
**Preparing for economic uncertainty:
Are your operations 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 CEOs and boards can do to prepare.

A unique POV on timing—and risk

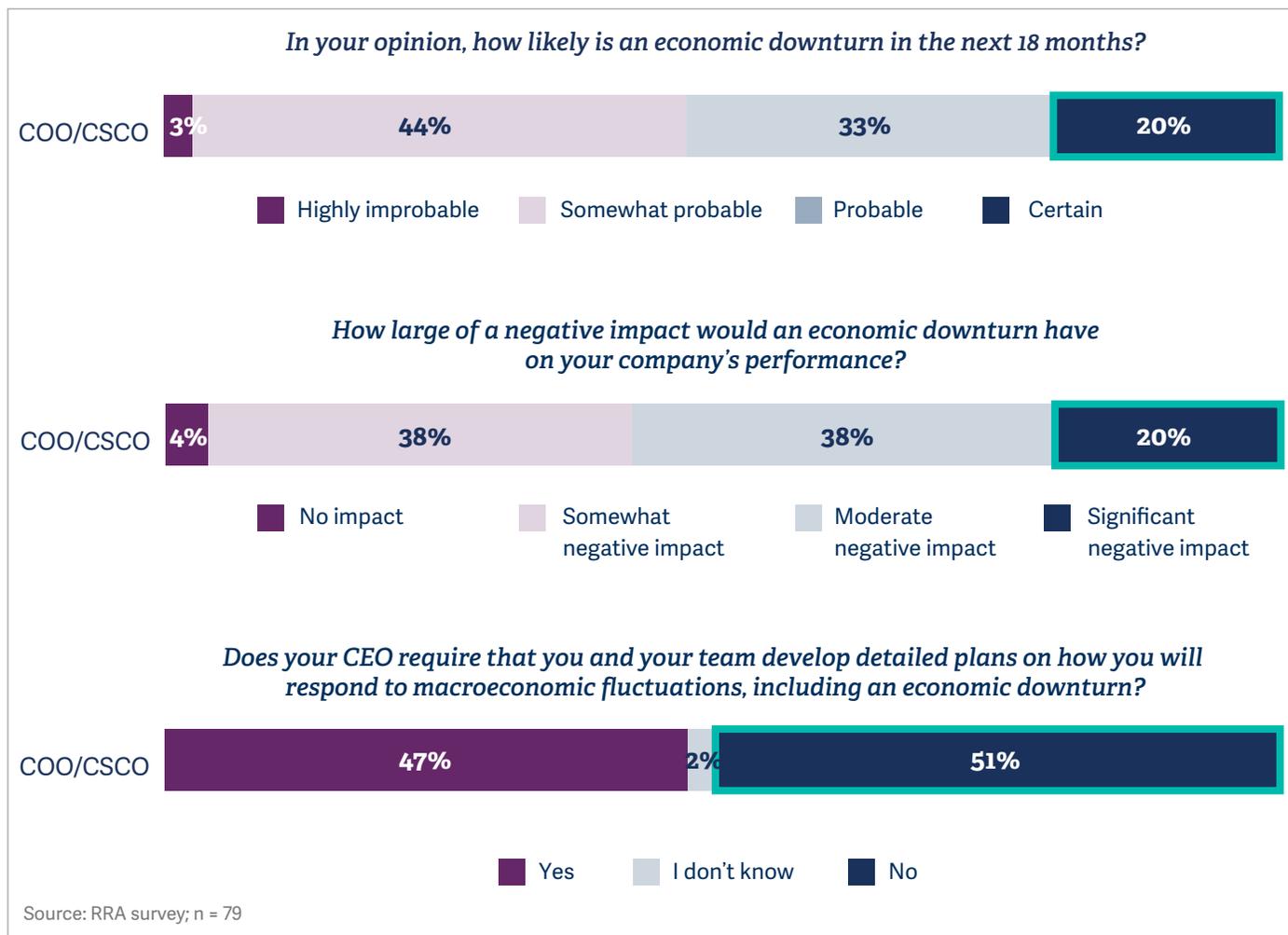
While there's little consensus among senior operations and supply chain executives about the timing of the next recession, only 3 percent believe an economic downturn is highly improbable in the next 18 months, while 97 percent believe it is probable or even highly likely (see Exhibit 1). That certainty matches the sentiment of all of the executives we surveyed, 96 percent of whom said a recession was probably or likely on the horizon.

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 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.

Yet the 2008 downturn showed that the operations and supply chain and finance functions were among the first to be impacted when the economy soured.



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.

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.



Senior support

Previous recessions show the importance of early preparation. Research in the Harvard Business Review showed that companies that have successfully weathered previous economic storms took three key steps:

- **They acted early.** Leaders may understandably be reluctant to take major actions until they see clear evidence that they are affected by economic headwinds. However, companies that proactively recognized the threat by discussing the possibility of a downturn were more likely to emerge as winners.
- **They took a long-term perspective.** Of course, leaders must attend to short-term issues during a downturn to make sure their business remains solvent. But substantial competitive opportunities await the leaders who can also keep one eye on the bigger picture.

- **They focused on growth, not just cost-cutting.** Companies need a balanced approach to performance, not only by pursuing efficiencies and improving profit margins, but also by driving revenue growth.

According to BCG, these quick-acting, forward-looking, growth-minded companies were rewarded financially for their foresight—even during a recession. BCG showed that, over the last four US recessions, 14 percent of companies managed to improve their sales growth and EBIT margin, while 44 percent of companies saw their EBIT margin decline and their sales growth fall. These top performers experienced revenue growth that was 14 percentage points higher than their less successful counterparts.

The need for advanced planning is clear, but how should CEOs and boards get started? We recommend four critical actions:

- **Develop a plan with the COO.** Operations executives must understand where potential weaknesses are in their supply chain and develop plans for their teams to follow during a crisis.
- **Benefit from the unique position of the COO.** COOs need to demonstrate the benefits of their unique point of view to the larger organization so that these operational plans get the C-suite support they need.
- **Identify gaps in the team.** A downturn will require talent that is comfortable with uncertainty and empowered to act nimbly and quickly.
- **Address gaps with effective talent strategies, culture and leadership.** Stress-test team capabilities to respond and execute plans, develop talent where needed and work toward the right culture for the team.

Weathering an economic downturn won't be easy, but companies that take steps to prepare now will find themselves on drier ground when the storm hits. Supply chain and operations functions will be some of the hardest hit, so CEOs and boards should start engaging them now to develop a response plan, tap their unique expertise and cultivate the right team and culture.

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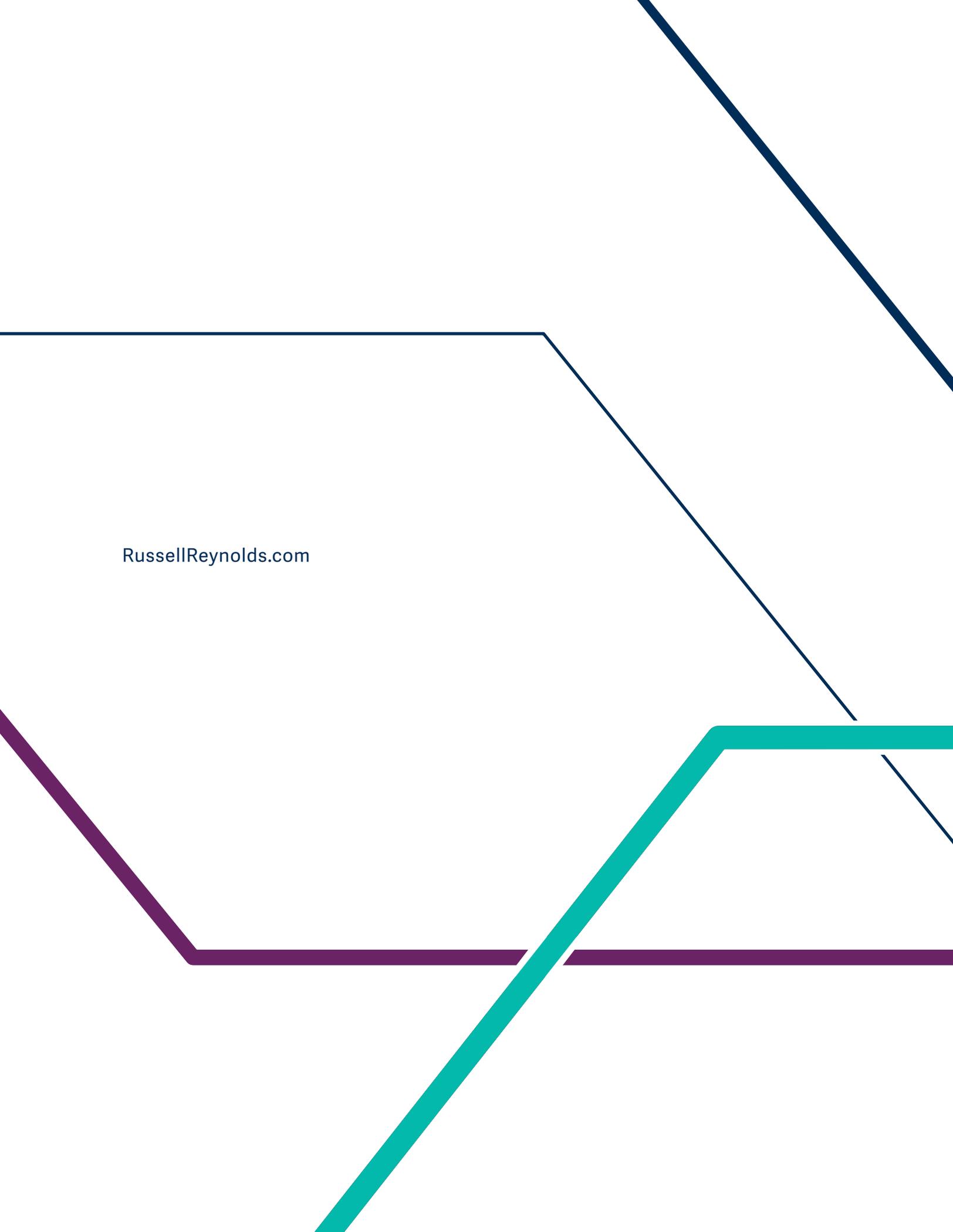
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The background features several thick, angular lines in dark blue, teal, and purple. A dark blue line starts at the top right and descends towards the center. A teal line starts at the bottom left and ascends towards the center. A purple line starts at the left edge and descends towards the center. These lines intersect and form various geometric shapes, creating a modern, abstract design.

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