PERTH LEADERSHIP INSTITUTE

WHITE PAPER

A RECESSION'S ROLE IN TRANSFORMING LEADERSHIP DEVELOPMENT

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"Leadership is strategy differentiation, execution, capital productivity, business acumen, etc. Research shows that what differentiates the best performers in an industry over time are mostly "hard skills" as above, rather than the behavioral science view."

Michael Porter, Harvard Business School

"Goldman's secret sauce, say executives, analysts and historians, is high octane business acumen, tempered with paranoia and institutionally encouraged—though not always observed—humility."

New York Times, 11/19/07

Executive Summary

Cost cutting in a recession usually includes strategic HR and leadership development initiatives and expenses. Recessions often also lead to negative perceptions of HR since they are made responsible for cutting people and programs in line with company directives. The CEO and board are usually so preoccupied with company survival and the need to significantly cut expenses that they often have no sympathy or time left for strategic leadership development initiatives.

However, unconscious financial behaviors of many CEOs and senior management result in more than just costs being cut. Margins are often unwittingly chopped in the race for aesthetically-pleasing expense line items. Falls in margins are usually the consequence of reducing value-adding expense items, which reduces the medium and long-term competitive edge of the company. Executives need to be aware of these behavioral biases so that they can reduce costs without threatening the long term sustainability of the company.

This White Paper shows that a recession is actually an opportunity for HR and leadership development to increase its credibility by promoting programs to modify financial behaviors that directly support the CEO and board's agenda to cut expenses while increasing margins. By adopting such approaches, HR can put in place programs and behaviors that not only rapidly improve short-term financial outcomes, but also put in place a framework for longer-term increases in profit quality and financial performance.

In order to do this, HR and leadership development need to take a number of initiatives:

1. **De-emphasize traditional personality and competency-based approaches** – while useful in the right environment, these approaches do not build business credibility for HR in times of hardship.
2. **Focus on programs that will have fast behavioral impact on costs and margins** – the CEO and senior management will only have an ear for fast impact programs.
3. **Introduce into all programs the concepts of an ownership culture** – focus the minds of employees and management on their responsibility for the financial outcomes of their actions and decisions.
4. **Implement programs to develop business acumen** – show employees and management the linkages between their behavior and financial outcomes so that they can modify their behaviors appropriately.
5. **Integrate business acumen programs with traditional programs** – build business acumen components into current curriculums to support and enhance existing methodologies.
6. **Map business acumen to traditional personality and competency approaches** – use current employee data from traditional approaches to identify the existing business acumen potential of your human capital.

7. **Emphasize the financial and hard side of programs in internal public relations** – set up fast, hard-hitting practical programs to build the business credibility of HR, and overcome stereotypes of leadership development being 'soft'.
8. **Train HR and leadership development professionals in business acumen approaches** – empower HR and leadership development professionals to build their credibility and confidence as recession change agents in the organization.
9. **Position HR and leadership development as being business-focused innovators in their own area** – show the rest of the organization that HR and leadership development are no exceptions when it comes to financial behavior-based change.
10. **Introduce programs to develop high leverage innovation approaches** – as studies have shown, breakthrough innovation is not correlated to high R&D spend; and given the right environment, low budgets and times of need can stimulate highly creative thinking.
11. **Stress approaches to increase leadership agility and organizational learning –** enable those with less natural business acumen to contribute to profitability by improving their financial behavior through leadership agility.
12. **Integrate business acumen approaches into talent management and succession planning** – move beyond development initiatives and assist HR to choose the right people who need to leave and the right people to stay, and identify potential future leaders.
13. **View the recession as an unparalleled opportunity, not as a problem** – leverage a recession to force a reassessment of internal priorities, and throw up opportunities for HR to innovative and show its value from a business perspective.

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A Recession's Role In Transforming Leadership Development

Leadership Development Approaches have Become Static

Great leaders are the basis of all human achievements. Companies globally are striving to identify, develop and put in place outstanding leaders to face the challenges of a highly unpredictable world - commercially, economically and socially.

Yet, in the commercial world at least, there is a widespread feeling that current approaches are not working. Most of the leadership approaches in use derive from theories that are almost a century old. Approaches based on them have a psycho-analytic, anthropological and social rather than a financial basis.

How do we transform leadership development given such a static situation? And is this even possible when the global economy is facing yet another financial crisis that, if anything, will lead to a pullback in leadership development programs?

> ***"…the current financial crisis is in fact the perfect time to transform leadership development."***

This White Paper argues that the current financial crisis is in fact the perfect time to transform leadership development. Great changes in most spheres of human activity are often born of crisis, rather than in better times when apparent predictability breeds satisfaction and complacency.

This paper argues that now is such a time. HR and leadership development professionals must recognize the situation for what it is, a once-in-a-lifetime opportunity to do things and to innovate in a way that would not normally be possible. It provides an approach and recommendations which can lead to the transformation of the leadership development function, and with it, transformations within the company itself.

A Recession Usually Makes things Worse

The current economic environment is turning down dramatically. At this stage it is academic as to whether we will enter (or are currently in) a recession. Companies and individuals are now acting as if they already are.

At the least we can expect a pronounced slowdown for some time. This White Paper assesses the impact this will have on leadership development programs and makes recommendations as to how leadership development and HR professionals can leverage this as an opportunity rather than as a threat.

Major economic slowdowns and recessions undergo highly predictable patterns. Just before the slowdown occurs, the market is at a peak; there is a great deal of complacency amongst companies, staffs, shareholders and investors. Money is relatively easy to get and much is therefore wasted. Behaviors in financial matters are relatively lax and investment quality declines across the board, not just at the company level but with individuals and shareholders.

Since most people do financially well in such a market, even those people with low business acumen are successful. It is difficult to use financial performance as a guide for discriminating between good and bad financial behaviors since both seem to be equally well rewarded.

"Once people generally recognize a slowdown, behavior changes and moves from one extreme to the other."

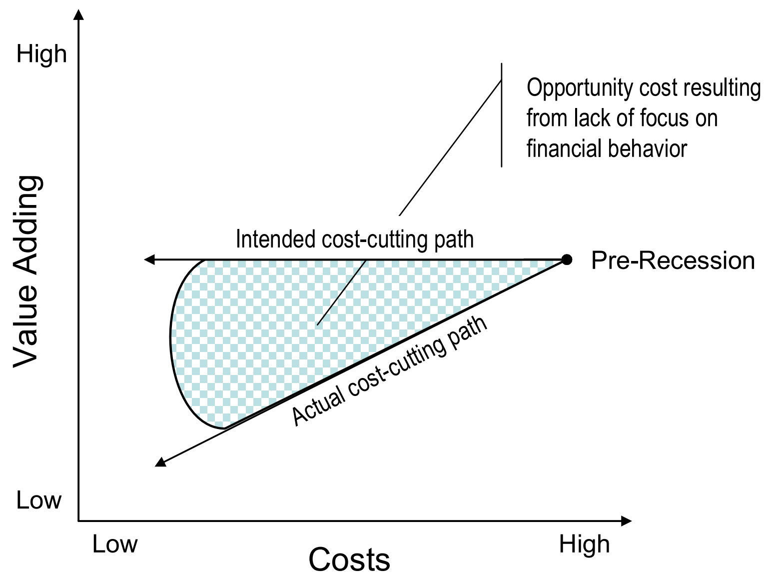
Once people generally recognize a slowdown, behavior changes and moves from one extreme to the other. Whereas before the slowdown most investment proposals were funded, now almost none will be. Expenses that were hitherto funded without question will be cut or eliminated. Most promising proposals will not be supported, even if they have very rapid payback that would far offset their cost. This applies especially to leadership development and other types of training proposals.

In a recession the irrationality of the high is eliminated to make place for the irrationality of the low. Profligate behaviors are swapped out for behaviors that are equally unreasonable on the downside. The euphoria of the market peak gives way to panic and often indiscriminate cost-cutting. This usually makes the slowdown worse. It also has adverse long-term impacts on the companies themselves that entertain these behaviors, which is to say, most companies. One typical impact is for leadership development budgets and efforts to be cut.

...Worse Also Means Worse for Post-Recession Period

In the slowdown panic, costs are often cut so much that margins suffer, often eliminating the benefit of the cut. Short-term cost cuts often end up hurting long-term sustainability of profits and competitiveness. Morale and employee loyalty suffers as employees realize that they are just another depersonalized cost.

Figure 1 Margin Impact of Cost-Reduction



As these impacts take hold, they have long-term impacts on the financial performance of the company, as shown in

Figure 1 Margin Impact of Cost-Reduction . Often these impacts are not overcome until well into the next market cycle by which time the company has lost market share or competitiveness.

Cost-cuts of this nature usually have unanticipated side-effects.

1. They result in a loss of morale in staff who can see the potential margin implications but can do nothing about it.
2. They act to dampen innovation and initiative.
3. Staff who have high innovation ability often leave in resignation.
4. Some potential programs that could have an immediate financial impact that far outweighs their cost are not proposed because of fear of rejection in such a strong cost-cutting environment.
5. Margin reductions adversely impact longer-term valuation and competiveness and hence stock price.

In the leadership development area, programs are typically cut and then revived once the market turns up again. The cuts usually reflect the feeling that these programs have little financial impact anyway on short-term business outcomes, so nothing is really being lost in the longer-term.

This reflects a deeper reality; that most companies believe that leadership development and HR have little or no impact on short-term financial outcomes, and probably at best only a minor or indirect impact on long-term financial outcomes. Thus the cutbacks that occur to leadership development reflect a deeper failure in HR and leadership development generally. That failure is the widespread feeling that leadership development is not relevant to direct financial and business concerns, seen from a purely financial outcome perspective.

Recessions Reinforce Negative Impressions of HR and Leadership Development

Typically leadership development and training are amongst the first areas to suffer in a downturn. Cuts can often be made quickly since many of the programs are run by consultants. There is often a feeling that training and executive development is too “soft” to impact company results anyway. Thus these activities are put on hold until the market turns up again for the cycle to be repeated once the next downturn arrives.

In downturns CEOs and boards focus on immediate cost-cutting exercises that are designed to reflect in the financial statements of the company. Typically little or no thought is given to changing employee and managerial behaviors. The immediate focus is to get to numbers that will show the markets that the company has made immediate changes that will result in earnings improvement.

In such an environment, behaviors are indeed changed, but only in the short-term. The fundamental financial behavioral attributers that exist in all companies and all markets remain unchanged. Companies focus on financial metrics rather than long-term financial behaviors, which are the cause of the results reflected in the metrics. This leaves the company vulnerable to precisely the same financial vulnerabilities, namely to lower quality financial decisions, once the markets turn up again.

Leadership development and HR are seen as a fundamental part of this process because of their role in managing layoffs. In a recession, this is a major contributor to the already widespread perception that HR is not part of the business equation, unless it is simply to oversee the termination and resignation processes that are needed and to ensure that there are no legal repercussions.

“Recessions usually reinforce the stereotype of HR as being a short-term, tactical responder.”

Recessions and downturns are usually bad for the image of HR and leadership development since they are usually the executors of cost-cutting strategies that require people to be laid off. Whatever improved perceptions of HR and leadership development occur in the good times, the improvement is usually reversed in the bad.

Recessions usually reinforce the stereotype of HR as being a short-term, tactical responder. This perception then reduces the effectiveness of HR in the good times as it attempts (if at all) to move towards a more strategic focus again.

Board Thinks Financial Engineering: Leadership Development Should Think Financial Behavior

When the bad times arrive, the realization usually does not dawn slowly but all at once. Panic sets in quickly. Since response by a board and CEO must be fast, it is usually limited to financial engineering – rapid cost cuts and other approaches to accounting reflected in the financial statements that will be seen rapidly by the market. At this stage and time, this is all the CEO and the board can absorb and do, given market pressures on them.

The board and CEO are, of course, looking for all the help they can get. Usually their stated requirement is for cost cuts. They do want these. But what they really also want is rapid behavioral change. However they will rarely ask for it for a number of reasons:

- They are too focused on cuts and other fast changes themselves to think about behavior other than at the very simplest level.
- They believe it is too late for any behavioral changes to take effect.
- They have little or no confidence that HR and leadership development can effect any fast change in any behavior in any case.
- They do not have any confidence that any change HR and leadership development could make would, in any case, have any immediate business impact.
- Even if they have some confidence in HR, they believe that HR does not have sufficient business credibility within the company to render any programs they do launch effective and credible with participants.
- They are embarrassed that they had not moved on these issues years ago so that the behavioral changes they really want would already be in place.

HR and leadership development cannot rely on their management to tell them this for the above reasons. They must respond to this unstated requirement without being asked. They must display the initiative to conceptualize, develop and propose programs which will result in rapid behavioral change that will support the financial mission of the CEO and the board in the short-term while also having the long-term impacts that both they and the shareholders would also want.

The implications for HR are:

1. They must take the initiative since it will rarely be solicited.
2. They must propose programs that are fast, concrete and focused on changes in financial behavior.

3. They must propose these initiatives not just with the top management but must rapidly build internal constituencies through identification of local champions in the business units who can act as validators and credibility creators within the organization.

The CEO and Board Want Employees to think More Like Owners

During the good times, employees and management look to get the most from the company they can consistent with their own skills and their own competitive talents. That is fair and is a core part of our capitalist system. Companies look to pay the most to attract the best talent, which expects to do well as its part of the bargain.

Management and employees understand this bargain and it works well as long as the good times roll. During the good times, companies usually work with an employee-focused culture, where employees expect the owners to treat them as independent agents, as indeed many have become de facto in an employment culture in which change of job is common.

In bad times, things are different. The company may have its own survival at stake. The CEO may have his or her own job on the line. The board is under pressure with a declining stock price and disgruntled shareholders. In this situation the CEO and the board, not to mention the shareholders are looking for the employees to give back, at least to some extent. Employees and management itself are usually loathe to make any change since they have become accustomed to the implicit bargain which treats them effectively as independent agents, even if legally they are employees.

Recessions throw a laser focus on this issue by taking away resources and forcing management and employees to decide how much they are prepared to give up to have a job and a future with the company. Recessions move the dynamics away from the employee to the owners and tend to push the dynamic towards the desirability of employees thinking like owners rather than as independent agents.

> ***"Recessions throw a laser focus on this issue by taking away resources and forcing management and employees to decide how much they are prepared to give up to have a job and a future with the company."***

In a recession the CEO and the board want the employees and management to think like owners rather than employees. Owners are prepared to roll with the punches letting their compensation decline as needed and changing their roles as needed by the company, not as they might like to do themselves as independent agents.

But it goes further. The desire of the CEO and the board to have employees and management think more like owners also reflects a strong but not always explicitly stated desire that they think more like owners at all times. This desire may often not be well stated because of equity structures that favor top management over employees. But the CEO and the board want their employees and management to think like owners irrespective of the equity structure. This may seem unreasonable but it is nonetheless a reality.

The implications for HR and leadership development are therefore:

1. Leadership development and training programs must become focused on developing a culture of ownership amongst employees and management.
2. The ownership culture must encompass responsibilities for short-term actions to protect the company financially.
3. HR itself must integrate these principles into its overall program and goals.
4. These ownership concepts must be tied to short-term requirements for cost-cutting and other tactics to put the company into the right competitive and financial position.

The Board and CEO Want Leadership Development Tied Directly to Profit Quality

CEOs and boards have a number of different types of motivations in recessionary times. First they have to keep the ship afloat. Second they must present an image that is consistent with the times that demonstrates to both internal and external constituencies that they have the right toughness of mind to make the right decisions. Third they must still do enough to keep the company in good enough shape that it can bounce back when the good times come again.

In good times the board and the CEO will be very tolerant of, and often actively support, leadership development initiatives that are tied to social rather than to pure business objectives. In tough times they will focus on initiatives that have a direct impact on the bottom line. While their concern may often be just to cut costs, no matter what the outcome, often they are willing to tolerate some costs that are higher than strictly necessary as long as it can be shown that they will increase profit quality over the medium to longer term.

By profit quality we mean the following:
- The sustainability of profits.
- Lower volatility of profits.
- The ability of the staff of a company to add value in ways that will lead to more sustainable profit.
- The development of staff behaviors that increase profits thought their impact on costs and margins.

CEOs and boards are practical people. If they can see initiatives coming from HR and leadership development that will be very likely to have these impacts, then there is a good chance they will fund them. However if leadership development initiatives are presented that do not demonstrate that they will do this, and in a measurable way, they will go ahead and just cut costs since their perception will be that the alternative presented by HR is no better than the bleak reality they see now, but which at least is concrete and knowable.

The above has a number of implications for leadership development and HR:

1. Programs that rely purely on personality and competency-based approaches that do not have a direct link with financial concerns and outcome will likely be axed.
2. Programs that do not show a direct linkage with current belt-tightening will not be viewed well.
3. Programs that show a direct link with supporting current financial measures will have a good chance of getting funded.
4. Programs with a longer-term focus on improving profitability behaviors will also have a good chance of being funded.
5. Programs that show how staff can become involved in financial improvement efforts, no matter what their level, will also have a good chance of being supported.

Boards and CEOs Want the Right Things Done with the Right People

As the old adage says, you can't manage what you can't measure. Unfortunately most companies do not measure the types of financial behaviors of their people so it is not possible for them to figure out who are the best ones to keep and who to let go. In recessions people get laid off as a way to cut costs. People are selected to be laid off for a variety of reasons. Rarely is one of those reasons that they have a low impact on financial outcome or that they do not have enough business acumen to be useful in a recessionary environment.

CEOs and boards are well aware of this. If they cannot identify people with the right behaviors for improving profit quality, they have no reliable measure as to which of their employees will be of the most assistance to them, both short- and long-term, in supporting their mission to keep the company going in difficult times. In these circumstances they are likely to ask HR and leadership development to make blanket and relatively indiscriminate cuts since there is no better way that they know of.

To put it this way; CEOs and boards want the following:

- When they have layoffs they want to lay off the right people, that is people who, other things being equal, have the financial behaviors that are least supportive of their current corporate financial mission.

- They want to <u>keep the right people</u>, that is, people who, other things being equal, have the financial behaviors that are most supportive of their current corporate financial mission.
- In planning for the future, they want to <u>develop the right people in the right way</u>, that is, to inculcate the right financial behaviors in the people who are most suited to utilizing these in support of the corporate financial mission.

What does this mean for HR and leadership development?

1. They need to complement their existing leadership development approaches with those that have a focus on financial behavior and outcome.
2. They need to change the emphasis of their programs and the way they present them to top management from a soft to a hard focus.
3. They need to present their programs in terms of their impact on building financial behaviors which support both the current short-term focus and the longer-term focus of building profit quality.
4. They need to emphasize the impact of these programs in bringing about voluntary, short-term significant cost reductions which are bought into whole-heartedly by staff.
5. They should show the implications of these programs for building better aligned staff and management from a financial perspective over the longer-term.
6. They need to present a new and sharper, more financially-focused image of talent management, one that is focused on building better financial behaviors, as distinct from building better financial skills (if, indeed, they are doing this at all).

HR Needs a Fresh and Dynamic, Recession-Focused Program

With the above points in mind we can set out some principles for leadership development and HR to follow in recessions and in developing strategy for their programs, both short- and long-term:

1. De-emphasize traditional personality and competency-based approaches
2. Focus on programs that will have fast behavioral impact on costs and margins
3. Introduce into all programs the concepts of an ownership culture
4. Implement programs to develop business acumen
5. Integrate business acumen programs with traditional programs
6. Map business acumen to traditional personality and competency approaches
7. Emphasize the financial and hard side of programs in internal public relations
8. Train HR and leadership development professionals in business acumen approaches
9. Position HR and leadership development as being business-focused innovators in their own area
10. Introduce programs to develop high leverage innovation approaches

11. Stress approaches to increase leadership agility and organizational learning
12. Integrate business acumen approaches into talent management and succession planning
13. View the recession as an unparalleled opportunity, not as a problem

De-emphasize traditional personality and competency-based approaches

This White Paper is not advocating, by any means, that these approaches should be dropped. On the contrary they provide invaluable tools in leadership development. However the harsh reality is that many people on the business side regard them as "soft". Promoting them strongly in tough times is not a good idea since it reduces the business credibility of HR and leadership development. Public relations are vital in a recession for HR and leadership development. HR needs to be mindful of this when seeking top-level support for its development programs.

Focus on programs that will have fast behavioral impact on costs and margins

"...HR must…show how behavior can be modified to have a measurable impact on financial statements at whatever level it is working at."

In tough times, the CEO and management want to see fast, even precipitate, action on staffing, costs and, to the extent it is possible, margins. HR must couch the language of most of its proposals in these terms. It should show how behavior can be modified to have a measurable impact on financial statements at whatever level it is working at (unit, division, subsidiary, enterprise etc.).

Introduce into all programs the concepts of an ownership culture

Tough times are meant to focus the mind. An ownership culture focuses the mind by bringing home to managers and staff alike the responsibilities of being an owner and teaching them the importance of taking responsibility for all their actions and decisions which have a financial impact, irrespective of whether or not they have a formal P&L.

In this view, all staff, no matter how junior, are P&L managers, even if it is informal, since they all have an impact on someone's P&L. Leadership development needs to get this message across to the CEO and board so that they understand this message, can promote it, and so that it will have a significant impact on improving the financial position of the company by tackling the problem at its source, that is, the financial behaviors of staff and managers.

Implement programs to develop business acumen

Ultimately leadership development needs to run formal programs in the area of business acumen to develop it and show staff and managers the linkages between their behavior and financial outcomes. This is not the same as business literacy. Many leadership development programs put staff into business literacy courses (Wharton, etc.) which will have no impact on business acumen. By addressing thus issue head-on, leadership development professionals will be signaling to their top management their concern about this issue and their assumption of the responsibility to take direct action to improve the financial behaviors of employees and managers.

In whatever programs leadership development conducts, it should tie in results to financial statements and show that it is interested in financial outcomes. This will improve its own credibility and encourage program participants to think in a similar way, reinforcing the thrust that financial behavior and outcomes are key to the company's direction and values.

Integrate business acumen programs with traditional programs

Business acumen programs should be integrated with more traditional programs. For example, with high potentials, one or two days can be used for traditional approaches, and a third day can be used to do a business acumen approach. This will round out the curriculum and make it more credible in a tough environment to top management, the business side and to the high potentials themselves.

Map business acumen to traditional personality and competency approaches

> ***"Leadership development needs to start mapping the results of these traditional programs to financial outcomes, using as a medium results from business acumen programs."***

Traditional personality and competency-based programs have no direct link with financial behaviors and financial outcome. Leadership development needs to start mapping the results of these traditional programs to financial outcomes, using as a medium results from business acumen programs. Traditional personality and competency program results can be made far more valuable and impactful if they can be linked with financial outcomes. This will also increase their business credibility with top management and staff, as well as improving the image of HR and leadership development.

Emphasize the financial and hard side of programs in internal public relations

Leadership development needs to adopt a formal internal public relations approach during a recession. This approach needs to show their practical and financial side. This cannot be left to chance as usually there is a reservoir of stereotypes about leadership development that need to be overcome. A recession actually is the best time to do this since it affords the opportunity to set up fast, hard-hitting practical programs that can impact the internal perception of HR and leadership development quickly if the right actions are taken and the right programs implemented.

Train HR and leadership development professionals in business acumen approaches

It is crucial that HR and leadership development professionals themselves undergo business acumen training. Often these professionals do not come from the business side and this can hurt their credibility. If the leadership development people are not familiar with the content of business acumen programs, their chances of successfully introducing them to the business side will be reduced and their own credibility will suffer. At an early stage in a recession, the HR and leadership development people themselves need to undergo this training to make it clear that they are committed to the same regime that they plan to get others to undergo.

Position HR and leadership development as being business-focused innovators in their own area

HR and leadership development have been promoting numerous innovation programs over the past few years. Recessions are a time to show to the rest of the organization that they themselves can innovate successfully in areas that are key to corporate survival and growth. All too often, HR and leadership development is seen as being behind the curve in the area of innovating on its own turf. By implementing practical, results-focused business acumen programs, leadership development can show that it is prepared to take the same medicine and lead by example in the area of business-focused innovation.

> ***"By implementing practical, results-focused business acumen programs, leadership development can show that it is prepared to take the same medicine and lead by example in the area of business-focused innovation."***

Introduce programs to develop high leverage innovation approaches

Leadership development still needs to focus on innovation in a recession, to ensure that there they promote the long-term sustainability of their company. Research shows conclusively that high R&D spending is not correlated with innovation.

A recession provides an opportunity for HR and leadership to promote "high-leverage innovation" that is innovation which is deliberately catalyzed by restricting the availability of capital – i.e. deliberate capital rationing. Other research also shows that this can often spur innovation in ways that normal innovation processes cannot.

HR and leadership development can contribute to sustainable corporate growth over the longer-term by promoting these approaches during a recession, when they are most needed, thus contributing to the continuation of vital research and innovation approaches despite the tough times.

Stress approaches to increase leadership agility and organizational learning

Financial behaviors are only as good as people are at learning when they are appropriate or otherwise. Thus the key behavioral variable in a recession with financial behaviors is the agility of a person in discerning when they need to use one financial behavior or another.

"Leadership and mental agility is always important, but in recession it is even more so."

Leadership and mental agility is always important, but in recession it is even more so. Staff will be asked to do things that they do not normally do and to act in ways that may be uncomfortable for them. Yet it is precisely these changes that are needed in times of rapid and unpredictable change.

Leadership development needs to take the lead in promoting programs to increase leadership and mental agility so that the overall company has the necessary agility to make difficult transitions.

Integrate business acumen approaches into talent management and succession planning

Business acumen approaches are not just for development. As the White Paper has pointed out earlier, top management wants leadership development and HR to choose the right people who need to leave and the right people to stay. In recessions the issue of business acumen and financial impact assume pride of place for a while. These approaches need to be integrated into talent management generally in areas such as recruitment, promotion, transfers and succession planning and should form a basis for personnel decisions together with other more traditional criteria.

And Must Leverage Business Acumen Programs

Business acumen is a new area for HR generally. In general HR people are not familiar with this so recessions will put instant pressure on them to bring themselves up to speed in this area, not only with the content, but also how the content can be leveraged and how it affects HR processes and company processes generally. Some critical issues for HR:

1. The issue of business literacy
2. The importance of standards
3. Training HR
4. Getting buy-in from the rest of the company

Business Literacy: We have already addressed this point earlier. There are plenty of courses to increase business literacy but almost none to increase business acumen. It is the latter which is needed, not the former.

Many companies will focus on business literacy training but this will not do much, if anything, to improve the financial behavior of their people. The ability to read and understand a financial statement does not give a person the business judgment to make money. In addition, business acumen programs force companies to address how important business literacy really is and how it ranks versus business acumen. This is really a broader debate about the relative importance of qualifications versus natural competency, and how much people, can be developed irrespective of their qualifications.

"Most companies will focus on business literacy training but this will not do much, if anything, to improve the financial behavior of their people."

One implication is that HR really needs to examine the importance of having an MBA or a business qualification for many positions and the extent to which business qualifications can sometimes actually be a barrier to financial performance and business growth.

Standards: There is a lack of standards on business acumen which HR needs to confront quickly so they do not implement courses which are not based on a solid training and development foundation. There are numerous business literacy courses which almost never address business acumen. There are also numerous business simulation courses that similarly do not address business acumen formally, although they may well raise the issue.

HR needs to focus on what standards it needs to adopt vis a vis business acumen in existing business-sensitization programs to clarify what its objectives really are, what content it is really looking for, and how it will measure outcomes. Currently the business courses run by most companies lack any such standards in this area, and the result is widespread confusion as to why these programs are actually being implemented and whether or not the are worth the cost.

Training HR and Leadership Development: Most HR and leadership development people have no background in business acumen and feel uncomfortable in this area. They too will need training to get them up to speed in this new area. Paradoxically this is one area in which business literacy and financial qualifications are likely to be useful since it will increase the confidence of such people in implementing business acumen programs and it will send a message to the business side that HR is really serious about becoming more relevant to business needs.

Company Buy-In: Most staff and management in most companies have no concept of business acumen so there will need to be broad programs to introduce these concepts so that staff who undergo this training will be able to operate effectively once they complete their courses.

Paradoxically there is another issue that will tend to slow down this buy-in. Many business unit managers and heads may feel threatened by someone from the outside, particularly from HR coming in to review their operations and behaviors from a perspective of financial behaviors and business acumen.

For many business unit heads, such programs may appear threatening, even if they are designed to increase their effectiveness. Once the business side generally realizes that HR is serious about supporting the company in this manner, there will inevitably be some resistance from units that are concerned about control.

From their viewpoint, an HR area that is ineffective in supporting the company from a business perspective is actually a good thing, by removing one potential source of outside review. HR will only know for sure that it is becoming effective and being seen to be so when it gets such resistance. It will be important for HR to develop ways to constructively use this resistance to deflect it and turn it to the company's advantage.

Appropriate Targeting of Its Initiatives is Different in Tough Times

To get programs adopted, the simple rule is usually to go to the top first. Like all simple rules it has its drawbacks. In a recession the CEO is often just too busy and too pressured to get into discussions about behavioral financial programs, even if they have a short-term payoff. The fact of the matter is, he or she may not just believe the HR folks or feel that they have enough credibility with the rest of the organization to pull it off. After all, he or she has their own credibility to think of too.

"…HR also needs to position itself as an innovator in hard times. One way it can do this is to help business units set up high leverage innovation programs using capital rationing."

When a CEO is in that position (and some will not be, so don't give up on it) the best course is to build that credibility with a champion at the top of a business unit who has independent credibility with the CEO, other business unit heads and the top management team. The message for that champion has to be much focused and very direct: we can get you immediate improvements in financial performance by acting on the financial behaviors of your senior managers. In a recession, no other message will work.

A message that stresses traditional soft approaches or relies on credibility built up through using them is unlikely to work either, at least in our experience. Even if the business unit loves HR and the work they have done with him or her in the past, he or she is not going to risk their credibility either with the CEO or their own people with programs that do not have direct financial impact. In addition, if these programs do not result in rapid and significant expense reductions, their credibility will also be compromised. So the message has to be crafted very carefully.

As this White Paper has mentioned, HR also needs to position itself as an innovator in hard times. One way it can do this is to help business units set up high leverage innovation programs using capital rationing.

High leverage innovation programs are also programs to change financial behavior for the better but this time working on the margin rather than on the cost side, a good area for HR to be in if it does not want to be viewed just as a hatchet job for top management. This in effect means unfinanced skunk works. Pursuing initiatives like this will not work with most business unit heads but the few it is appropriate for will appreciate the support and will act as key credibility creators for HR.

"…HR also needs to position itself as an innovator in hard times."

Recession frequently acts to close minds to new ideas at top management levels, at least temporarily. Top management is so preoccupied with expense cutting and survival that it often cannot focus on anything new. This can be a real problem for a company in a recession. It is also an opportunity for HR.

Low- or no-cost initiatives such as bringing in thought leaders and vendors with something new and interesting can be high leverage opportunities for HR to put new ideas in front of management, helping them retain some mental suppleness and in the process alerting them to HR's foresight. Using such a method to keep new ideas in front of top management also serves to familiarize them with new concepts that underlie more financially focused programs that they will be more likely to support once a firm proposal is put in front of them.

HR Must Launch High Leverage Initiatives Quickly!

So what can HR and leadership development do quickly to take advantage of the recession opportunity? We would suggest some of the following:

- Get a thought leader in the areas of business acumen and financial behavior to present to top management.
- Do a fast program with the CEO and the top management team.

- Conduct a business acumen program for a sympathetic business unit head and his/her top managers.
- Introduce business acumen concepts into traditional leadership development programs.
- Conduct business acumen onboarding with new executives.
- Introduce business acumen and financial behavioral attributes into succession planning programs.
- Launch a skunk works program in conjunction with a sympathetic business unit head.
- Carry out an inventory of business acumen in the top management team or the team of a business unit as a basis for personal decisions being made as part of recession-planning responses.

Recession is an Unparalleled Opportunity, Not a Problem!

A recession is an opportunity for leadership development. It forces a reassessment of internal priorities and processes and throws up opportunities for HR to innovate and show its value from a business perspective. It provides new ways for HR to improve its position and to show its mettle. It provides professionals in these areas with a new channel for professional and personal development. It throws up a new channel to improve the market value of the company over the long-term, with its attendant benefits to investors, shareholders and the staff themselves.

Leadership development needs to review its own communications strategy with the rest of the company to communicate that message so that it can use the opportunity to gain support from the business side and position it for the good times ahead. It must take a proactive role in innovation in the leadership development area, and use the image and branding that it promotes as the basis for a new and more impactful role as the company moves into the good times, once again.