportunities. Give them a reason to stay by making room for them to keep advancing their careers. "Keep critical talent moving — not necessarily up, but growing in experience, responsibility, money, or other tangible and intangible ways," say the authors of the study. If promotions or raises aren't possible, give good workers the chance to make a lateral move or to take on a struggling department.

step 3

# Get Back to the Work That Matters

### Goal: Make sure your team is tuned in to growth opportunities.

The problem with a downturn is that while cost cutting is absolutely necessary, it can make everyone gun-shy about pursuing new initiatives and opportunities for investment. However, if your department, and in turn the company, is going to emerge from the slump in a competitive position, there are a few key investments you can't afford not to fight for now:

**Customers**

Learn about the customers of your weakest competitors, writes Michael Roberto, a blogger for Harvard Business Publishing and management professor at Bryant University. While competitors are busy shoring up their relationships with large, established clients, it could be the perfect time to swoop in and court their smaller customers.

**Research and Development**

Take a cue from Apple's Steve Jobs. When asked by Fortune magazine recently about Apple's strategy for the downturn, Jobs pointed to how the company survived the 2001 tech bust by upping its R&D budget. "It worked, and that's exactly what we'll do this time," he told the magazine.

Separate the value-added activities from the wheel-spinning exercises, Thompson suggests in *Ignited.* Instead of giving up on new projects in a downturn, shift focus so that the team is investing time in identifying and prioritizing the projects that will generate the most benefit for the company. Even if the final product will have to wait until more resources are available, doing the legwork now means the product will go to market faster when the time is right — and employees will stay engaged in the meantime.

**Vendors/Partners**

“There are two ways to run a business,” says Fred Mossler, senior vice president of merchandising for online shoe retailer Zappos, “adversarily or as a partnership.” Considering that the company relies on about 1,500 partners to provide its customers with a diverse selection of shoes, Zappos has chosen the latter option. To that end, the company built an extranet, so that every partner can see how its brand is performing. “They get to see everything our buyers see,” Mossler says. “This way we have about 1,500 other sets of eyes looking at our business and helping to improve it.”

### Case Study

#### How Zappos Survived the Tech Bust

The idea for Zappos was born in 1999, when the economy was booming. But the shoe retailer still was unprofitable and struggling to grow revenue two years later, when the recession hit. “It was impossible for us to get any additional funding,” Mossler says. To make matters worse, the company was learning that its original business plan, which made Zappos a middleman, wasn’t working as planned: Vendors didn’t always have every shoe in stock, and customers — who sometimes had to wait weeks for their orders to arrive — often ended up with the wrong orders.

Though the times might have called for belt-tightening, the company had to make a couple of very expensive decisions, both of which put long-term strategy before short-term cost cutting. First, management realized that it needed total control over the merchandise in order to give the best customer service — a decision that meant sacrificing 25 percent of company revenue. Second, to make sure customers knew exactly what they were getting, the company hired photographers to take pictures of every pair of shoes it stocked. The site now has photos of its more than 3 million items, mostly shoes, from up to eight different angles. “Most companies look at customer service as an expense, but we look at it as a long-term investment,” says Mossler. The moves paid off: Less than 10 years after its founding, Zappos is on track to bring in more than $1 billion in sales this year.

## step 4 Acknowledge and Reward Deserving Employees

### Goal: Recognize achievement, even if resources are scarce.

Employee bonuses and raises are among some of the first expenses that upper management cuts during a downturn. But even if extra compensation isn’t in the budget, that doesn’t excuse managers from rewarding employees. “Lack of recognition — both financially and verbally — is one of the things that does the most damage,” says David Sirota, founder of the management-consulting firm Sirota Survey Intelligence. “I worked with an investment bank some years back where bankers were earning bonuses from $100,000 to $1 million a year,” he says. “You know what they complained about? They didn’t know if the chairman thought they were actually doing a good job, because he never spoke to them about it.”

**BNET Video: Giving Effective Praise.**

One easy, no-cost way of recognizing valuable employees is to improve their quality of life. “The best reward you can give people is autonomy over how they spend their time,” says Jody Thompson, a former Best Buy human resources manager who, along with Cali Ressler, helped create the company’s Results-Only Work Environment program. That means giving employees your trust and the flexibility to work at home (or wherever suits them) whenever they want to — without any judgments. This gives workers more control over their time, and sometimes even a little extra cash. Sun Microsystems has found that employees who worked an average of 2.5 days at home each week saved $1,700 a year in gas and vehicle wear-and-tear.

## Danger! Danger! Danger!

### Save Rewards for the Worthy

Keeping your employees engaged doesn’t mean rewarding them just for doing their jobs. The most effective rewards are significant but well deserved. Libby Sartain became head of Yahoo’s human resources department in 2001, just as the company received a hard knock from the dot-com bust. She decided that instead of quietly giving large bonuses to overachievers, which wasn’t providing much bang for the buck, Yahoo needed to regularly single out the top 15 to 20 stellar individuals and teams — not only to reward them, but to help the rest of the company understand what made these employees outstanding.

The following year, the company gave its first Superstar Awards. Candidates were nominated by their peers for significant achievements and awarded cash prizes ranging from $5,000 to $50,000. The Yahoo Superstar Awards program is now in its seventh year and has honored employees for contributions like creating the Panama advertising system, inventing a way to advertise on instant messages, and fixing a troublesome accounting problem. “This isn’t egalitarian, this is a meritocracy,” Sartain says, acknowledging that some managers resisted the idea at first. “When people saw the winners, they understood why they won, and it took hold and became part of the culture.”