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REmatrix Interview Series with Forbes J. Rutherford, President of Rutherford International Executive Search Group Inc. on Right Sizing and Cost Management in Recessionary Times

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Topic: Right Sizing In Recessionary Times

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When the economic tide lifts all boats in the harbor, it's easy for mediocre management and staff to remain unrecognized; but how does a company keep afloat when the tide has turned and you discover that you're top heavy with drift wood?

Forbes Rutherford
Driftwood, deadwood, flotsam are harsh terms for describing under-performing staff – since you're using nautical terms – how about corporations staying afloat with too much ballast. It may be that these newly exposed underperformers were quite effective in their previous positions but regretfully were promoted to their level of incompetence – or perhaps their lack of competence is the result of poor mentoring – or ineffectual training.

It may also be that the executive or staff member was limited in their ability to problem solve laterally or embrace change willingly, nor find ways to adapt to economic demands that required greater agility. Does the fault lay with the individual or the analysis and decision behind their having been hired or promoted in the first place? The lack of these traits is as indicative of under-performing corporations as they are of poor employees.

I should return to the question at hand. The fact that a company has been diligent in identifying human capital weaknesses prior to the ship settling or running aground, puts it well ahead of a vast number of companies faced with the challenges of effectively managing their costs in a recessionary market. Identifying the competency gaps within an organization through the lens of a performance based metric would suggest this company is likely to approach recessionary cost management strategically rather than retrench reflexively.

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Is there a formulaic response to rightsizing in a recession?

Forbes Rutherford
Most companies, especially in real estate – whether it's the manufacturing, servicing or transacting of real estate fail to recognize the hard reality that gravity does exist in finance and

that market cycles by definition – do cycle. The failure to recognize this reality generally results in a reflexive management response, which often has the earmarks of a formulaic response.

To be frank, it depends on the leadership, the level of uncertainty relative to market circumstances and the degree of financial hemorrhaging. According to a Bain Consulting study as reported in the Harvard Business Review, there are three types of executives one might observe in the face of an impending recession. The first type was "over-confident and likely to under-respond; the second was "under-confident and likely to over-respond," while the third type was likely to respond to an approaching recession in a "balanced" fashion.

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How do you recognize the "over confident and under-responsive" executive?

Forbes Rutherford

This type is someone that believes in the superiority of their business micro-drivers relative to those of their competitors. He or she is likely to chase a volatile market down on the strength of a hunch, believes the company is impervious to industry trends, and dismisses empirical analysis over clairvoyant enthusiasm. Likely fearful of undermining company morale, this management type will Pied Pipe their company and staff into the sea all the while radiating confidence.

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How do you recognize the "under confident and over responsive" executive?

Forbes Rutherford

This type is someone who imperils long term sustainability while focusing on short-term survival. They'll shrink core business lines and bail water while throwing life lines at potential revenue ventures that fall outside of their core competency. Their lack of confidence in core business revenue skews their focus, dilutes the remaining staffs' energy and undermines existing market share by destabilizing client confidence.

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How do you recognize the executive who seem to get the balance just right?

Forbes Rutherford

These executives are not reactive; it's likely that effective cost management is a core element of the firm's culture. Good companies apply the same discipline to "effective" cost controls in matters of product innovation and market development in both good times and bad. Effective cost management minimizes the corporate adjustment without undermining the potential for quick recovery.

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It's not hard to agree with the premise that prudent management of costs in both good and bad times will soften the adjustments required by an approaching recession. However, when you're in the thick of a recession – is the process not formulaic at this point?

Forbes Rutherford

Contraction by most companies tends to be a bit formulaic. The approach tends to follow an often cooked recipe that has the following ingredients: "head count reduction in force (RIF) or selectively, hiring freeze, elimination of perks, scaling back business travel and nonessential services including R & D and production, closure of offices, sale of assets, limitation of marketing and brand advertising." The cook must keep the lid locked tight, simmer, and repeat if necessary, as many times as necessary.

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This does not strike me as very imaginative. Is leadership trumped by formula?

Forbes Rutherford

I suppose if a company has been caught unprepared and hasn't fostered a "continuous cost management" culture, then formula will trump imagination. But let's be fair - the soufflé you've been baking all these years is at risk of collapsing - all these ingredients need to be considered in the mix.

However it is not so much about "formulaic cost controls" as the ascendancy of "linear" approaches to problem solving over that of "lateral thinking." Management often defaults to learned formula. The Acolytes of this formula are most often empirically minded Technocrats that rarely step away from their spreadsheets and ledgers. It's not uncommon for the corporate Technocrat's influence within the corporation to be ascendant during recessionary times; with focus on the ledger and balance sheet health, they are often the champions of this recurring cost cutting recipe described above.

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Is the Technocrat's influence what ails the company in the long run?

Forbes Rutherford

One can not generalize. It depends on the individual, their intrinsic interests in all aspects of business, their problem solving profile and what gives them the greatest degree of comfort. Those who find comfort in empiricism - be they Staffers or Executive, will always default to learned formula. I wouldn't put anyone in a position that effects the long term strategic direction of a firm without assessing their psychometric make-up and ability to lead in stressful times.

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Labour costs are the single most expensive input cost for a company. Surely you're not suggesting that this critical cost overhead should be the last line item to consider when adjusting for a contracting market?

Forbes Rutherford

Cutbacks are inevitable – however the hiving of payroll and benefits is an easy and tempting target when faced with the first reflexive response to a waning market and is often done as a cross-the-board tactic rather than selectively.

A *"Reduction In Force"* (RIF) and broad cuts across the board on an equal percentage basis for each department might seem exceedingly fair with respect to spreading the pain - it's easily understood both internally and externally; it's expedient and easy to monitor but it's also an indication of lazy management. Without some form of discretion you're apt to cut away the future value creator to avoid paying severance to a tenured under-performer.

Depending upon the corporation's organizational structure, broadly focused cuts based on a forced universal percentage may not be the most effective approach to cutting costs. For instance, if the firm is a matrix organization – the Directors of each Center of Excellence may not take into consideration the needs of a specific account when trying to meet their staff reduction target. Perhaps an account that might represent a considerable portion of the corporation's revenue can be unknowingly put at risk.

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What would you advise clients at this stage of the recession?

Forbes Rutherford

My advice to clients would be to not overreact. If continuous cost management was not part of their corporate culture during the good times then now is a good time to embrace it, but not in a wholesale fashion that undermines the company's ability to have momentum when the market rebounds.

Without a modicum of deliberation and care, a chainsaw themed cost cutting exercise will have a deleterious impact on the company's revenue well after the recession is over. This harsh reality was discovered by Mercer Management Consulting which identified 120 "rabid cost cutters" out of 800 companies analyzed across multiple industries in the last major recession. Two thirds of these 120 firms failed to achieve positive revenue growth in the five years following the recession. The primary reason for this failure was a failure to plan for recovery while making their cuts during the recession.

There are always opportunities for those that have the creativity to see it – we have entered a chaotic phase in the business cycle, however in "chaotic systems" one can find substantive patterns; in real estate as in any business, there are opportunities to be found within chaotic economies.

In fact, nimble companies should use this time to improve the quality of their management teams. It's easy for mediocrity to lay hidden when the economy is healthy – not so when market position and margins are eroding.

Forbes Rutherford

Forbes Rutherford provides specialized human capital consulting and executive search services to both national and international property and investment firms. He has practiced his profession since 1980; and has successfully managed his search practice through more than one real estate recession. He has sat on the Board of a number of professional real estate associations based in Canada; and has counseled a broad cross section of the industry's senior executives and rising stars with respect to their careers. Mr. Rutherford is in a unique position to observe the changing macro trends and oncoming challenges facing the Canadian and International real estate community. Additional information on Mr. Rutherford's background may be viewed at the following web links: www.rutherfordinternational.com or www.linkedin.com/in/rutherfordintl Additional commentary and access to career information may be found at www.rutherfordinternational.blogspot.com

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