

THE NEW RULES

By Emily Thornton
Illustration by Matt Mahurin

In times of turmoil, opportunities abound. But taking advantage of them will require fast reflexes, an aggressive attitude, and serious changes to the status quo

What do Carnegie Steel and Hewlett-Packard have in common? Both were born at a time when people thought the world was falling apart. Andrew Carnegie launched his first steel mill during the Panic of 1873, the start of a long depression. He took advantage of low costs to build an industrial giant that made him the world's richest man. Bill Hewlett and Dave Packard showed similar courage when they launched HP from a Palo Alto (Calif.) garage toward the end of the Great Depression.

History has shown that crisis breeds opportunity. Business leaders may have to cut costs to survive 2009, but the smart ones are also out there looking for prospects. They are willing to take the type of bold move that IBM made during the recessionary days of 1981 when CEO John R. Opel aggressively rolled out the company's landmark personal computer just as PC demand soared. Even in the current downturn, there are companies like AT&T, which recently announced plans to buy two

MANAGING YOUR TEAM

Executive coach Marshall Goldsmith, author of *What Got You Here Won't Get You There*, says every manager's Job One is getting the best from his or her people. His advice in this crisis:



JUDGE LESS

Realize that any unusual behavior may have deeper causes. Be more empathetic and tolerant than usual.

HELP THOSE WHO ARE DOWN

Some employees are dealing with unusual amounts of stress. Help them now and they'll be loyal later.

FOCUS ON THE FUTURE

Everyone wants to talk about "what could have been." Forget it. Get your team focused on what's ahead.

UNDERSTAND YOUR OWN EMOTIONS

You may be feeling stressed, angry, and insecure. Get help. Be professional. And don't take it out on your team.

companies for a total of \$1.2 billion. "A recession creates winners and losers just like a boom," observes Mauro F. Guillen, a professor of international management at the University of Pennsylvania's Wharton School.

Managers are now dealing with everything from shattered consumer confidence to tighter credit, not to mention the likelihood of a tougher regulatory environment. Decisions that made sense two years ago may prove disastrous in this climate—from giving outsize rewards to those who take big risks to borrowing heavily just because interest rates are low. Years of excessive borrowing have taken a toll: An unprecedented two-thirds of nonfinancial American companies covered by Standard & Poor's have speculative-grade, or junk-rated, debt. (S&P, like *BusinessWeek*, is a unit of The McGraw-Hill Companies.) On the whole, U.S. businesses face a \$238 billion wave of debt maturities that will come due by the end of 2009. "Many companies are questioning their survival," says Gerry Hansell, a senior partner at Boston Consulting Group.

Executives have to lead "their people out of a psychological funk and at the same time tailor their business to focus on a new reality," says management consultant Ram Charan. (For an excerpt from Charan's new book, see page 36.) That's good advice during any business cycle but especially important today. Here are some new rules for managing through a tough 2009—and beyond:

CHANGE YOUR MINDSET

Money is scarce. Markets are volatile. Morale is harder to boost in an atmosphere of anxiety. Acknowledge to yourself and your team that the world has changed. Dennis Carey, a senior partner at Korn Ferry International, argues that now is the time to question every technique that worked during boom years. "You can't rely on a peacetime general to fight a war," says Carey. "The wartime CEO prepares for the worst so that his or her company can take market share away from players who haven't."

Many of the best managers in 2008 were gearing up for battle during good times. Mark Hurd at Hewlett-Packard, for example, has made drastic cost cuts, shed marginal businesses, and focused on playing to HP's strengths over the last few years. Jamie Dimon of JPMorgan Chase

made substantial changes that shored up his bank's balance sheet and left him ready to pounce as rivals fell.

GET YOUR FINANCIAL HOUSE IN ORDER

A key issue for many companies right now is getting the funds needed to help a business grow. Only those with strong balance sheets stand a chance. Everyone used to have easy access to capital. No more. In just one year, the difference in the cost to borrow between a typical investment-grade company and a noninvestment-grade company has tripled.

Getting to financial health will require sacrifice, from selling off assets at bargain prices to issuing stock in a down market. "If your stock was at \$50, it may not feel good to issue stock when it is \$20," says Marc Zenner, managing director at J.P. Morgan's Capital Structure Advisory & Solutions group. "But if you don't do it, the situation could be a lot worse."

Washington (D.C.)-based power utility Pepco Holdings chose to raise the nearly \$1.6 billion it needed for infrastructure spending this year by issuing shares and bonds three months ago when markets were in flux. Chief Financial Officer Paul Barry worried that raising money in 2009 could be even harder. "We just bit the bullet and went ahead and got it done," he says. Now Pepco is well positioned to improve its reliability by building transmission lines.

MAKE A MOVE FOR MARKET SHARE

The pie is getting smaller, and less nimble rivals are getting weaker. Don't wait for your competitors to fall to the ground. Hire away their best people while taking steps to make sure they don't grab yours. Or buy assets from cash-strapped rivals on the cheap. Take steps to solicit new customers at a time when others are cutting back on service.

Abandon strategies or products that don't fit the core business. Wal-Mart last year jettisoned its policy of stuffing a wide variety of products into stores to broaden its appeal. Instead, the world's largest retailer focused on simplifying its mix and

BOLD MOVES IN BAD TIMES CAN PAY OFF BIG. "A RECESSION CREATES WINNERS AND LOSERS JUST LIKE A BOOM," SAYS A WHARTON PROFESSOR

lowering prices of its most popular products, according to Chief Merchandising Officer John Fleming. The result: more share in hot-selling categories like flat-screen TVs.

RETHINK YOUR REWARD SYSTEM

It's tempting to cut compensation across the board. Now is the time to differentiate more than ever and focus on rewarding your best. If you have to cut costs, start at the top. When FedEx CEO Frederick W. Smith announced broad salary cuts last month, he took the largest hit, with a 20% pay cut. As New York-based organizational psychologist Ben Dattner says: "The last thing you want is for people to perceive that you're in it for yourself."

If you can't give staff more money, look for ways to give them more power. Shell Refining, for one, singled out top supervisors at its Port Arthur (Tex.) refinery last year and asked their advice on how to improve the plant's performance. The result was higher morale, according to refinery general manager Todd Monette, and a 30% reduction in unplanned maintenance work.

DARE TO INNOVATE

Innovating now can leave you nicely situated for a turnaround. Pfizer broke apart both its research and business units last year to help spur new ideas. Corey Goodman, head of Pfizer's Biotherapeutics & Bioinnovation Center in San Francisco, says the move has made "Pfizer more efficient and more entrepreneurial."

For those who are willing to take some risks, 2009 can be a time of great possibilities. "A leader is someone who doesn't do what everyone else does," says Richard S. Tedlow, a professor of business administration at Harvard Business School. "If you have a product you believe in, now is the time to make a bigger investment—not a smaller one." | **BW** |

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Profits of Doom

There is plenty of literature on making the most of a crisis. Some standouts: *Winning in Turbulence*, by Bain consultant Darrell Rigby, and Boston Consulting Group's "Collateral Damage" essay series, which suggests ways to survive the year ahead. Meanwhile, Alexander J. Field, a professor at Santa Clara University, bucks conventional wisdom with a paper calling the Great Depression "the most technologically progressive decade of the century."

To check these out, go to <http://bx.businessweek.com/management-ideas/reference/>



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