LEADERSHIP AND Crisis

BY RHEA WESSEL

With many firms in transition and under stress, some managers face the ultimate test of their leadership skills. What works best? To find out, *CFA Magazine* talked with practitioners and academics around the world.

Edward O'Loghlen, CFA, has earned a reputation as a turnaround specialist. In 2005, he was a key player in the restructuring of Barclays' corporate banking unit in Spain. After the British company purchased Banco Zaragozano, a Spanish bank, O'Loghlen, who also has a background in structured finance, managed 25 people in what was essentially a three-way internal merger of the acquired bank and two Barclays' units. Within the first year, he had replaced 70 percent of his team and increased net income in the flagging business by 43 percent.

Now at work on another turnaround project for the Spanish savings bank la Caixa, O'Loghlen believes leaders looking for inspiration in the current downturn can borrow techniques frequently used during turnarounds. In particular, people should be directed but not micromanaged, and the desired outcome must be well defined for all involved, as should the rewards for success and the penalties for failure.

"A critical success factor is the implementation of an incentive scheme that is aligned with the desired outcome," says O'Loghlen. "Employees must have crystal clarity on the quantitative as well as qualitative performance measures and the consequences of noncompliance. In a crisis setting, the latter can be severe."

In today's financial environment, O'Loghlen's experience is an increasingly familiar one for managers of firms around the world. But according to some experts, conventional wisdom can be misleading, and even with the best intentions, the wrong approach can be counterproductive, leaving a firm worse off than it was before. To help practitioners avoid such pitfalls, *CFA Magazine* solicited views from a globally diverse group of academics and practitioners.

1 Borrow from Turnaround Management Techniques

In the classical turnaround scenario, managers must weed out resisters, adjust targets to the new reality, and provide resources.

During turnarounds, managers often spend much time and energy convincing others about the need for change. (In other cases, leaders may have the chance to clean house without a lot of backlash, as has happened frequently during the recent financial crisis.)

At Barclays, O'Loghlen replaced his team using a chart familiar to many of those who have attended business school or management seminars. He plotted his team members in a graph with four quadrants—competent, incompetent, cooperative, and resistant.

"The first people to get rid of are those who are incompetent and resistant," he explains. "It's fairly easy to find out who they are. The same names will keep cropping up."

If a competent employee remains a resister, managers can seize the opportunity to listen to that employee, address the concerns, and convert him or her into a leader who advocates the new plan of action. The convert can serve as a sort of "expert witness" about how he or she came to understand the wisdom of the plan.

A second lesson to be borrowed from a turnaround scenario concerns targets. During a crisis, the goalpost for revenues and costs shifts automatically. Managers are frequently required to renegotiate incentive schemes and formulate new targets. O'Loghlen says he's careful to set what he calls stretch targets—which are adjustable benchmarks for achieving the goal.

A third key job is to provide resources—even in times of cutbacks and cost controls. A manager must go through a delicate balancing act to acquire the right resources, especially when poor results have led to budget restraints, but pressure remains to improve the bottom line.

Finding the right combination is a complex challenge, according to Andrew Pettigrew, professor of strategy and organization at the Saïd Business School at the University of Oxford. “The idea of renewal is that while you are making these tough decisions that are emotional and awkward and you’re cutting costs, you’re also trying to renew the place so it’s prepared for the upturn,” says Pettigrew. “This is quite a sophisticated thing to do—to handle the short term, the medium term, and the long term at the same time.”

2 Focus on the Soft Side of Leadership

Times of quick and constant change in the economy often lead individuals to rethink their lives and reset their priorities. And an identity crisis at work can bring on identity crises at home. To meet the emotional needs of some people, leaders need to focus on their “soft” skills, such as recognition, acknowledging hardship, and providing a vision of purpose and meaning.

Soft skills have been essential to Thomas Osborn’s transition work in Seattle. In charge of transferring former Washington Mutual commercial customers to existing Chase servicing offices, Osborn says he is focusing on the emotional aspects of leadership as he tries to keep his team of 40 people motivated during the last days of their jobs.

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Osborn tries to show workers understanding and empathy to mitigate some of their pain. He also places great value on continuing social activities, such as celebrating birthdays, and he conducts a morale check every week with managers to make sure the workload is balanced during the transition.

“Employees’ day-to-day job responsibilities have changed due to the nature of the transition, and we want to be as fair and balanced as possible,” he says. “When needed, we are holding town hall meetings to pull everyone together and allow for questions and answers.”

Michael Feiner, a professor at Columbia Business School, says many leaders focus on operational problems, such as costs, customers, forecasting, and financing, when they should be looking at the soft side of employees’ needs, particularly when these employees are under stress.

According to conventional wisdom, leaders should spend approximately 25 percent of their time on motivation. Feiner, however, recommends an allocation of 75 percent during times of stress. “The really hard part of management is to understand how to energize and inspire people at a time when they’re frightened and think they may lose their jobs,” explains Feiner. “Telling people that they’re lucky to have a job is not going to win the day.”

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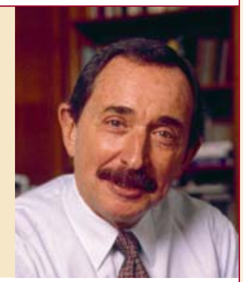

Finally, a team needs to know why they’re being asked to go the extra mile even as 401(k) contributions are suspended and promotions are frozen.

“If you’re asking people to pick up the slack for laid-off colleagues, you’ve got to communicate a reason,” says Feiner. “It can be the survival of the firm. But I think you’ve got to couch it in terms of some overarching cathedral and you’re trying to get people to understand their part in building. Some leaders miss that.”

3 Clarify the Goal and Collaborate Internally

An organization’s reaction to a crisis is always embedded in historical legacy and is often a function of both history and tradition, such as whether the company has had a long track record of growth or has been exposed to problems of survival. For example, many Asian companies put risk controls in place in the aftermath of the 1997 financial crisis. These controls have helped the companies weather the current crisis.

Pettigrew has studied large-scale change in organizations in the United States, Europe, and Asia for decades. As part of this effort, he has examined how people respond to sudden, unqualified external pressure. He calls the current crisis “uniquely punishing” because it emerged so fast, has a systemic nature, and quickly involved governments.

In Pettigrew’s view, achieving clarity involves several categories. To face the current crisis, managers must have a razor-sharp understanding of the company’s situation and its options. For many managers inexperienced with downturns and struggles, the first reaction is to deny the situation. Then comes an effort to shift the blame. Finally, some managers withdraw rather than face reality. Instead, they should remain open and engage with people so they can understand the choices and deal with the necessary trade-offs, such as short-term versus long-term needs and rational versus emotional decisions.

Once clarity is achieved, the manager needs to evaluate the various divisions of an organization to find ways to promote internal collaboration. Pettigrew’s studies have shown

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RICHARD ARVEY

that a lack of collaboration among internal departments during a time of crisis can make a company's situation worse.

Richard Arvey, a professor at Singapore Management University, says such collaboration may come more naturally to Asian companies than Western ones because Asian cultures traditionally have held the group to be more important than the individual. He believes Western companies should rethink their elaborate pay schemes for top executives and take other cues from their Asian counterparts. "Modern management should be about the welfare of employees and the company," he says.

4 Promote Healthy Conflict, Avoid Surprises, and Identify Role Models

Alejandro Santa-Cruz, CFA, started a distressed asset business (LatAm Partners) in Mexico City in 2005. He and the co-founder of the company are based in Texas and travel frequently to the Mexican capital. Because of the remote setup, the managers wanted a structure that was participatory and interactive and avoided layers of bureaucracy. As their company grew to 70 employees, they encouraged an open communication style. Santa-Cruz was known to stand on a chair to make announcements in the open-space office. And he often had to draw employees out because many were not accustomed to such frequent and open communication with the boss. "In Mexico, employees don't necessarily have open access to their boss, and they certainly are not accustomed to criticizing or giving their opinion," he says.

When Santa-Cruz saw the warning signs of the current crisis in the hedge fund business, he began to lower his company's head count. That's when the culture he instituted came in handy. People expected open and clear communication and stepped in with ideas about how to face the declining market.

Santa-Cruz's main piece of advice is to make sure layoffs don't come as a surprise. He did this by constantly sharing his insights about the market and the vision of where the company was headed. "I don't agree with an approach where senior management keeps everything hush-hush and treats employees like children," Santa-Cruz says.

Columbia's Feiner would agree with Santa-Cruz's strategy. He says managers should encourage debate, dialogue, dissent, discussion, and disagreement to tap into everybody's ideas about how to jump-start the company or how to save on costs. "Having the courage to do that is a rare commodity," according to Feiner.

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In addition, experts recommend creating role models during times of crisis, particularly role models at the operational level. Although many managers have a tendency to "imperialize" the CEO or board members, lower-level managers may often make better role models. For instance, managers can choose individuals for a promotion who represent the company's new focus—thus turning them into role models overnight. "People have overdramatized how hard incentives work. They forget that recognition is almost as powerful as reward," says Pettigrew.

5 Prepare for Personal, Psychological, and Physical Hardship

Last but not least, leaders in times of a crisis must prepare for a job that is demanding in personal, physical, and psychological ways.

That's because leaders come into the spotlight during difficult times, and they may go out on a limb for their employees, according to Bob Sutton, professor of management science and engineering at Stanford University.

Sutton told business journal *McKinsey Quarterly* that managers may find themselves in a predicament and wind up laid off when they extend great effort and loyalty to their company and employees.

"I think it is important to remember that it's a long life, and there are some times when companies aren't going to make it," he told *McKinsey Quarterly*. "There are some times when you yourself, as a boss, are going to lose your job. People will look back and remember how you dealt with it. And you've also got to deal with your own conscience in the process."

O'Loghlen has experienced psychological and physical fatigue firsthand during his turnaround projects. Besides the travel that encroached on his free time, evenings were often devoted to brainstorming exercises, conflict resolution, and team-building sessions, and he never felt he could switch off his mobile phone.

O'Loghlen finds the emotional side of "brownfield" projects—those that involve restructuring existing resources and instituting change among existing employees—particularly draining as well. "Often, you must break many of the personal links that existed before," he says. "The only way to get around this is to talk to people on a daily basis, be overly repetitive with the key messages, and be encouraging, without becoming a micromanager."

Rhea Wessel is a freelance financial journalist based in Frankfurt.