Recession Proof Boards – How the best boards help grow market share despite recession

It's official – we are now in the grips of a recession and, as a result, most conversations in board rooms today are about how to cut costs and downsize. However, in the best companies, board members are having a different discussion – how to grow market share and create value from their existing product range.

Research undertaken by McKinsey and Accenture of the US recession of 1990 to 1991 supports this. They found that a company has almost twice as much chance to dramatically improve its position in an industry during a recession compared to normal times – and that most (but not all) of the companies that did step up held their gains in subsequent economic recoveries.

During recession, boards have a key role to play in lending their experience to decision making and ensuring the organisation focuses on the longer term.

Boards add huge value when they:

- Have the right skills and experience to complement the leadership team
- Ask the right questions at the right time
- Nurture, support and defend the decision making of the leadership team when those decisions run contrary to the market place.

Ensure the right mix of skills

It's been a long time since the last recession of 1990 to 1991. A full generation of workers has never experienced a recession before and therefore lacks the skills and judgement to deal with these challenges.

It is critical to ensure that at least one member of the Board has led a company through recession and out the other side. The ability to take a longer term perspective and refuse to engage in knee jerk reactions is something only someone with history and experience can do with confidence. And confidence is what staff and employees look to the management team for in times of uncertainty.

Boards have a role to play in choosing the CEO with the right skill set. Sudden declines in revenues and profits often lead boards (not the good ones) to search for CEOs with experience in cost cutting. Short term boards forget that most recessions only last two or three quarters and these days are relatively shallow. Penny pinching CEO's don't have the right skills to grow the business during recession when the economy is beginning to recover. On the other hand, choosing a CEO who has a long term vision will mean the company will continue to invest in product innovation and develop the talent of the company.

Ask the right questions

It is not unusual for a board to waste their valuable time and management's patience by focusing on operational details of belt tightening and tactical cost reduction. Whether the remedy is cutting discretionary expenditures, avoiding or delaying investments, implementing recruitment freezes or other typical actions, management already knows the options and consequences better than the board (after all, every one of these alternatives was already considered when preparing the original budget). A fully supportive board asking the right questions would be debating whether the company should, in fact, step up its activities and use the recession as a chance to gain position and advantage.

The board's job is not to protect the stock price at every moment but to create shareholder wealth over the long run. With this in mind the board should be considering:

- What are the consequences of a temporary decline in the share price?
- Do temporary gains in our industry or market become permanent?
- What is the potential downside if we take a defensive posture?

It could be that after working through these questions, the right decision is to take a defensive, cost cutting stance in the short term, but this decision should be well thought through and strategic, not reactive and defensive.

Support and nurture decisiveness which appear radical, different or contrary to the market

The McKinsey study showed that the more successful companies (defined as those who gained greater market share during recession and maintained it beyond) were not afraid to spend their cash reserves in a recession. In 1990 they lowered their reserves to a level 41 percent below that of their competitors though before the recession their excess cash level had been just 6 percent lower. In other words, they dug deeper into their pockets to sustain and build competitive advantage.

In addition, whilst most companies tightened their belts, successful leaders, trading lower short term profitability for long term gain, refocused rather than cut spending. They actually spent significantly more on selling, general and administrative costs than did companies that lost their market leadership.

When times are tough, organisations look towards their management team for courage and decisiveness, successful recessionary boards support and nurture courageous behaviour and do not second guess the decision making of the CEO and the leadership team.

Is the role of the board during recessionary times very different to that in 'normal' times? Possibly not, but the role becomes critical to the survival of the company by keeping the management team focused on the longer term whilst protecting the company from short term pressures.

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