

Leading Through a Crisis

Getting Back to Basics

As we write this in late 2008, each passing day brings new and compelling evidence: We are in the midst of a worldwide economic downturn of historic proportions. Uncertainty abounds, complex problems defy classic solutions, and the individuals and institutions we normally look to for answers seem baffled and helpless. With the possible exception of 9/11, nothing has prepared today's top executives to lead their organizations through a crisis of this magnitude.

by Mark Nadler & Janet Spencer

Through this period, Oliver Wyman has been in conversation with the top leaders of more than 60 major companies – primarily in the United States, Canada, and Europe – in a broad range of industries. We have listened carefully to their immediate concerns, their outlook for the future, and their insights about the implications of recent events for them as leaders.

We heard widely varying perspectives, clearly reflecting the uneven impact the downturn has had in different industries and geographies. Nevertheless, some consistent themes emerged. Based on what we heard – and on what we've learned during three decades of helping top leaders guide their organizations through the toughest of times – we strongly urge leaders to keep a few guiding principles in mind.

First and foremost, there is this: Even as the rhetoric grows about the demise of the old economy and the need for radically new business models, the path to organizational success remains much less dramatic. In fact, it's somewhat mundane: It's all about getting back to basics. To be sure, that message is far less exciting than some of the public cries for a drastic change of our economic system. But one clear truth is threaded through all the analyses of how we got here: Our situation is rooted in the fact that many leaders, in both commerce and government, lost sight of the fundamentals.



In one sense, we've been here before – back during the dot-com era, when we heard endless talk about the death of conventional business as an organizational model. We should take some lessons from that period of turmoil. Traditional ideas of how large, established businesses should operate sharply collided with the realities of the Internet economy. New strategies, technologies, and business models proliferated. As a result, significant changes were made in how organizations were designed and led. Yet through all the ambiguity and hype then, as now, the companies that prevailed over the long haul did so because of mature, level-headed leaders who made crisp decisions, demanded outstanding execution, and focused on the fundamentals: strengthening relationships with customers and suppliers; communicating frequently and honestly with employees; retaining key talent; and rallying the senior team to speak and act with commitment and consistency.

So in the current environment, here are what we see as the guiding principles for “getting back to basics.”

How you change your organization is as important as what you change

Successful leaders must remember that the processes they employ as they change key aspects of their organizations will be just as important as the actual substance of the changes they envision. The imperative to act – and act quickly – is intense and legitimate. But before you act, be sure to step back and remember that the process you use to make that decision or implement that plan will almost surely determine its ultimate success or failure. In particular, keep in mind:

- The importance of appropriate engagement. In these uncertain times, leaders must act quickly and decisively. But when you're making critical decisions, never overlook the importance of involving the people who will be responsible for implementing those decisions. Leave key players out in the cold when big decisions are being made, and their lack of buy-in can derail even the most brilliant plans.
- The need to resist being rushed into strategic choices until you've given informed consideration to a range of reasonable alternatives. The first new business model to emerge might be far from the best; jumping to buy an attractive business at a bargain-basement price might limit your ability to make even better purchases that are better matched to your evolving strategy.
- The need for data rather than hunches. Leadership routinely makes decisions in the absence of absolutely complete data, and that won't change – but this is no time to be betting the business based on guesswork and individual biases or agendas. Don't forget the chaos that ensued in the early days of the crisis when



the U.S. House of Representatives rejected the first financial rescue package because it was widely reported in the media and in countless blogs that calls to congressional offices were reportedly running at a 100-to-1 ratio against the legislation. In reality, research by the respected Pew polling organization showed that a majority of the public actually supported the bill. But at the critical moment, legislators were guided by rumor and emotion and based a historic decision on totally incorrect assumptions about what the public wanted.

Develop a game plan that positions you to play offense and defense at the same time

One of the most complicated aspects of the current situation is that it requires almost every company to reduce spending, bolster cash flow, and focus on the balance sheet while also looking for ways to take advantage of unique opportunities for growth – particularly through unusually attractive acquisition possibilities. In normal times, we describe the phenomenon as bifocal leadership: The ability to continuously shift your focus back and forth from near-term needs to long-term possibilities. That capacity to keep a clear focus on both – and to explain to your various stakeholders the importance of doing both simultaneously – is absolutely essential.

On defense, approach cost reductions strategically and understand that downsizing creates opportunities

Few companies will be able to avoid some level of downsizing. In fact, even among those companies that are doing relatively well or are in industries that are somewhat buffered from the crisis in the financial markets, many are viewing this sea change as an opportunity to tighten their belts and move aggressively to reduce their cost base. It will be the rare company that does not enact some sort of expense-management initiative. Some key principles

to help guide the planning and execution of downsizing activities:

- Adopt a strategic approach, steering clear of “across the board” cutbacks that fail to differentiate both between business units and functions (which inevitably have variable amounts of excess costs in them) and between moves that save money in the short run versus those that will actually limit revenue.
- Develop a range of cost-saving initiatives – from short-term headcount reduction in areas that are bloated to longer-term efforts that fundamentally change the way work is done, removing more systemic barriers to efficiency and effectiveness.
- Carefully design the process you use to make decisions about downsizing. Again, the rule should be “appropriate engagement” that balances directive action from top leaders with essential buy-in from those who will be asked to implement the plan.
- Be sure you fully understand the real cost drivers in your business. Base decisions on facts, validate them where possible with external benchmarks, and park hunches about “where the fat is” at the door.
- Let your strategy drive choices about differential cost reductions across the business. Maintain collective oversight at very senior levels to ensure that downsizing actions don’t become siloed, conflicting, or counterproductive.
- Approach downsizing as an opportunity to streamline the organization – eliminating layers of management, reducing bureaucracy, simplifying decision-making, and strengthening accountability.

- Use downsizing to accelerate your efforts to upgrade the overall level of talent, aggressively replacing poor performers with strong outside recruits.
- Manage downsizing to instill processes and practices that will help build a long-term culture of prudent and strategic expense management.

On offense, be smart but prudent about taking advantage of unique opportunities

Leaders in almost every industry are telling us that this is a situation where the strong will get stronger if they can handle the risk of making strategic acquisitions at what look like historically low prices. The danger is that the prices will make so many deals look so appealing that people will forget a consistent and crucial finding from numerous studies of M&A activity – that 60% to 70% of all mergers and acquisitions fail to create the intended value, and many actually destroy value. And that's under normal circumstances. In these extreme times, the prospect of companies rushing to cash in on fire-sale prices raises a frightening picture of potential widespread future failures.

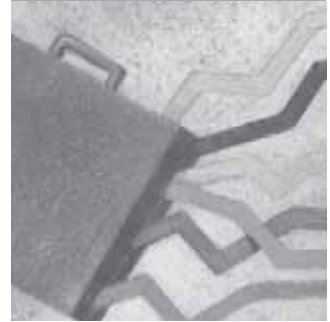
So here are a few basic principles when considering acquisitions:



- Don't act on instinct or emotion or what "feels right." Don't be rushed into decisions without understanding an explicit business case for the deal. It's astonishing how often deals are done without the underlying numbers making sense. Make sure you rigorously evaluate the opportunity and are clear about both the risks and potential rewards.
- Keep that business case front and center as you do the deal. It should dictate the integration process and

how you structure the acquisition within the parent organization, which could range anywhere from full integration to the creation of a semi-autonomous business unit.

- Deals are about numbers, but businesses are about people – and by far, the most common reason acquisitions fail is a cultural mismatch. Don't get pushed into a decision before conducting some form of cultural due diligence to determine whether there's actually a realistic way the two organizations can function together successfully.



The isn't the right strategy if you can't execute it

One of the most common ways in which companies fail is that they design brilliant strategies that are incompatible with their capacity to execute them successfully.

More often than not, a dramatic switch in strategies will leave some serious gaps between intent and ability. Any strategic change should immediately be followed by a fast but rigorous assessment to identify precisely where the organization lacks the appropriate talent, structures, processes, capabilities, and culture to move in the new direction successfully.

The cliché “our people are our most important assets” is true

At times like these, organizations face two distinct risks regarding their people.

- This is when your most valuable talent is at risk. Rest assured that competitors will be doing their best to steal your top players. It is crucial to identify the people you absolutely need to keep and be proactive about letting them know why it is in their best interests to stay.

This message should go beyond compensation and monetary handcuffs to include career prospects and clear signals of opportunities for growth and development.

- These situations create major risks of distraction, disengagement, and dysfunctional activity among the general employee population that detract from the critical focus on customers and keeping the business operating smoothly.

In both cases, the risks speak to the need for stepped-up communication at every level. Both in one-on-one conversations and broadcast communications, what people really want and need is less uplifting rhetoric and more specific information to help them understand how they will be affected personally. In the absence of information, an external focus and attention to business will evaporate.

In the face of pervasive uncertainty, the first imperative for leaders is to act like leaders

This is the moment, more than any other, when the CEO must simultaneously fill the roles of strategist-in-chief and battlefield commander. Despite the endless demands on every CEO's time, you have to make a conscious effort not to get trapped in your office and conference "war rooms." This is the time to:

- Be visible. Exude confidence, energy, and optimism. Be aware that people are paying particular attention not only to your formal messages but to the informal signals you send – your tone of voice, facial expressions, body language, how you spend your time, whom you spend it with, etc.
- Keep people focused on what matters most. Use every opportunity to reinforce the importance of customers,

discourage pointless speculation about matters outside their control, and provide a clear line of sight between business performance and personal success.

- Over-communicate. In fact, in these circumstances, there's no such thing as over-communication.
- Remember the importance of your senior team. Ideally your team should be your sounding board, your supporters, your surrogate communicators, and your instruments for extending your personal leadership into every corner of the organization. You have to keep them engaged, aligned, and committed.

As we head into an uncertain 2009, many will be looking for ways to shore up their companies and ride this out. In this environment, there's an inevitable, almost desperate search for "big new ideas" – the magical solutions that will pull companies, markets, and even countries out of this crisis. We can just about guarantee that there are no silver bullets, but if there is any simple solution, it is this: Stay focused on fundamentals. Act like a leader. Be decisive and demanding, communicate clearly and with confidence, pay close attention to your customers and closer attention to your top talent. Understand that how you change is as important as what you change. And in the face of unnerving economic uncertainty, remember that the basic principles of organizational dynamics remain intact, and that the fundamentals of sound leadership are more essential now than ever before.

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