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Strategic Recession Budgeting

Use this briefing to prepare for a coming economic downturn, before it is too late.

There are three different responses to an economic recession:

Economy
Museum

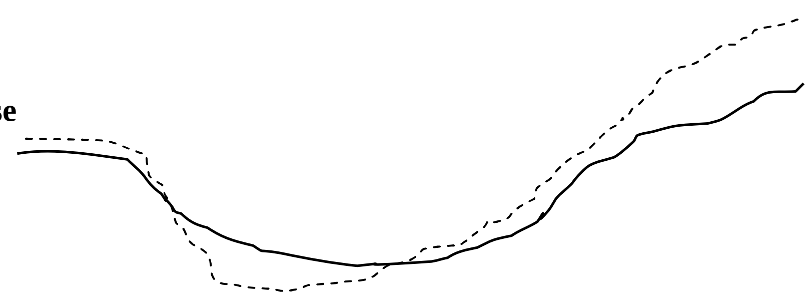
Denial

Waiting too long to act, forced to make deep cuts, comes out of recession weaker.

Riding It Out

Freezes spending, makes adjustments one step at a time, hopes for the best.

Strategic Response



Has flexibility built into the organization, is able to respond quickly, makes cuts based on long term goals and strategies, cuts more than needed to build cash reserves, is able to take advantage of opportunities and emerge stronger.

Strategic Recession Budgeting

Gather your senior team and go through this exercise:

I. Plan for a 40% decrease.

Considering a cut this deep will keep the organization out of the "Denial" and "Riding It Out" modes of response. Ultimately you may not have to implement the cuts, but this will give you the flexibility and speed to do so if necessary.

- Gather data, so that you know what the budget reality is. However, don't use a lack of ready data as an excuse to put off planning. Go with the best data you have. Consider all major categories of expense and revenue.
- You, the Director, will be making the tough decisions. This is not a time to operate by consensus. However, you may want to bring together your "A" team, your best strategic thinkers, to help you explore the options. Make it clear to all that this will be your decision.
- Discuss the local and national economy, surface anxieties. [We know there have been massive layoffs, the stock market has declined, etc. The recession may not yet be evident on the local level, but it's coming. Some people may not understand this, or deny it. Others sense it's coming. It is important for the staff to know that the leadership is taking action. If you delay, it will add to their anxiety.]
- Create a caring climate for making hard decisions; acknowledge uncertainty, state your desire to do well by people and desire to maintain a strong organization. Shift the conversation from "we're confused and helpless" to "let's see how we can help the museum get through this."
- What are the major goals you hope to achieve? Are they still relevant? If not, what should they be? The constellation of opportunities and threats has changed. What new opportunities have opened up? What is happening to your priority constituents? In short, assess your vision, goals and strategies, and change them if necessary.
- Assume everything is negotiable. There are no "fixed" costs.
- Some things you are doing are less important strategically than others. What are they? There should be no sacred cows. Justify everything in terms of goals and strategies. Distinguish between activities that are merely acceptable under your mission, and those that really *drive* you toward your goals.
- Be careful not to give in to making just the easy, soft cuts, such as funds for staff development or marketing. Consider the whole system, and remember that innovation drives the creation of value for your constituents, which is your ultimate purpose.
- Some employees are less effective than others in driving you toward your goals. Again, this is your decision, but you may want input from your "A" team. If you find that you have to layoff good performers, offer them a re-hiring bonus.

- An alternative to strategic layoffs is across the board salary cuts. This sends the message that "we will stick together through this." However, if you have marginal performers on staff, this approach not only takes away an opportunity to improve the overall staff, it continues to send a message that marginal performance is okay. It may be prudent to do strategic layoffs initially, and then do across the board cuts if things get worse.
- After you have identified 40% in cuts, brainstorm how to put 5% back into the budget for new activities that will take advantage of new opportunities and drive the museum forward. This will energize the remaining staff and lay the foundation for the next major step in recession planning.
- Once your team has helped you with options for a 40% reduction, you decide what level of cuts is needed immediately. You don't have to do a full 40%, but you are prepared to do so if necessary.
- Develop ways to monitor closely the impact of the cuts, and the results of new and ongoing activities, so that you can make quick adjustments.

II. Plan to come out of the recession stronger than when you went in.

An economic recession generally lowers the cost and increases the supply of resources you may wish to acquire for future growth. Short term sacrifice at this point (such as cutting the budget an extra 10% to create a cash reserve) may yield substantial long term gains.

- The cost of real estate may decline, giving you an opportunity to acquire and control adjacent or nearby property for future expansion.
- The cost of borrowing money will decline, giving you a better line of credit.
- The cost of construction may decline, enabling you to lock in better prices for capital projects.
- The cost of services may decline, enabling you to negotiate better prices for operations.

Additionally, there are now more good people looking for work. You have an opportunity to upgrade the talent on your staff. There has been a lot of recent evidence indicating that the most important thing you can do as a CEO is getting the right people in your organization.

- To do this you need to learn how to hire the right people. Don't make the same mistakes. Go for talent, not just experience.

Finally, the recession gives you a chance to strengthen the culture within your organization.

- Break down the silos.
- Develop the spirit and practice of teamwork.
- Make sure that the employees who come through this difficult time together feel closer to one another and are better integrated in their work

- Recognize and encourage their commitment to the success of the organization as a whole, and to the success of one another.
- Instill pride in their achievements, in their ability to not merely weather the recession, but to grow stronger.

III. What if things don't get better?

Suppose you've made deep cuts and thought about strategic improvements, but the economy continues to worsen. You may need to take even more drastic action. The danger, as always, is to avoid thinking about it until it is too late. So, once you've engaged your "A" team in Step II, ask them "What if we have to cut 60%?"