

Seven Questions To Ask Yourself As The Economy Weakens

by Patrick J. McKenna

There is a rather tasteless joke that claims that a recession is when your neighbor loses his job, but a depression is when you lose yours. The curious irony is that economists have no specific point of reference to distinguish when an economy moves from one state of malaise to the other. That said, the difficulty in managing through any downward cycle is trying to determine: how long will this last?

Conventional wisdom, publicly espoused since mid-2008 by a number of market watchers and legal consultants is that: *“The recession will be intense, but short. Everyone wants to get back to normal. Short term, the backlog of real estate will be sold as owners accept losses; banks will end the credit crunch; layoffs will make companies more efficient.”*

At the risk of being labeled a pessimist, my view has been far little less confident. I believe that unlike past experiences, this recession wasn't caused by a downward spiral in a few isolated industries. It started with the burst of a protracted housing bubble and then metastasized into a full-blown credit crunch, eventually destabilizing the entire financial system. Therefore, I submit that *at least until 2012, every time you think it's safe to get up and dust yourself off from this downturn, every time you feel like you've endured the worst of it, another piece of news is going to come along to freshly bludgeon you. This time the economic slowdown is going to be a lot different and, in many ways, a hell of a lot tougher.*

Whether I'm right or wrong is immaterial. What is relevant is whether you are prepared for a worst-case scenario. What is worth acknowledging is that this economic downturn could present an opportunity to introduce meaningful change, when change is not normally an easy subject to discuss.

To that end, I had the opportunity in a recent meeting to facilitate a specific exercise designed to engaged a group in creatively exploring what their world might look like, and what specific strategies and direction they might pursue, if this really was an economic downturn of some magnitude and duration. The exercise consisted of initially discussing the various trends that collectively would suggest that this is likely to be a prolonged recession. Our discussions were then followed by a questionnaire for each of the lawyers to share their candid views and suggestions. The resulting deliberations were spirited and the action plans thoughtfully conceived.

Here is the exercise I conducted and would recommend for your next internal meeting:

“Assuming that there was a chance that this was going to be a very prolonged and extremely painful economic downturn – how would that affect our legal department's thinking and the decisions that we make with respect to the direction that we pursue on a number of fronts?”

PLEASE give me your confidential, thoughtful and detailed responses to each of the following questions. We will then draft a compilation (without attribution) of all the responses received and have it available for discussion at our upcoming meeting.

- Are there any areas of discretionary spending (functions that have tended to ‘put on weight,’ nonessential projects that seemed like good ideas at the time, etc.) where you feel that we could be making budgetary cuts?
- Are there any areas (supplier contracts that could be renegotiated, tasks that could be automated, meetings that could be held without travel, moving resources to less expensive locations, etc.) where we could be more creative and far more cost-effective in how we operate our department?
- Given that most external law firms historically raised their rates at the beginning of every year, are there areas in which we should now be strongly requesting increased added-value and decreased legal costs going forward?
- Do we have the right mix of internal expertise to do more work cost-effectively in-house and is it time to build our skills in some areas?
- What can we now do (in a more proactive manner) to get closer to and enhance the relationships we have with our client departments – that we may not have found sufficient time in the past to do properly?
- How can we recognize and reward internal performance when our ability to offer the kind of compensation increases that we have in the past, may be somewhat limited?
- Are there underperformers in our department that we have been slow to address and that now need some timely attention?

When it is business as usual, there's no real sense of urgency about actually changing anything. Think about incorporating the possibility of a long recession into your strategic thinking. Instead of merrily assuming that everything will turn back up in a few months and healthy growth will again be the norm, build assumptions around how to manage in a prolonged recession as part of your department's immediate planning.

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