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Building a *Culture* That *Wins* During a Recession

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If there is one question baffling leaders today, it is:

Where have all of the workers gone?

With 11.3M job openings reported by the Bureau of Labor in the last month and 5.95M unemployed people during the same period, there are nearly two job openings for every unemployed person. This has driven salaries up, which has impacted inflation. Not only are we currently recovering from a collective trauma brought on by a global pandemic, but we are about to be hit with a new source of stress: recession. Anxiety, depression, suicide, and addiction are already at an all-time high, and we may be gearing up for those levels to rise even higher as economic insecurity looms over us all.

In 1966, economist Paul Samuelson quipped that the stock market had predicted nine out of the last five economic recessions. The range of forecasts today is wide, but economists are noting a high probability of recession. If a storm is coming, we need to be ready to batten down the hatches.

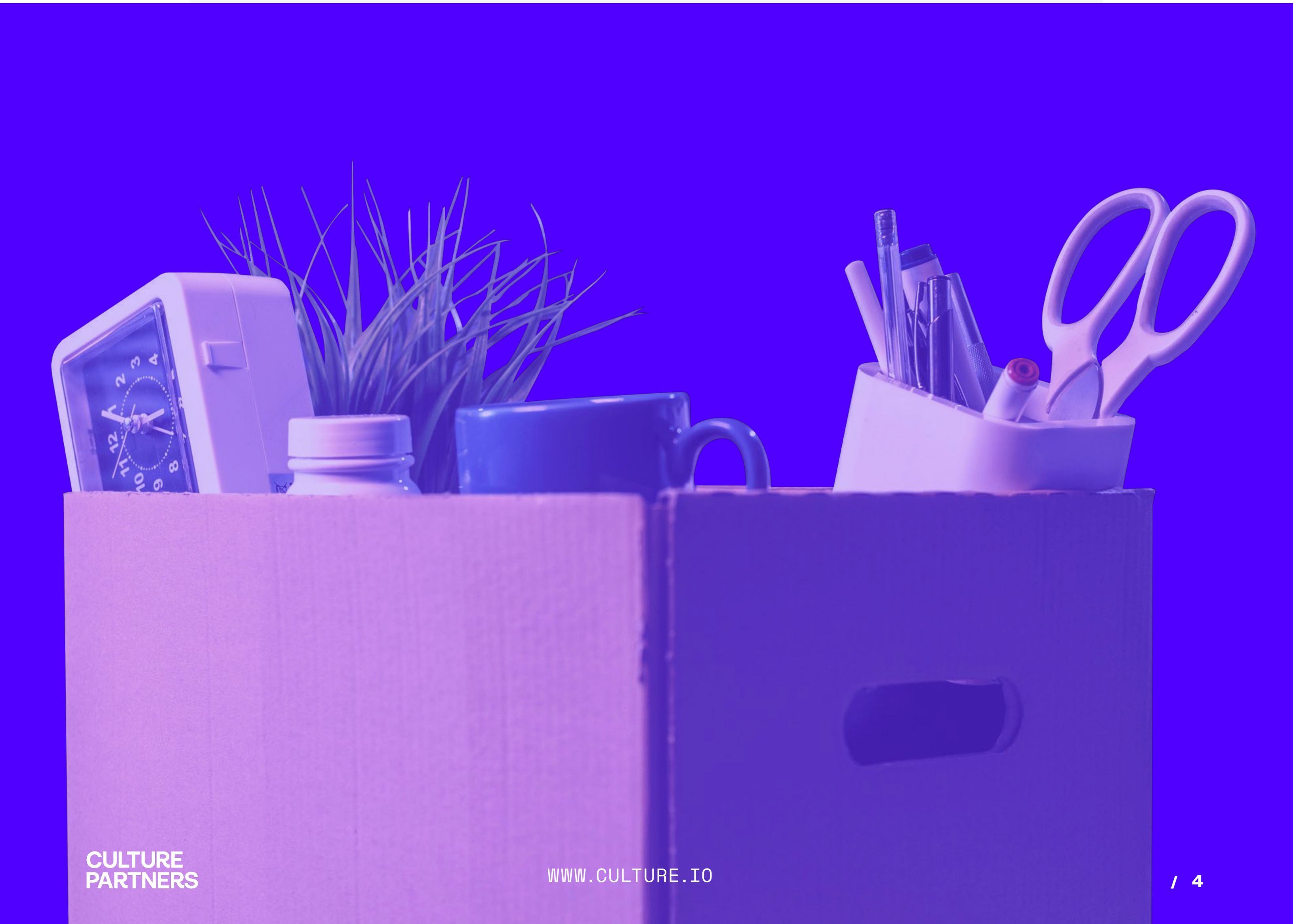
While there are many organizations out there with their own strategies in place for surviving an economic downturn, the single best way to prepare is to focus on culture. Here's how to build the kind of culture that wins in a recession.

Weathering the Storm

While the timing of the incoming recession is unclear, this has been top of mind for most CEOs for several years. The Conference Board's 2020 CEO survey saw economic recession topping the list of concerns for most CEOs — both nationally and globally. The way they respond will determine their ability to weather the storm.

As most empirical studies about business in the recession show, the typical response for most organizations is to reduce expenses, freeze travel and hiring, ask for wage concessions, move full-time to part-time roles, postpone investments, and, in worst case scenarios, enact mass layoffs. While these may feel like prudent measures, the reality is that these are knee-jerk reactions steeped in fear that often hurt the bottom line.

In fact, research on companies who weather the storm of recession shows that the winning approach is often an increased investment if aligned with the customer experience. And perhaps most surprisingly, mass layoffs tend to have long-term damaging effects on a company's outlook. Mass layoffs are usually an emergency measure taken by executives to conserve cash, but they also have a very dangerous long-term impact. Foundationally, they break the unspoken social contract between employee and employer.



The Employee/Employer Social Contract

Chris Argyris (1960) is credited with introducing the concept of the employee/employer social contract. He suggested that there was an invisible and unspoken mutual commitment between the two. The employee's obligation includes high production levels and low grievances, while the employer's obligation includes allowing the employee to do the job with minimal interference and provide adequate wages and job security. However, this social contract has been eroding with time, deteriorating particularly during periods of recession.

Heading into the 1981 recession, the idea of a layoff was so foreign, the Bureau of Labor Statistics didn't track those cuts. Prior to that, an employer would only ever furlough with a clear intention of bringing the employee back when business picked up. This changed in 1981 when mass layoffs became a reality and employees began to understand that jobs were not necessarily for life. Employers started to break trust in a permanent way for the first time. The effects of this action were felt in the 1991 recession when the age of "free agent nation" began. Temporary and contract workers were kept in positions even when permanent jobs were available. Employees were not as trusting as they once were. Fast-foward to the 2008 recession with the return of furloughs and major companies like Dell and American Airlines sending workers home for a few days or weeks without pay, in addition to layoff activity. Now, the gig economy has emerged with employers and employees more distanced than ever. The psychological impact of recession and a company's reaction to recession has profound implications.

Job security is now a myth.

What is left is job insecurity, which leads to stress-related health problems (both physical and mental) and has other negative impacts on overall well-being, including detrimental impacts to career and finances, as well as spiritual, physical, psychological, and social health.

Trust begets loyalty, so it's a given that an erosion of trust erodes loyalty. One of the consequences of this erosion of loyalty is The Great Resignation: the high volume of employees voluntarily leaving their jobs that we began to track in late 2020.

The COVID pandemic forced us to confront our mortality and had more employees asking philosophical questions that man and womankind have been asking themselves since the beginning of time. Questions such as: *What is my purpose? What is the meaning of my life? What is important to me? How do I want to spend my time?* Now, more than ever, employees are bringing those questions to the workplace. We have reached an intersection where the health and prospects of culture at large – as well as workplace culture – meet as leaders and employees try to recover together. Employees currently have the highest expectations of their employers since the beginning of the industrial revolution. The loyalty that employers once took for granted is gone. That is why now, more than ever, the need to manage culture intentionally is at an all-time high. Companies must harness their values and cultural beliefs. Employees will accept nothing else.

A 2018 Robert Half study found that 35% of employees in the U.S. would turn down the perfect role if they felt the company was not the right culture fit.

Culture has profound implications on productivity but also retention and attraction. To understand the culture needed to weather the storm of a recession, we have to understand the psychology of employees and leaders, as well as the marketplace.

What kind of culture wins in a recession?

Before 2008, few empirical studies had been conducted to show how businesses can weather the storm of recession. Understanding recessions has been made even more complicated by the fact that more businesses fail *after* a downturn than during one. This is partly due to the fact that it takes time for a company to die. But mostly it is because the most common reactions by leaders during a recession are the wrong ones.

One of the most comprehensive studies on leading companies through a recession was published in the Harvard Business Review (HBR) in 2010. This study analyzed strategy selection and corporate performance of 4700 companies during the recessions in 1980, 1990, and 2000. Specifically, researchers looked at performance three years before the recession, three years after, and during the recession years.

Out of the companies in the HBR study, 17% went bankrupt, went private, or were acquired. 80% did not recover to pre-recession growth rates. 9% flourished. What made these 9% successful?

These were the companies that found balance in their reaction to the recession. They did not cut expenses fast and deep. They did not engage in mass layoffs. They also did not boldly invest in new strategies. They avoided both extremes and instead took a measured approach. They reduced costs selectively by focusing on operational efficiencies and they also invested comprehensively in the future by spending on marketing, R&D, and new assets. These companies not only weathered the storm, they thrived post-recession. Their April showers brought May flowers, so to speak.

These executives also focused on three key elements when shifting their culture: equanimity; diversity, equity, and inclusion (DEI) initiatives; and alignment within the organization.

Here are three ways to get started.

Equanimity

The key to success for these companies is what Ram Dass refers to as "equanimity." Equanimity is mental calmness, composure, and evenness of temper, especially in a difficult situation. Humans are, by nature, hedonistic. We avoid pain and seek pleasure. These are our two basic drivers. In business, leaders can be either pain-avoiders or pleasure-seekers. The pain-avoiding leaders are prevention-focused and make defensive moves to avoid bad outcomes. This is the cost-cutting approach. Prevention-focused moves can mean employee reduction, seeking operational efficiencies, or both.

Pleasure-seeking leaders are promotion-focused. They invest in offensive moves that have the potential for a big upside. Promotion-focused moves include asset investment and market development. The winners find a balance between pain avoidance and pleasure seeking, the two basic modes of self-regulation.

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Perhaps surprisingly, the approaches with the best outcomes found operational efficiencies without employee reduction, and also doubled down in market development and asset investment.

This goes against a leader's typical gut-reaction to economic downturns. Usually, leaders want the quick fixes: cut costs, slash budgets and staff, meet earning targets, and reduce capital expenditures. This can have profound negative impacts on the customer as some companies will drop services, push suppliers to cut prices, and focus purely on short-term survival.

The danger is in overreaction. Since 1990, the average recession lasts 15 months. Given the costs associated with severance packages, rehiring once the downturn is over, and retraining and retention, is there actually a significant ROI to layoffs? It seems not, as those companies that engaged in mass layoffs had the worst outcomes. And this research does not even take into account the intangible loss of knowledge and trust. Companies with no-layoff policies, such as Southwest Airlines, proclaim that their employees dig in during tough times rather than shop for new jobs.

How do we find equanimity?

It starts at the top.

As the research indicates, CEOs that panic in a downturn are not successful. Equanimity is key. Leaders need to have wisdom and the vision to be able to see the big picture. We are constantly surprised by bull vs. bear markets. We might wonder, “why is there not just homeostasis? Steady with little to no change?”

Recessions and downturns are cyclical and part of the natural laws of the universe. The law of rhythm states that energy is like a pendulum. When something swings left, it must then swing right. This law governs our politics, our health, our spirituality, and everything in between. Cycles of the economy are no different — there are high and low periods. Great leaders see the drop in the economy as an opportunity to regroup and then grow into a better and higher state of potential. Those with wisdom know how not to be crushed by the negative swings and also how to stay equanimous during positive ones.

For leaders this is ultimately about a state of consciousness. People expand and contract violently when they are not grounded. Without something to ground us, we swing from irrational exuberance to chronic fear. Another word for equanimity is what the 12 step groups call serenity. This is the point where all things rest in relative harmony. And if, as leaders, we can see that the whole economy is at the mercy of the law of rhythm, we can also see that it is essentially a mass hallucination. Economic trends are psychological as much as monetary.

For example, the toilet paper shortage shortly after the COVID pandemic began was partly due to people shifting to remote work. The demand for commercial toilet paper went down while the demand for consumer toilet paper went way up. In addition, a sense of panic ignited, leading to a run on toilet paper. Fear drove the crisis into overdrive.

Buddhism says that equanimity is based on non-attachment and impermanence. When we get attached to something, we suffer because everything is impermanent. In a recession, leaders are often attached to positive economic conditions. When those conditions change, equanimity suffers. But a dichotomy exists between the expectations of a leader in a capitalistic structure and the concept of non-attachment to outcomes. The purpose of a business leader is to lead an organization to particular outcomes, mostly financial in nature, hence the challenge. The system is set up to drive us to the exact outcome that will ensure our downfall. This is why visionary, purpose-driven leaders are in such high demand. They see the game for what it is and rise above it. Christians believe Jesus said to be in the world, but not of it. Again, a mentality of non-attachment. For many, the answer is spiritual in nature. For others, simple mindfulness is the key. The challenge for leaders is not only to find their own way, but to create the conditions for equanimity organization-wide.

Equanimity at the Organizational Level

Many organizations are bringing mindfulness to the forefront of workplace culture. Company-wide subscriptions to meditation apps, yoga classes inhouse, and mindfulness retreats abound as new perks for the forward-thinking company. Employee well-being is the topic *du jour* for HR leaders, as is psychological safety, and creating a culture of belonging. There is a reason for these trends. Leaders need to instill a belief of safety, which brings us back to the employee/employer contract. The mass layoff approach erodes the sense of safety, increases fear amongst layoff survivors, and creates the exact mentality we must avoid. Why? Because mass layoffs are an experience. And experiences create beliefs. In this case, the belief created is that we are doomed and we are not safe. When fear pervades an organization, employees are less engaged in their roles and turn over at higher rates.

How can we reduce fear to avoid these outcomes? As humans, historically, we take refuge in community. Now is the time to rebuild workplace communities as places of refuge and connection. The workplace needs to be a place of life, creativity, and productivity, not fear and insecurity. This means leaders need to plan for long-term security, not short-term gain. And workers need to participate rather than withdraw or resign.

Diversity, Equity, and Inclusion

Initiatives around diversity, equity, and inclusion (DEI) are at the core of racial and gender equality. They generate an environment of inclusion and belonging, so that we feel the support and connection that's inherent in any organization that prioritizes a sense of community within the workplace. That feeling reduces fear and leads to equanimity.

Now is the time to lean into our DEI efforts more than ever. In fact, DEI metrics can predict your ability to weather the coming recession storm. According to a study by Great Place to Work, a leading indicator that predicts whether or not your organization is positioned to survive or thrive during a recession is the employee experience of often-marginalized groups.

These include:
Women, people of color, frontline workers, hourly male workers, and long-tenured employees.

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Research shows that the S&P 500 suffered a

35.5 % decline

in stock performance from 2007-2009, but companies whose marginalized employee groups had very positive experiences posted a remarkable

14.4 % gain.

That means their companies grew during the recession.

Recessions Impact Groups Differently

Recessions don't impact all employees equally. Often-marginalized groups are among the first to feel the effects of a business running into trouble, such as bearing the brunt of wage cuts or layoffs. They also play a critical role in how the business is doing. They're typically the ones serving customers directly. These groups are also a great source of ideas for cost cutting or new ways to generate revenue, but are often unseen and unheard at the executive level. To beat the recession, double down on listening and measuring the employee experience through tools such as employee surveys, meetings, chat platforms, feedback forms, and pulse surveys. Then take action on the ideas that are shared. Now is the time to invest in DEI. In fact, it is a business imperative.

Alignment

Our research shows that the strongest predictor of culture strength is clarity of results.

Every CEO has results they need to achieve, whether it's revenue, customer satisfaction, growth, or other goals. When executives treat the company's purpose, goals, and performance metrics like secrets only to be shared with one another, they are doing their employees — and themselves — a great disservice.

Employees who are fully brought and bought into the company's purpose are more likely to engage with their jobs, see the value of their work, and be more motivated. This is the key to alignment. Fully aligned employees will help their employers weather recession.

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Alignment in Practice

First, executives should democratize their goals and expectations among the entire leadership team, from the CEO to the department supervisors. When setting these goals in preparation for dissemination, executives should ensure the goals are:

Meaningful – employees should be able to easily connect their daily work to what the organization is trying to achieve.

Measurable – units of measurement in order to track progress. Little wins add up and boost morale.

Memorable – numbers that are easy for people to internalize. When employees remember the goals, they always know what target to aim for.

Leaders should then embrace all communications as an opportunity to relay the company goals and results: company-wide meetings, one-on-one meetings, engagement surveys, or even an internal email signature that states the goals. Creating alignment needs to be intentional, and it needs to be a priority.

Being a Part of the Solution

Ultimately, our fate is in our own hands. Whenever the next economic downturn happens, its significance will be determined by how people respond. Much like the run on the banks in 1933 led to The Great Depression, if we, the people, get skittish and sell during a stock market decline, that will make the decline even worse. The more radical our behavior, the more likely we will inflame the recession. If we reduce fear at the leadership and organizational level, we will actually be doing our part in preventing the recession altogether.

About the Author

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Jessica is Chief Scientist of Workplace Culture at Culture Partners. In this role, she brings over 15 years of experience guiding global, national, Fortune 100 and other organizations across finance, technology, real estate, and healthcare industries on how to create intentional cultures that accelerate performance. After she received her MBA and became a global consultant for a human capital management solutions provider, Jessica consistently saw highly-stressed leaders failing to deliver against lofty financial goals. She knew that if these leaders could transform their cultures, performance and profitability would follow. But, because culture is often viewed as 'woo' and an intangible, these leaders didn't know where to begin. So, Jessica set out on a personal mission to quantify culture. Her doctoral research and consulting engagements with Oracle, Toyota, Lockheed Martin, Federal Reserve, to name a few, led to the Culture Equation - a tested model where strategy combined with 8 tangible and measurable 'Culture Dynamic Drivers' empowers your people to deliver consistent results. Today, she serves as Chief Scientist of Workplace Culture at Culture Partners to help advance and amplify their platform that creates results-driven workplace cultures for thousands of companies through her quantified culture framework.

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For over 30 years, our team has empowered thousands of clients across the world to harness the power of culture. Our human industrial-organizational psychological methods help organizations inspire action by connecting experiences, beliefs, and actions. We believe in the transformative power of culture to improve the professional and personal lives of people everywhere.

Unleash the power of your culture.

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