

Leading Trends

Emerging Issues in Organizational Leadership

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1. **Leading in a Recession**

As we write this, a tsunami of incoming economic news suggests that the United States, and with it much of the world, is either in or about to enter a period of economic recession. Unlike some other episodes where one pivotal factor seemed to be propelling the world's markets downward (the various oil crises or 9/11 are good examples), this time the energy is coming from a multitude of sources, including the near US\$100 per barrel price of oil, a meltdown in the sub-prime mortgage market, a mountain of consumer debt, and lackluster retail sales reflecting extraordinarily low consumer confidence. What this may mean is that the incipient recession we are witnessing could be longer and deeper than those in the memorable past. At the very least, we seem to be entering a period of sustained economic volatility, and navigating an organization through these times requires careful forethought and planning.

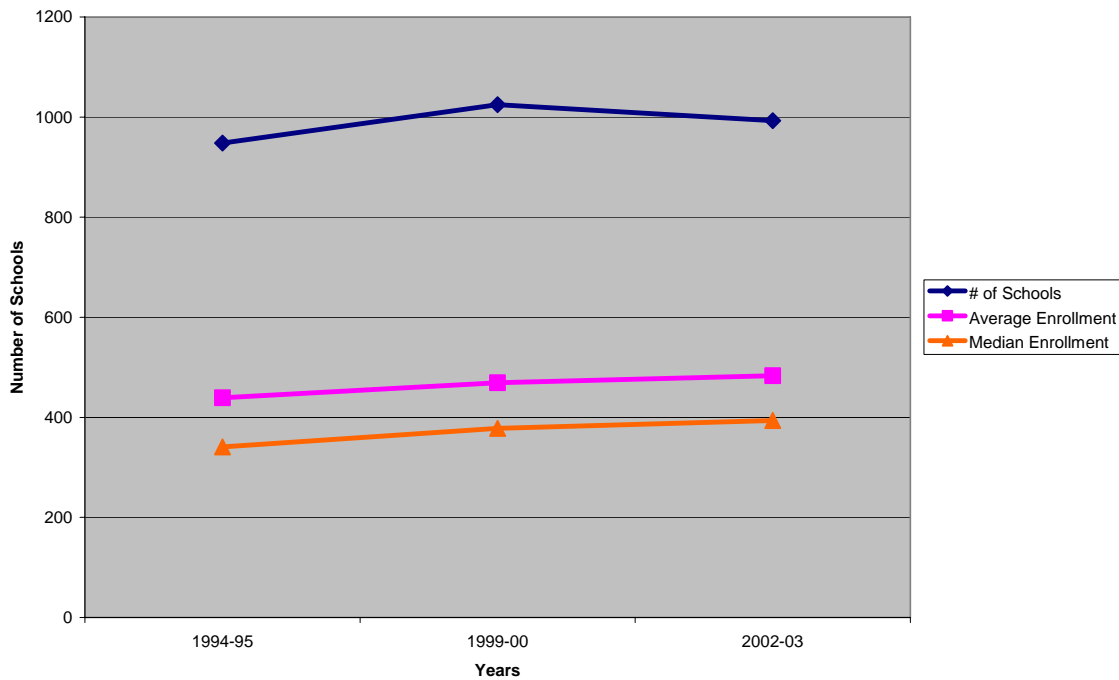
Past recessions, notably the early 1990's, the late 90's and again in the wake of 9/11, suggest that independent and international schools, as well as colleges and universities, can expect certain sequelae this time around. Philanthropy suffers in a downturn, but there is evidence that the effects are unevenly felt across the nonprofit spectrum. According to data compiled by the *Chronicle of Philanthropy*, those with historically robust annual giving and capital campaigns can expect more of the same, while institutions with a less rosy fund-raising past usually find the going far tougher.

Likewise, it seems reasonable that enrollment would be a lagging indicator, trailing some months or years behind the point when the downturn takes hold in the rest of the economy. We examined enrollment data provided by the National Association of Independent Schools (NAIS), gathered from U.S. member schools that provided data to their Stats Online database in the 1994-95, 1999-00, and 2002-03 school years. These dates are useful in that the first, 1994-95, occurs just a couple of years before a significant recession, the second, 1999-00, falls just after the recession eased, and the third, 2002-03,

immediately post-dates the terrorist attacks of September 2001 and a resulting worldwide economic slump.

As shown in the table, average and median enrollments have grown steadily across these years, indicating that, year-to-year variances aside, the most recent recessions and downturns have not had a long-term effect on independent school enrollment, at least in the United States. These data, as well as more anecdotal experience, suggest that caution rather than panic is a more prudent stance for schools, administrations and governing boards as we move toward more troubled monetary times.

Figure 1. Enrollment Trend, NAIS Stats Online



The biggest risk by far is that worsening economic news will lead to a growing sense of malaise and even despair among people not otherwise adversely affected by the events. When this happens, even people who are in quite robust financial health feel less well off and begin to rethink their monetary affairs.

Nonetheless, several decades of experience dealing with recessions and near-recessions suggests certain brutal facts:

- Downturns are cyclical, but not exactly predictable; e.g., they happen with some regularity and inevitability, but, as with everything about markets, predicting timing is rarely possible; any organization in business for at least 20 years can expect to weather one or two downturns;
- Recessions never last; they begin, run their course, and then vanish as circumstances adjust to new realities; historically,

recessions tend to abate within 24 months, with most lasting less than a year;

- Recessionary effects are unevenly spread across a country; regions and cities already struggling with sluggish economics will likely be the hardest hit; likewise, when specific companies or industries are dominant employers in a market, their fortunes may predict a more localized impact;
- The recessions of the past 20 years have largely been global in nature, reflecting the fact that the worldwide variance in gross domestic product rates is at a historic low point; e.g., the economies of countries are joined far more intricately than ever before; and
- Psychology plays a significant role, with both catastrophizers—those who anticipate the most horrific outcomes imaginable—and optimists—those who expect the best and most hopeful outcomes—operating out of equally deluded thinking.

One of the most cogent analyses of how organizations respond to downturns comes from Darryl Rigby at the Bain Consulting Group. In a *Harvard Business Review* article ("Moving Upward in a Downturn", *HBR*, June 2001), Rigby argues that, regardless of industry, organizations experience an economic downturn in three distinct phases. The first Rigby calls "Storm Clouds on the Horizon", where the first warnings of recession begin appearing in leading economic indicators; e.g., those numbers that are the first to change amid economic turmoil. If the downturn is sustained, Storm Clouds eventually give way to a period of "Battling the Elements", where organizational energy goes toward confronting and surviving the downturn. Eventually, the storm abates and a phase Rigby calls "Here Comes the Sun" heralds a return to better and more stable conditions. Depending on one's perspective, region and industry, we either now quite far along in the Storm Clouds phase or just beginning to Battle the Elements.

Rigby also maps two different approaches that characterize organizational responses, each with quite different results:

1. **Conventional Approach** —Express initial confidence in your industry/organization's ability to weather whatever will come, followed by a rather desperate round of cost-cutting as conditions deteriorate, followed by lavish spending when things rebound; or
2. **Contrarian Approach** —Build contingency planning into every business practice, followed by close collaboration with stakeholders who stick with you in the downturn, followed by incremental movement once the storm abates.

To Rigby and others, the second approach is "contrarian" in that it counter-intuitively goes against what may seem like almost instinctual ways of responding to crises. Essential to taking this approach is a realization that downturns are cyclical and don't last forever; something that is hard to do in the center of the storm. Because of this, contingency planning before and during the crisis is essential to being able to respond effectively when the going gets tough.

So what would a cautious stance entail? We suggest you begin thinking strategically about how to thrive amid a serious change in economic circumstances.

- **Build contingency planning into your strategizing** by asking difficult "What if" questions: What if demand for our programs suddenly falls off? How quickly can we adjust and how would we consolidate to save cash? What if global events interfere with our ability to operate; e.g., how would we do school if it became impossible for students to reach us for a period of time? What if we need cash on short notice? How ready are our available lines of credit (far better to arrange these in advance of need)?
- **Pay attention to vulnerable parts of your economic engine.** For example, if a major U.S.-based company accounts for a substantial number of your students at an international school, it is prudent to detect if and when it may restrict the number of expatriate families it assigns to your city.
- **Strengthen the bonds of loyalty.** Pay special attention to employees and customers. Now is not the time to tighten up benefits or try to maximize revenues over expenses. Rigby suggests treating your faculty, staff, and parents as you would co-inhabitants of a foxhole during a battle; e.g., as friends for life. The need for information, always high in an independent or international school, ratchets up considerably when times are tough.
- **Protect core assets and functions.** Understand your stakeholders' perceptions of value, and begin talking about what programs and services are so central to your mission as to be inviolate even during bad times. Figure out how to preserve that which must be preserved, no matter what happens.
- **Manage spending, but increase investment in your future.** It makes sense to be thinking about cost control during difficult times, but one category of expenses that should actually increase are those that might be thought of as investments in your future; e.g., strategic planning, improvement in core products and services, capital investment in plant and equipment. (Too much caution about these things can actually hamper your ability to recover once global economies improve.)
- **Monitor your main competitor's advertising.** If your competitors reduce their presence in local and regional magazines or eliminate their on-air sponsorship of public radio, then seriously consider increasing your advertising budget and hitting harder. This will provide a great opportunity to capture -- and retain -- a larger share of the market, even though it may seem counter-intuitive to spend when others retrench.
- **Redouble your communication efforts.** Anticipate that everything--annual giving, capital campaigns, re-enrollment contracting time--will take more effort and a greater degree of one-to-one personal contact. Remember, raising funds during tough times is not impossible, but it does require a new level of case-making and personal persuasion.
- **Search for opportunities.** By using the recession and others' retrenchments as an opportunity to expand programs or enter new markets, you can pre-position the school to emerge with stronger market standing than before the downturn. It's counter-

intuitive, but often useful, to move in the opposite direction than the herd of competitors (that's Rigby's Contrarian Approach above).

- **Keep in mind that perceptions play a major role in a weak economy.** If people believe money is going to be tight, they will behave as if it is -- even if they have money to spend/give. Your message has to convince prospective customers that your school is a wise investment - one that will repay the principal many times over in their students' lives.

Whether or not the global economy continues to spiral into recession, all indications are that the near-term future holds more volatility than stability. Late January 2008 saw several hundred point one-day swings in both directions for major markets. This is hardly stuff that inspires confidence and seems only to make investors increasingly nervous, never a recipe for long-term recovery and growth. Best to prepare ahead of time as clear thinking becomes all the more rare in a protracted downturn.

2. Mourning a Colleague

Triangle Associates mourns the untimely death on January 8, 2008, of Harry C. (Hank) Payne, President of Woodward Academy in Atlanta, and a collaborator with us on several interesting new projects. Hank was intellectually astute, erudite, charming and wise. As can be seen in the testimonials and condolences offered through an online guestbook set up by the *Atlanta Journal-Constitution* newspaper, his work as a college president (Williams and Hamilton) and at Woodward touched many, many lives. We extend our deepest sympathy to Hank's family.

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