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By DANIEL McGINN

THEY CARRY BRIEFCASES, NOT RESUSCITATION EQUIPMENT. BUT IF A CONSULTING TEAM from AlixPartners suddenly shows up at your office, it's rarely a good sign. For more than two decades AlixPartners has led turnarounds of troubled companies, many of them teetering near bankruptcy. But in the past few months, chief executive Fred Crawford has suddenly started hearing from a different group of potential clients: healthy firms worrying about the credit crunch and the deepening recession. "They're not used to dramatic slowdowns in demand, to customers going bankrupt or not paying them," Crawford says. "Some well-run companies are being snuck up on." So today some AlixPartners teams are pursuing a new kind of business: creating doomsday plans for still-profitable companies, to help them cope if the economic free fall continues. "We're just brutally objective," Crawford says, pushing managers—optimists by nature—to stop looking for silver linings and focus on worst-case scenarios.

Managing Along the Cutting Edge

Think smaller: Most CEOs have strategies for good times. This recession will require a new set of skills.

Like it or not, many companies will need these contingency plans. In theory, every manager should have the skills needed to guide companies through a recession, the way every baseball player is supposed to know how to bunt or steal a base. The reality is few CEOs earned their stripes by executing layoffs, killing product lines or leaning on clients to pay bills faster—all key tasks today. "After spending their careers in single-minded pursuit of growth, business leaders have to adjust their mentality," writes the consultant Ram Charan in a new book, "Leadership in the Era of Economic Uncertainty." "The new reality is that, barring acquisitions, [the average] company will be smaller two years from now than it is today."

Some seem to be shrinking by the day. Last week Caterpillar, Home Depot and Starbucks announced huge layoffs. Cuts of this scale are a fairly recent phenomenon: as Louis Uchitelle writes in "The Disposable American," until the 1980s firms saw large-scale permanent layoffs as a mark of managerial shame. By the 1990s, however, "downsizing" became a routine task and an easy way to boost share price, and ruthless cost-cutters like "Chainsaw" Al Dunlap of Sunbeam Corp. were widely admired—at least briefly.

Since then, the role models for managing in a down economy have changed. Today Jeffrey Sonnenfeld, a professor at Yale's School of Management, cites former IBM chief Lou Gerstner and current Xerox CEO Anne Mulcahy; they cut billions from their companies' cost structures while trying hard to preserve the corporate culture. "They're almost apologetic about the tough moves they've had to make, but they made them with a very clear eye, driven by a consistent sense of purpose," Sonnenfeld says. (Mulcahy is a director of The Washington Post Company, NEWSWEEK's parent.)

It's not just a sense of humanity that determines how well managers lead during recession. In good times, the best CEOs tend to be what recruiter Steve Mader of Korn/Ferry International calls "strategic creators"—people who excel at sifting among new ideas and placing bets on the likeliest winners. Managing in a down economy, in contrast, is mostly about taking bets off the table, a process that requires fewer big thoughts and more painstaking attention to detail. Which CEOs are up to the task? Mader says bosses like John Thain, who was revealed to have spent $1.2 million remodeling his Merrill Lynch office last year, epitomize a chief who seems ill suited for hard times. Sonnenfeld points to Carly Fiorina, who took over HP during the Asian financial crisis and then "flailed around, swatting at strategically inconsistent, splashy options," like its 2001 merger with Compaq, as a CEO not equipped to deal with a recession.

No matter what industry they're in, many CEOs will be forced to make further cuts to their payroll: according to a survey released last week, 39 percent of U.S. business economists expect "significant" job cuts over the next six months. While these help the bottom line, they're also creating a poisonous anxiety in cubicle land. Today many offices feel like an episode of "The Apprentice," as employees jockey for posi-

tion, form alliances, backstab and constantly recalculate the odds they'll survive the next round of cuts. There's only so much that CEOs can do to assuage this panic. But good bosses are taking pains to be visible: walking the hallways, holding all-hands meetings and sending frequent e-mail updates. "In the turnarounds I've been associated with, I've found it very helpful to let people know the reality, which oftentimes isn't as severe as the fear," says Mitt Romney, the former governor and presidential candidate who specialized in leading corporate turnarounds in the 1980s. "The rumors and fears can grow well out of proportion to what a company actually faces."

For the right way to communicate in uncertain times, some observers point to Washington. Leading a company is far different from leading the country; in the most obvious current example, while firms are making draconian budget cuts, the new Obama administration is embarking on an epic Keynesian spending spree. But in trying to calm a freaked-out workforce, there are parallels between presidential and C-suite leadership, says Robert Reich, the former labor secretary. "It's possible to be very hopeful and at the same time to be quite sober about what we're going through, as Obama is showing," he says.

Some CEOs try to sound hopeful by talking up the great opportunities they're seeing as a result of the downturn—to steal market share, make acquisitions or take advantage of weakened competitors. There is, in fact, a long history of younger companies that took root and sprouted during hard times: consultants Scott Anthony and Tim Huse of Innosight point to firms like Home Depot, Best Buy and Google that made big gains during the last three recessions. CEOs can also set the stage for growth by protecting key R&D investments even as they cut budgets. Boston Consulting Group's David Rhodes and Daniel Stelter, writing in this month's Harvard Business Review, cite Apple, where R&D done during the last recession led to iTunes and the iPod. "Companies that cut back on research and new product development do so at their peril," says Intel chairman Craig Barrett.

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But the extent to which companies can use the downturn to their advantage varies tremendously by industry. There are some firms that will clearly emerge from the crisis with a strengthened hand because of a rival's missteps: for example, Best Buy and Bed Bath & Beyond can't help but pick up sales that would have once gone to Circuit City and Linens 'n Things, both going through liquidation. But in sectors like the auto industry, where every player is struggling, there may be few winners.

For firms that hope to go on an acquisition spree, the credit crunch will remain a constraint—as will the fear they're buying assets whose value still has further to fall. Just ask Bank of America chief Kenneth Lewis how he now regards his purchase of Merrill Lynch, or Warren Buffett how the stock market has done since Oct. 17, when he proclaimed himself a big buyer of undervalued U.S. equities. The answer: the S&P 500 has fallen another 12.2 percent since then. (Buffett, too, is a Washington Post Company director.)

There's a lesson there: managers everywhere would be wise to plan on things getting worse before they get better. When Fred Crawford and his colleagues at AlixPartners meet with companies today, they usually deliver a simple message: if you've done your 2009 budget figuring sales will fall by 5 percent, they say, try refiguring it based on a 15 percent revenue drop. "Every company should be ready to pull the trigger on a plan that imagines a scenario worse than they could ever predict," Crawford says. All of which means that for anyone whose job involves making a number—and, by extension, those of us who work for them—the rest of 2009 looks to be an anxious and uncertain time indeed. ■

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