
Preparing for an Economic Downturn: Are Chief Operating Officers and Their Teams Ready?

It's a universally acknowledged truth: The world will eventually experience another economic downturn. Equally as obvious: Companies that are well prepared for economic turbulence will fare the best when storm clouds gather on the horizon.

But knowing these truisms and doing something about them are two different matters. That's why Russell Reynolds Associates surveyed 534 senior executives—including 79 executives currently or previously responsible for operations and supply chain functions—at companies around the globe and across industries. The survey uncovered what's at stake in a future economic downturn and what operations and supply chain leaders are (or aren't) doing to prepare.

A unique POV on timing—and risk

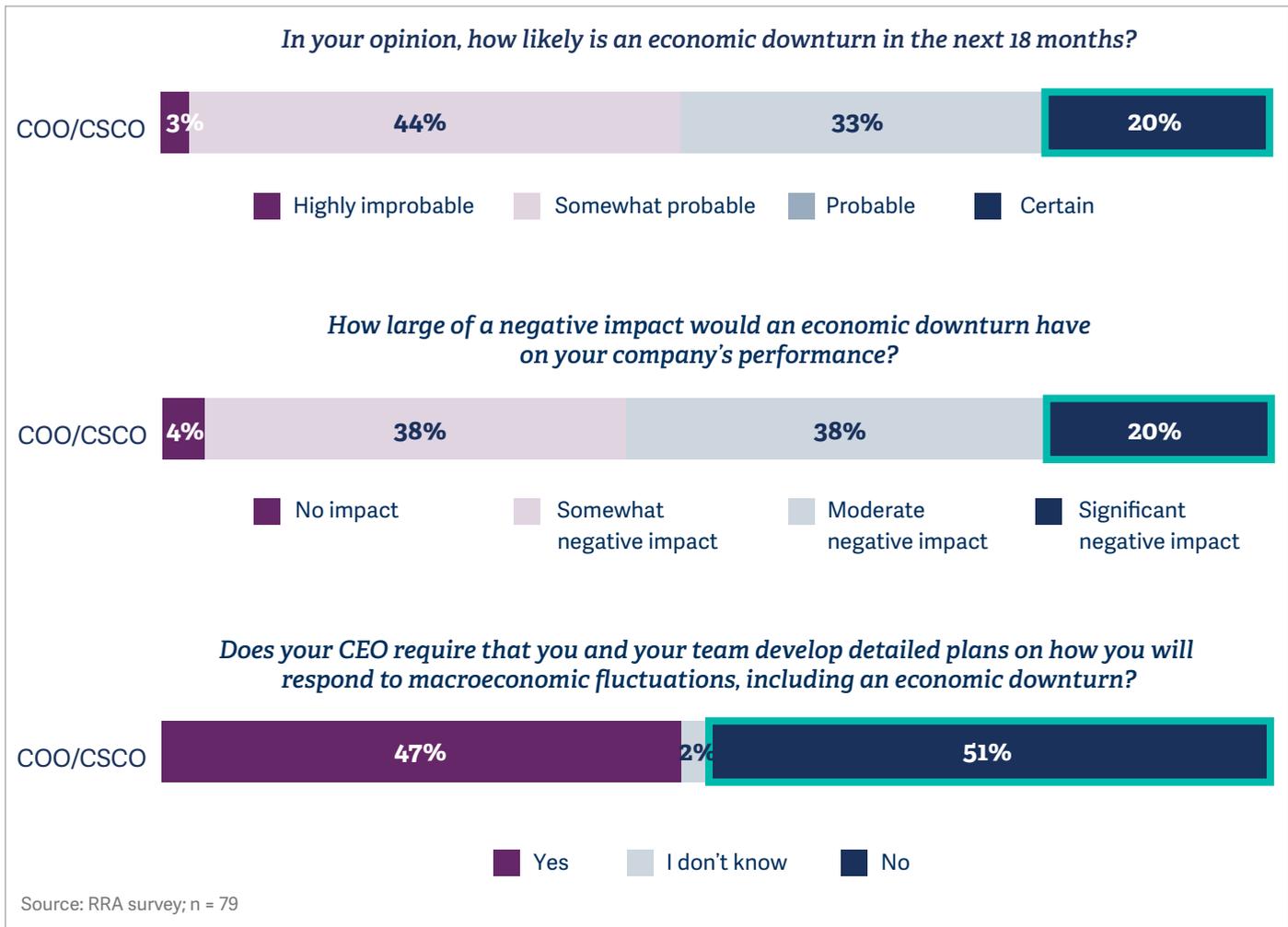
While there's little consensus among senior operations and supply chain executives about the timing of the next recession, only 3 percent believe an economic downturn is highly improbable in the next 18 months, while 97 percent believe it is probable or even highly likely (see Exhibit 1).

Senior supply chain and operations leaders are more likely to think a downturn is on the horizon when compared to all executives surveyed, and they are also more likely to believe this downturn will have a large negative impact on their company's performance. The increased complexities and interconnectedness in global supply chains bring more potential failure points and higher levels of risk; even if a potential downturn does not impact the organization directly, it may well impact the organization indirectly through a link in the supply chain, which is often not visible to those outside the supply chain function.

Senior supply chain leaders may be struggling to get this point across to the rest of the C-suite, as only 47 percent of supply chain and operations executives said their CEO or board required them to have a plan in place in case of a downturn.



Exhibit 1. Senior operations and supply chain executives expect an economic downturn in the next 18 months.



Given that, it's also not surprising that senior operations and supply chain executives feel that they, together with their CEO and divisional heads, represent the three most important functions when it comes to successfully navigating through an economic downturn—even if that view is not necessarily shared by CEOs and boards (see Exhibit 2).

The involvement of those senior supply chain and operations executives, working together with the CEO and divisional heads, will be critical to developing a plan and managing risk in the organization's supply chain to prepare for a downturn. Supply chain and operations leaders need to be more persuasive when making the case for their seat at the table during these important discussions.

Exhibit 2. Operations and supply chain heads rated themselves, CEOs, and divisional and business heads as the most important functions to successfully navigate an economic downturn.

Looking across the entire organization, rank the three most important functions needed to successfully navigate through an economic downturn



Solid team foundations, but preparedness varies

When senior supply chain executives are making an argument for greater involvement, they'll likely be asked how prepared they are to take on a bigger role in the response.

Many have some work to do. Our survey revealed that only 8 percent of senior operations and supply chain executives feel they are personally well prepared to navigate through a downturn, and only 5 percent feel their team is well prepared (see Exhibit 3).

Yet when asked if they have the right team in place, 62 percent feel somewhat confident or very confident with their team, which may indicate that they have the right people in place but haven't yet taken any steps to prepare.

The importance of preparing has taken on growing importance in supply chain strategy.

"Risk management and having the right talent in place are the next most important topics in supply chain development," the chief supply chain officer of a leading retail company told Russell Reynolds Associates.

Exhibit 3. Senior operations and supply chain executives don't feel prepared for a downturn yet, but they are confident they have the right team in place.



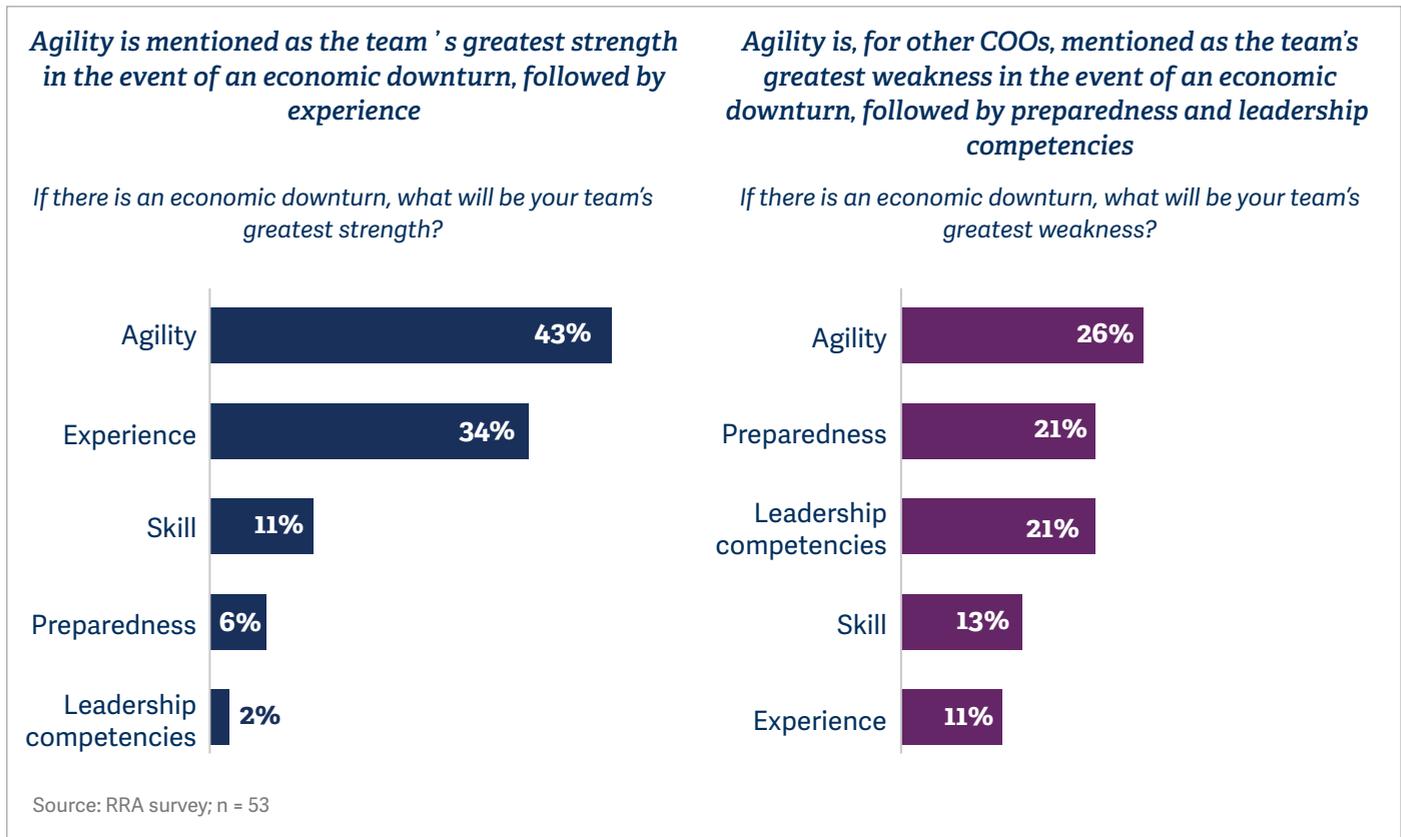
Agility is key for supply chain teams

In addition to having the right team in place, supply chain and operations executives told us the biggest challenge for that team would be reacting quickly to a downturn.

As shown in Exhibit 4, agility and responding quickly to market changes are essential for operations and supply chain teams, and not getting it right is their biggest fear.

Supply chain leaders can focus on improving agility long before the economy sours. Demand-driven companies that have visibility into demand at the point of sale can sense downturns much faster and react accordingly much more quickly.

Exhibit 4. Agility can be the team's greatest strength or the team's greatest weakness.



Given the emphasis on agility, it's not surprising that senior operations and supply chain executives believe one of the most critical functions to managing the business through an economic downturn is sales and operations planning (see Exhibit 5). Other important functions are procurement/sourcing and operational excellence.

Exhibit 5. Procurement, sales and operations planning, and operational excellence were rated as the most critical functions to help operations manage through a downturn.



Of course, agility alone is not enough. Many operations and supply chain leaders have skilled teams in place to help their organizations successfully navigate an economic downturn. Operations executives must now develop plans for their teams to follow during a crisis and demonstrate the benefits of their unique point of view to the larger organization so that these plans can get the C-suite support they need.

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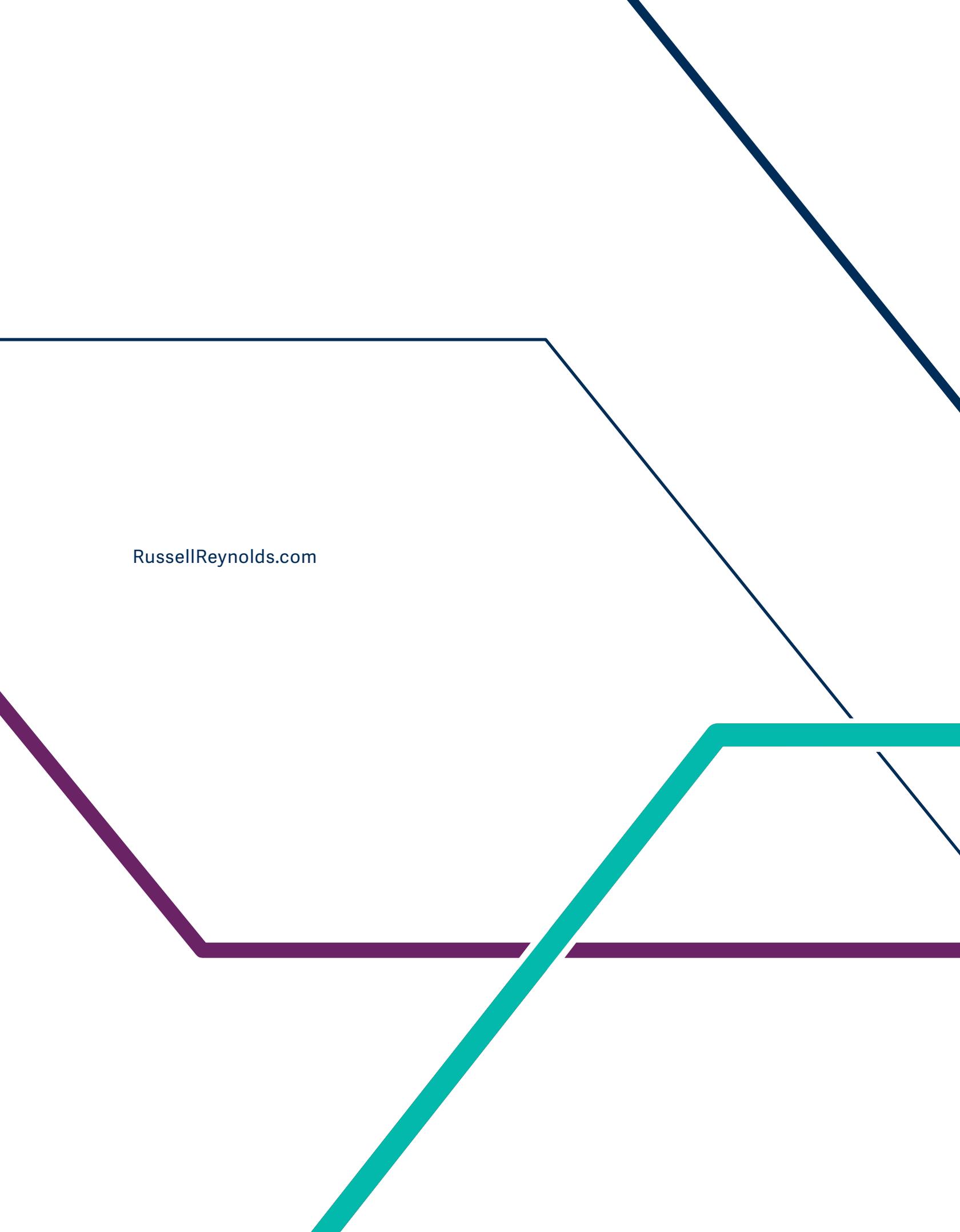
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The image features several thick, solid lines in dark blue, teal, and purple. These lines are arranged in a way that suggests a stylized staircase or a series of connected steps. The lines are set against a plain white background. The text 'RussellReynolds.com' is centered in the middle of the page.

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