WHEN THE GOING GETS TOUGH ...
When the going gets tough...

Leading and managing during crisis

When a catastrophe hits, it seems as if time is standing still. Humans seem to be wired to retain the most detailed information of those troubled accounts: where they were, what they were doing, and how the event itself may have changed them, or—in the case of Jim Parker—their companies.

As then CEO of Southwest Airlines, Parker was in his car doing what he did every morning; driving to Southwest's headquarters in Dallas with his radio tuned to "Morning Edition" on National Public Radio. The date was Tuesday, September 11, 2001, and Parker was stunned to hear a report of a plane crashing into the World Trade Center.

"At first I thought it was a sightseeing plane," says Parker. "But, by the time I got to work, it was clear that it was a terrorist attack.

Business and organizational leaders reflect on the crises of the past and how the lessons learned may help in today’s troubled times.
Southwest had an emergency procedures manual ... but there was no manual written for this type of situation.”

Today, as a regular presenter during Sloan Innovation Period (SIP), Parker is able to share the painful and powerful moments of what he calls the worst crisis in the history of aviation, and how he—and Southwest—survived it. Which begs the question: How did they do it?

If widely quoted economist Paul Romer is correct, and “a crisis is a terrible thing to waste,” what hidden opportunities exist in the worst of times, and what can be done in the best of times to prepare for the worst? And perhaps most important right now, what lessons can show businesses how to come out of the current crisis stronger and more innovative?
“If we had to capture everything in one word, it would be leadership,” says Irving Wladawsky-Berger.

LEADING IN A CRISIS

When it comes to managing in times of adversity, most people either overreact or underreact, “both of which are really bad,” says Howard W. Anderson, the William Porter Distinguished Senior Lecturer of Entrepreneurship and the founder of The Yankee Group and co-founder of Battery Venture Capital. “You have to triage the situation: you can’t solve all the problems, but what can you solve today, what can you postpone, and what can you do right now?”

What do you tell your employees and customers? Give good information, says Anderson, but not false hopes.

As part of his course, “Managing in Adversity,” Anderson shares a case about a company making test animals for the pharmaceutical industry that was sold to a larger conglomerate and then pressured to cut back on product testing. “The products started to fail,” says Anderson, “but the president did not publicly say, ‘Our testing procedures were inadequate.’ Instead, he said, ‘It’s our fault, and we’ll fix it.’ He took responsibility instead of providing excuses, and it was the right thing to do.”

What’s key, says Anderson, is that the CEO acts as a buffer, one who can meet “triumph and disaster, and treat those two impostors just the same,” he says, quoting from Rudyard Kipling’s poem, “If.”

“If we had to capture everything in one word, it would be leadership,” says Irving Wladawsky-Berger, a Visiting Lecturer at MIT Sloan and chairman emeritus of IBM’s Academy of Technology.

“Leadership is all about leading people, helping people do what they need to do to get through the crisis. When you are in uncharted waters and suddenly there is a storm—and in this particular crisis we have a perfect kind of storm—the past doesn’t help you very much. Almost by definition, this perfect storm doesn’t look like what we had in the past. That’s where leaders come to the fore and differentiate themselves. Everyone is scared and no one knows what is going on. Someone has to shape, define, and frame what is going on so everyone else can understand it. Good leaders do this particularly well.”

But are there enough good leaders and decision makers to go around? Anderson estimates that about 20 percent of all leaders are up to the task of a great crisis. They must communicate well—and wisely—to their employees, their customers, and their boards. They also need to “lead from the front,” says Jeff Shames, Executive in Residence at MIT Sloan and the former chairman of MFS Investment Management.

“You have to lead in the downturn. And if you have to cut pay, you better take the biggest pay cut; and if you have to cut costs, cut costs in your own sphere,” advises Shames. “You can’t have everyone travel coach if you’re not willing to travel coach.”

Shames has led by example. In the stock-market downturn of 2002, MFS saw its first layoff in the company’s then 70-year history. Of the 3,000 employees at that time, 150 lost their positions with the financial services firm, a last-resort move after the company had cut back on travel, benefits, and matching defined contributions. For Shames, whose company had been included among FORTUNE Magazine’s top 100 places to work for several years running, it was the handling of those workers who lost jobs that made the difference.

“It was about treating people with respect,” explains Shames. “We were one of the last companies in our business to do this, and we made the Fortune 100 list again after the layoff, based on a survey of our employees. People had great respect for how we handled the layoff. In my mind, it’s how you treat people; those who are leaving and those who are staying.

“People know times are bad but won’t accept it,” says Shames. “They want somebody who is going to lead by example with good plans and strategies. They want to know why things are happening and what’s going to lead them to better times.”
“Take Apple,” says Paul Osterman, Nanyang Technological University (NTU) Professor of Human Resources at MIT Sloan, and author of the just released The Truth About Middle Managers: Who They Are, How They Work, Why They Matter. “They died and then they came back to life.”

As reported by FORTUNE Magazine in its March 5, 2008, issue, the return of Steve Jobs to Apple in 1997 is “one of the most remarkable stories in business.” Apple, “then facing its own near-death experience” and on the verge of bankruptcy, returned with a vengeance under its co-founder’s care, boosting a market value last year of $108 billion—more than Merck, McDonald’s, or Goldman Sachs.” Apple is certainly not alone in its remarkable back-to-life experience after premature predictions of its demise. As Wladawsky-Berger recalls from his 37 years at IBM, the corporate giant faced a similar fate in the early 1990s after a major shift in technology from mainframes to microprocessors. What saved IBM, he says, was its superb technical culture and research labs, as well as its employment of “smart people at all levels.”

TOOLs OF THE TRADE
In both good and bad times, people simply want more from their leaders, notes Deborah Ancona, Seley Distinguished Professor of Management and faculty chair of MIT’s Leadership Center. “So leaders will get more of the credit or more of the blame. When people are trying to explain large deviations in their world … we have the romance of leadership as an explanatory variable.”

Even in dire times, Ancona says that leaders have tools at their disposal to turn around events, citing sensemaking, vision, and communication as three critical components. She recalls a story told during an on-campus visit by Xerox Corporation CEO Anne Mulcahy after she was selected to run the company by the board of directors in 2001. Xerox was in trouble, with debt in excess of $17 billion and stock that had fallen from $64 to less than $4.50 per share.

“People wanted to know what things would look like when Xerox was done with its restructuring,” says Ancona. “They wanted her to paint a vision.”

Mulcahy did just that in the form of a Wall Street Journal article shared internally with employees, which depicted Xerox five years into the future as a company on much firmer financial footing. The article, says Ancona, served as the rallying point, painting a “broad enough vision that people could see themselves in it.”

“In times of crisis, we don’t know what’s happening day to day,” she adds. “One day we’re up, one day we’re down. You have to fight against the tendency to do everything you did before. You need to innovate, to push to engage large numbers of people in the organization and ask, ‘What new directions do we need to take?’ You may have no choice but to try some new things that you haven’t tried before.”

According to Wladawsky-Berger, that’s what great leaders do.

“They’ll take you to the Promised Land. Great leaders might not know where the Promised Land is, but they just start walking, and everyone will start walking with them,” he says. “Together, eventually, they’ll find it. It may not be the Promised Land they were looking for, but they usually make up their own.”

TO THE BRINK AND BACK
While Samuel L. Clemens was living abroad in 1897, an erroneous report appeared in London’s Evening Sun citing the near death of the writer better known to the world as Mark Twain. While it was Twain’s cousin, Dr. Jim Clemens, who was actually ill, Twain quipped to investigating reporters that “the report of my death has been grossly exaggerated,” and so too has the death of many a company.
With no government bailout in sight, “turnaround king” Michael Kaiser, SM ’77, is determined to preserve arts organizations throughout the country, and all they have to do is ask.

A helping hand for the arts

A former management consultant in Washington, D.C., Kaiser’s love of the arts began as a child. While his early wishes for a music career didn’t pan out, a career in arts administration later did—at the Kansas City Ballet, the Alvin Ailey American Dance Theater, the American Ballet Theatre, and London’s Royal Opera House—all of which faced closure until he arrived and brought them back to solvency.

Today, as president of the Kennedy Center for the Performing Arts since 2001 and author of The Art of the Turnaround: Creating and Maintaining Healthy Arts Organizations, Kaiser has shared his success stories with the world, pinpointing his 10 “basic rules for bringing financially distressed organizations back to life and keeping them strong.”

In February, with some media reports suggesting that up to 10,000 arts organizations could close in 2009 as a result of the ongoing financial crisis, Kaiser launched “Arts in Crisis: A Kennedy Center Initiative” to help fellow arts organizations survive the economic storm. In the first three and a half weeks of its launch, no less than 250 arts organizations contacted the Kennedy Center for its pro-bono help, which is personally provided by Kaiser, his senior management staff, as well as more than 100 qualified volunteers with arts administration backgrounds.

“One of the key things is to understand what makes an organization successful, and in the arts it is exciting programming and the marketing of that programming,” says Kaiser. “But in arts organizations, when they need to cut their budgets, they cut the most discretionary things, including the programming and marketing. The problem is that arts organizations get revenue because of the quality of the work and the marketing of that work. So when you cut those two things, you guarantee the loss of some of that revenue.

“What gets people excited is our excitement over the work and the future,” says Kaiser. “We’re announcing our season for the Kennedy Center next year, which is every bit as large and expensive as this year, but I am cutting other things, including coffee, staff travel, and back-office activities that don’t yield revenue.”

Not unlike his corporate counterparts, Kaiser is also a big believer in the crafting and communication of a plan with a focus on the generation of revenue, often built four to five years into the future.

“But from my standpoint, I have to remember why people engage in an arts organization. They’re looking for entertainment, for solace. We don’t want to share our problems with them, so it requires the discipline to cry in private,” says Kaiser. “All I can do is share our planning, and I’m a big believer in planning as a morale booster. When people start thinking about the future ... it engenders hope.”
“One of the key jobs of smart people is to anticipate problems,” says Wladawsky-Berger. “If a hurricane is coming and the people in the weather bureau miss it, that’s bad. So, if you’re good, you are supposed to be scanning the skies for change, and if you’re good, you can anticipate the major disruptive changes coming your way.”

IBM had anticipated the technical changes coming down the pike, but the “fastest growing, most profitable, most everything company in the world” as Wladawsky-Berger describes it, found itself low on cash and in dire need of a culture shock. That came in the form of new chairman and CEO Louis V. Gertner Jr. in April 1993. Billions were cut in expenses as plants were closed around the globe and IBM’s workforce of 400,000 was whittled in half as a result of massive layoffs.

“IBM had to do very painful things to survive,” says Wladawsky-Berger. “And when things like that are happening, you have a highly demoralized workforce. It takes tremendous leadership to get people to stop dwelling on the past, and most companies that get in the trouble that IBM got into don’t survive.”

For those that do weather the storm, a crisis and all it may entail—the changes in labor force, a retooling of existing business models to adapt to industry shifts, and a new call for innovation—can transform your company or organization to what it should have been in the first place.

“Just because things are bad doesn’t mean you should hunker down and not do anything. You could come out of this better and stronger,” says attorney Sarah Shoaf Cabot, SM ’85, a principal at Faber, Daeufer & Rosenberg PC, who spent years working in the biotech industry where stock “can lose 90 percent of its value in one day.”

“As ask your employees, ‘If we need to save $10,000, how should we do it?’” advises Cabot, who believes in times of crisis, leaders can benefit from asking for help from everyone in the organization. “It can create broad buy in and support for belt tightening and redirection that is essential to emerging from the crisis as a sound and cohesive organization.”

“Out of chaos comes opportunity—and the bigger the chaos, the bigger the opportunity,” says Peter DiGiammarino, SM ’77, chairman and CEO of Compusearch Software Systems, Inc., and CEO of IntelliVen, L.L.C. “If you want to drive change, either wait for a crisis or create a crisis, because in a crisis you have to change.”

In the economic downturn of the early 1980s, DiGiammarino led a team charged with building a successful business that sold software applications and related services to support collection departments. They created a product line that ultimately raised productivity nearly 100 percent for large bank lenders who faced soaring delinquencies.

“While we were lucky to be in a position to exploit a countercyclical business opportunity, the bigger point is that it is important to develop a business, and a team, that can thrive in bad times by remaining disciplined in good times,” says DiGiammarino, who describes himself as a serial CEO. “This allows the team to execute during the bad times by responding to different needs by cross-purposing existing solutions and exploiting competitor weaknesses.

“The business grew to $50 million in 1989 when that era’s downturn caused revenues to flatten,” DiGiammarino recalls. “We had to ‘shrink-to-size’ by cutting growth initiatives and lowering support costs to make a profit even with no growth in revenue or even with lower revenue. These actions got us on to solid ground to drive new growth as things turned around. Our method was to systematically take existing products to new markets and to develop new offerings for existing clients … . We followed this model over and over to take the business to $175 million and 15 percent-plus net contribution margins with nearly 2,000 people around the world.”

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THE PHOENIX RISES
Southwest defied the odds in 2001 and did what few others in the industry could do: thrive in the wake of disaster.

The months following 9/11 served as a testament to Parker’s business acumen. While other airlines laid off 20 percent of their workforce and grounded 20 percent of their fleet, Southwest—a company high on customer service and low in price—was the only airline to hang on to both. It was also the only airline to show a profit in the fourth quarter of 2001, making Southwest “the little airline that could.”

“Southwest became an anomaly. We had newspaper reporters calling us up, trying to figure out how this little airline could be the only airline making a profit,” says Parker, who left the company in 2004 after 18 years, his last three as CEO. “Our competitors were losing billions in that same period, and several filed for bankruptcy.”

Years later, Southwest not only survived, but still outshined its competitors. In July 2008, for example, as other airlines were posting sizeable losses due to increased fuel costs, Southwest reported its 69th consecutive profitable quarter.

As Parker writes in his book, Do the Right Thing: How Dedicated Employees Create Loyal Customers and Large Profits, if you do the right thing and take care of the people who work for you, the rest will take care of itself.

“Our people were as tense and nervous as everybody else was after 9/11,” says Parker. “But once we were flying again, some of our pilots and flight attendants would announce to the passengers on their flights, ‘I know you’re all nervous, but this is Southwest. So let’s have some fun.’ We didn’t have to tell them to say that. Our people were determined to succeed.” ● ● ●