

Crisis Tactics - Staff and Internal Communication

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LIKE MANY OTHER companies, DataArt has a rich "crisis history." It has survived two and is undergoing a third one now. In 2001-2002, we lost all our clients and the dotcom bubble burst. Only forty out of 120 employees remained on board. The second crisis occurred at the turn of 2004 and 2005 when we lost our key client.

The current crisis is similar to 2001-2002. In the years since, DataArt has grown to ten times its former size and has become a diversified company with solid financials. The sales department is the strongest in the company's history. But more than half of our clients are investment companies or start-ups, which are now at risk and likely to decrease their IT spending. The company can cope with a crisis, however, by utilizing the basic arsenal of anti-crisis measures, and importantly, making them known to our new employees (70 percent of our staff joined us since 2002).

What should one concentrate on in order to coordinate internal communications with a company's overall tactics during a crisis?

A crisis is not the onset of illness, but its culmination. The old system no longer works. Qualitative change is needed, and the crisis will continue until it reaches enough people and companies to effect that change. If this doesn't take place, then we will have something like a restoration of "no-IT-economy," as in 2001-2002.

A crisis is an uncertain situation in principle, impossible to predict except in two areas. The first covers short-term solutions that are easy to calculate. The second is called "scenario invariants." Only one of these areas should be the focus of communications, otherwise there is a risk of ruining employees' expectations.

For all businesses, crises end either in fatality or recovery. A company either dies or adapts. Therefore, the most constructive position is to focus on future turnaround and view current choices in their context.

Information and Loyalty for Employees

The most important task during a crisis period is to preserve the confidence and initiative of employees, and to do this, executive management must become a source of information and prove its loyalty to employees.

This is easier said than done when a trend changes from growth to recession. The growth went on for years, while the reverse only took months. Yesterday, salaries were sky-high, while today they're close to the bottom. Every company is now forced to reduce costs and improve the productivity of employees. Nevertheless, despite the difficulty of the current situation, management should look ahead and examine how this crisis will be remembered in the future. Is it possible that it can be remembered as a period of hardship that people overcame together? If so, then those who stayed with the company will remain loyal and those who left won't hold a grudge.

The first thing the management should do is focus on clear explanations. Explain the given situation calmly and confidently. Abstract reasoning doesn't satisfy employees. They need to know if bad things can happen, and if so, to whom and to what extent.

The Plusses and Minuses of Different Strategies

In the event of a short-term crisis, it's

possible to say nothing and only confess if things get out of control; but this is risky. This strategy may work for companies with a rigid corporate culture, but it is very dangerous for smaller, more professional ones. Though they may put up with it now, professionals within the company will remember the deception for a long time. The worst thing about this strategy is that it does not give management an opportunity to implement necessary reforms immediately — reforms that can be more easily implemented early in a crisis.

Let's say a company is stuck with implementing unpopular measures. Then there are two scenarios for dealing with a crisis:

- The first is an attitude of "We're one family, surviving together, trying to avoid redundancy at any cost. We can reduce and delay salaries, cut all optional expenses." The goal here is to stay together. The most loyal employees will remain with the company, but they might not be the most essential for the business. This tactic is applicable without significant loss only in the case of a systemic crisis on the labor market, when unemployment rates are high and most of other companies are going through the same troubles.
- The second is to treat the crisis as the right time for re-allocating resources and downsizing, but fulfilling all severance packages. While the company has financial reserves, it can be more generous. The first employees to be let go of in a crisis are relatively better off: not all the vacancies on the market have been filled. This tactic is good within still-vibrant labor markets with diversified job offerings still available.

The reality is always somewhere in between. Most companies have several offices in different cities and countries where labor markets are arranged in different ways. Corporate cultures of companies also differ, and smaller companies have more family-style environments. Regardless of a company's size, management should adopt the tone appropriate to the needs of the situation: If there is a need to lay people off, then management can cite the market situation; if there will be salary cuts, use the family approach.

At the beginning of 2002, DataArt reduced its staff by 65 percent and paid all severance packages. This was done quickly and decisively and each penny saved increased the chances of survival. Not only did everyone find a good new job, but many have since returned to our company, and others later became subcontractors. The remaining employees loaned the company 20 percent of their salaries and took additional work loads. These people formed the "family nucleus."

Financial information should always be disclosed, though there are two problems with it. First, after a period of rapid growth, there are often new employees who don't have confidence in their new company, as management hasn't had time to earn it. Nonetheless, one should strive for openness: We have to respect our employees.

The second problem is the temptation of management to have tight control over a company during a crisis, above all, in relation to information. Management will argue that its employees won't interpret information correctly, making matters worse. And yet, even if there is some truth in this, a compromise should be found, as an

informational vacuum will also lead to misinterpretations, rumors, and inevitably gloomy prophecies.

The Benefits of Being Fortright About Bad News

During the crisis of 2005, DataArt presented financial reports to its employees on a quarterly basis. When the loss of a principal customer was reported, for example, panic was avoided as sales projections showed positive growth without it.

It's not always possible to pass through a crisis or respond to it with a single cycle of layoffs. The longer the recession and the larger company, the more tough measures will be required. And there is nothing more difficult than gradual redundancies and cuts, as it's difficult to coordinate communications and the actions themselves. But this can also be of use. Since the changes are made slowly, the system can adapt and keep

losses minimal. Therefore, communication efforts can be divided into a series of small invariants.

Joint Projects and Initiatives

New employee initiatives that involve management are very important. Company leaders must show their work and demonstrate their confidence and enthusiasm. Employees are more influenced by the leaders' actions than words, and joint projects and initiatives are an excellent resource for setting an example. Great initiatives in this regard are: seminars, reform committees, designing new means of business-flow automation, and the joint development of new strategies and tactics.

Educational Programs

During a crisis, professionals are traditionally more willing to learn, yet companies cut training budgets. This may be compensated for with the help of internal training, for example: seminars that are prepared

by staff, video courses, team building with training elements, coaching, and research projects.

New Compensation Packages

Offer employees new compensation packages. It's important to build a communications program around concrete transactions, focusing on a balance of the benefits and risks of each instrument: internal borrowing, variable parts of salaries, and offering stock options instead of cash bonuses. For example, in 2002, as I mentioned, DataArt borrowed up to 20 percent of its employees' salaries. A one-year agreement was signed with those who stayed with the company. In seven months the program was terminated, five months ahead of time. In two years all debts were paid, including to those who had left the company during that time. Also in 2002, bonuses were paid with stock options. As a result, many employees became shareholders, and some later sold their shares with a 200-500 percent return.

Salary Cuts: Everyone Should Feel the Pain

Salary cuts should be administered from top to bottom, across the company. Sacrifices on behalf of the management should be made public within the company, and the cancellation of bonuses should be announced widely. If the program of downsizing results in salary cuts, management should suffer the heaviest cuts voluntarily.

Those who carry the heaviest load during a crisis should be made to feel privileged and receive bonuses and public recognition.

Sooner or later all crises turn into a new cycle of growth and development, but it's important not to forget that a new crisis might not be far off. Previous crises should be turned into legends, part of company's internal narrative, and heavily discussed during the good times. It serves as a means against future stress and reinforces the notion that ongoing challenges and change are a part of life. ■