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CRISIS MANAGEMENT

Leadership in a (Permanent) Crisis

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It would be profoundly reassuring to view the current economic crisis as simply another rough spell that we need to get through. Unfortunately, though, today's mix of urgency, high stakes, and uncertainty will continue as the norm even after the recession ends. Economies cannot erect a firewall against intensifying global competition, energy constraints, climate change, and political instability. The immediate crisis—which we will get through, with the help of policy makers' expert technical adjustments—merely sets the stage for a sustained or even permanent crisis of serious and unfamiliar challenges.

Consider the heart attack that strikes in the middle of the night. EMTs rush the victim to the hospital, where expert trauma and surgical teams—executing established procedures because there is little time for creative improvisation—stabilize the patient and then provide new vessels for the heart. The emergency has passed, but a high-stakes, if somewhat less urgent, set of challenges remains. Having recovered from the surgery, how does the patient prevent another attack? Having survived, how does he adapt to the uncertainties of a new reality in order to thrive? The crisis is far from over.

The task of leading during a sustained crisis—whether you are the CEO of a major corporation or a manager heading up an impromptu company initiative—is treacherous. Crisis leadership has two distinct phases. First is that emergency phase, when your task is to stabilize the situation and buy time. Second is the adaptive phase, when you tackle the underlying causes of the crisis and build the capacity to thrive in a new reality. The adaptive phase is especially tricky: People put enormous pressure on you to respond to their anxieties with authoritative certainty, even if doing so means overselling what you know and discounting what you don't. As you ask them to make necessary but uncomfortable adaptive changes in their behavior or work, they may try to bring you down. People clamor for direction, while you are faced with a way forward that isn't at all obvious. Twists and turns are the only certainty.

Yet you still have to lead.

Hunker Down—or Press "Reset"

The danger in the current economic situation is that people in positions of authority will hunker down. They will try to solve the problem with short-term fixes: tightened controls, across-the-board cuts, restructuring plans. They'll default to what they know how to do in order to reduce frustration and quell their own and others' fears. Their primary mode will be drawing on familiar expertise to help their organizations weather the storm.

That is understandable. It's natural for authority figures to try to protect their people from external threats so that everyone can quickly return to business as usual. But in these times, even the most competent authority will be unable to offer this protection. The organizational adaptability required to meet a relentless succession of challenges is beyond anyone's current expertise. No one in a position of authority—none of us, in fact—has been here before. (The expertise we relied on in the past got us to this point, after all.) An organization that depends solely on its senior managers to deal with the challenges risks failure.

That risk increases if we draw the wrong conclusions from our likely recovery from the current economic downturn. Many people survive heart attacks, but most cardiac surgery patients soon resume their old ways: Only about 20% give up smoking, change their diet, or get more exercise. In fact, by reducing the sense of urgency, the very success of the initial treatment creates the illusion of a return to normalcy. The medical experts' technical prowess, which solves the immediate problem of survival, inadvertently lets patients off the hook for changing their lives to thrive in the long term. High stakes and uncertainty remain, but the diminished sense of urgency keeps most patients from focusing on the need for adaptation.

People who practice what we call *adaptive leadership* do not make this mistake. Instead of hunkering down, they seize the opportunity of moments like the current one to hit the organization's reset button. They use the turbulence of the present to build on and bring closure to the past. In the process, they change key rules of the game, reshape parts of the organization, and redefine the work people do.

We are not talking here about shaking up an organization so that nothing makes sense anymore. The process of adaptation is at least as much a process of conservation as it is of reinvention. Targeted modifications in specific strands of the organizational DNA will make the critical difference. (Consider that human beings share more than 90% of their DNA with chimpanzees.)

Still, people will experience loss. Some parts of the organization will have to die, and some jobs and familiar ways of working will be eliminated. As people try to develop new competencies, they'll often feel ashamed of their incompetence. Many will need to renegotiate loyalties with the mentors and colleagues whose teachings no longer apply.

Your empathy will be as essential for success as the strategic decisions you make about what elements of the organizational DNA to discard. That is because you will need people's help—not their blind loyalty as they follow you on a path to the future but their enthusiastic help

in discovering that path. And if they are to assist you, you must equip them with the ability to perform in an environment of continuing uncertainty and uncontrollable change.

Today's Leadership Tasks

In this context, leadership is an improvisational and experimental art. The skills that enabled most executives to reach their positions of command—analytical problem solving, crisp decision making, the articulation of clear direction—can get in the way of success. Although these skills will at times still be appropriate, the adaptive phase of a crisis requires some new leadership practices.

Adaptive Leadership in Practice

Best Buy | A senior vice president helped the company adapt to the reality that women increasingly make consumer electronics purchasing decisions.

Beth Israel Deaconess Medical Center | The new CEO helped a dysfunctional organization created through the hasty merger of two Harvard teaching hospitals adapt to modern health care challenges.

Egon Zehnder International | The founder fostered a leadership style that helped the executive search firm

Foster adaptation.

Executives today face two competing demands. They must execute in order to meet today's challenges. And they must adapt what and how things get done in order to thrive in tomorrow's world. They must develop "next practices" while excelling at today's best practices.

Julie Gilbert is evidence that these dual tasks can—indeed, should—be practiced by people who do not happen to be at the very top of an organization. As a vice president and then senior VP at retailer Best Buy from 2000 to early 2009, she saw a looming crisis in the company's failure to profit from the greater involvement of women in the male-oriented world of consumer electronics. Women were becoming more influential in purchasing decisions, directly and indirectly. But capitalizing on this trend would require something beyond a smart marketing plan. It would demand a change in the company's orientation.

Getting an organization to adapt to changes in the environment is not easy. You need to *confront loyalty to legacy practices* and understand that your desire to change them makes you a target of attack. Gilbert believed that instead of simply selling technology products to mostly male customers, Best Buy needed to appeal to women by reflecting the increasing integration of consumer electronics into family life. So Gilbert headed up an initiative to establish in-store boutiques that sold home theater systems along with coordinated furniture and accessories. Stores set up living-room displays to showcase not just the electronics but also the entertainment environment. Salespeople were trained to interact with the previously ignored female customers who came in with men to look at systems.

Gilbert says that championing this approach subjected her to some nasty criticism from managers who viewed Best Buy as a retailer of technology *products*, not experiences. But focusing on the female purchaser when a man and a woman walked into the store—making eye contact and greeting her, asking about her favorite movies and demonstrating them on the systems—often resulted in the couple's purchasing a higher-end product than they had originally considered. According to Gilbert, returns and exchanges of purchases made by couples were 60% lower than those made by men. With the rethinking of traditional practices, Best Buy's home theater business flourished, growing from two pilot in-store boutiques in mid-2004 to more than 350 five years later.

As you consider eliminating practices that seem ill suited to a changing environment, you must *distinguish the essential from the expendable*. What is so precious and central to an organization's identity and capacity that it must be preserved? What, even if valued by many, must be left behind in order to move forward?

Gilbert wanted to preserve Best Buy's strong culture of responding to customers' needs. But the company's almost exclusively male culture—"guys selling to guys"—seemed to her a barrier to success. For example, the phrase "the jets are up" meant that the top male executives were aboard corporate aircraft on a tour of Best Buy stores. The flights gave them a chance to huddle on important issues and bond with one another. Big decisions were often

announced following one of these trips. After getting a call with a question about female customers from one such group visiting a Best Buy home theater boutique, Gilbert persuaded senior executives never to let the jets go up without at least one woman on board.

Because you don't know quite where you are headed as you build an organization's adaptability, it's prudent to avoid grand and detailed strategic plans. Instead, *run numerous experiments*. Many will fail, of course, and the way forward will be characterized by constant midcourse corrections. But that zigzagging path will be emblematic of your company's ability to discover better products and processes. Take a page out of the technology industry's playbook: Version 2.0 is an explicit acknowledgment that products coming to market are experiments, prototypes to be improved in the next iteration.

Best Buy's home theater business was one experiment. A much broader one at the company grew out of Gilbert's belief that in order to adapt to an increasingly female customer base, Best Buy would need to change the role of women within the organization. The company had traditionally looked to senior executives for direction and innovation. But, as Gilbert explained to us, a definition of consumer electronics retailing that included women would ultimately have to come from the bottom up. Appealing to female customers required empowering female employees at all levels of the company.

This led to the creation of "WoLF (Women's Leadership Forum) packs," in which women, from store cashiers to corporate executives, came together to support one another and to generate innovative projects by drawing on their collective experience. In an unorthodox attempt to neutralize the threat to Best Buy's traditionally male culture, two men paired up with two women to lead each group.

More than 30,000 employees joined WoLF packs. The company says the initiative strengthened its pipeline of high-potential leaders, led to a surge in the number of female job applicants, and improved the bottom line by reducing turnover among female

employees. Gilbert, who recently left Best Buy to help other companies establish similar programs, was able to realize the dual goal of adaptive leadership: tackling the current challenge and building adaptability. She had an immediate positive impact on the company's financial performance while positioning the organization to deploy more of its people to reach wider markets.

Embrace disequilibrium.

Without urgency, difficult change becomes far less likely. But if people feel too much distress, they will fight, flee, or freeze. The art of leadership in today's world involves orchestrating the inevitable conflict, chaos, and confusion of change so that the disturbance is productive rather than destructive.

Health care is in some ways a microcosm of the turbulence and uncertainty facing the entire economy. Paul Levy, the CEO of Beth Israel Deaconess Medical Center, in Boston, is trying to help his organization adapt to the industry's constant changes.

When Levy took over, in 2002, Beth Israel Deaconess was a dysfunctional organization in serious financial trouble. Created several years previously through the hasty merger of two Harvard Medical School teaching hospitals, it had struggled to integrate their very different cultures. Now it was bleeding red ink and faced the likelihood of being acquired by a for-profit company, relinquishing its status as a prestigious research institution. Levy quickly made changes that put the hospital on a stronger financial footing and eased the cultural tensions.

To rescue the medical center, Levy had to create discomfort. He forced people to confront the potentially disastrous consequences of maintaining the status quo—continued financial losses, massive layoffs, an outright sale—stating in a memo to all employees that "this is our last chance" to save the institution. He publicly challenged powerful medical factions within the hospital and made clear he'd no longer tolerate clashes between the two cultures.

But a successful turnaround was no guarantee of long-term success in an environment clouded by uncertainty. In fact, the stability that resulted from Levy's initial achievements threatened the hospital's ability to adapt to the succession of challenges that lay ahead.

Keeping an organization in a productive zone of disequilibrium is a delicate task; in the practice of leadership, you must *keep your hand on the thermostat*. If the heat is consistently too low, people won't feel the need to ask uncomfortable questions or make difficult decisions. If it's consistently too high, the organization risks a meltdown: People are likely to panic and hunker down.

> Keep your hand on the thermostat. If the heat's too low, people won't make difficult decisions. If it's too high, they might panic.

Levy kept the heat up after the financial emergency passed. In a move virtually unprecedented for a hospital, he released public quarterly reports on medical errors and set a goal of eliminating those errors within four years. Although the disclosures generated embarrassing publicity, Levy believed that acknowledging and learning from serious mistakes would lead to improved patient care, greater trust in the institution, and long-term viability.

Maintaining the right level of disequilibrium requires that you *depersonalize conflict*, which naturally arises as people experiment and shift course in an environment of uncertainty and turbulence. The aim is to focus the disagreement on issues, including some of your own perspectives, rather than on the interested parties. But the issues themselves are more than disembodied facts and analysis. People's competencies, loyalties, and direct stakes lie behind them. So you need to *act politically* as well as analytically. In a period of turmoil, you

must look beyond the merits of an issue to understand the interests, fears, aspirations, and loyalties of the factions that have formed around it. Orchestrating conflicts and losses and negotiating among various interests are the name of the game.

That game requires you to *create a culture of courageous conversations*. In a period of sustained uncertainty, the most difficult topics must be discussed. Dissenters who can provide crucial insights need to be protected from the organizational pressure to remain silent. Executives need to listen to unfamiliar voices and set the tone for candor and risk taking.

Early in 2009, with Beth Israel Deaconess facing a projected $20 million annual loss after several years of profitability, Paul Levy held an employee meeting to discuss layoffs. He expressed concern about how cutbacks would affect low-wage employees, such as housekeepers, and somewhat cautiously floated what seemed likely to be an unpopular idea: protecting some of those low-paying jobs by reducing the salary and benefits of higher-paid employees—including many sitting in the auditorium. To his surprise, the room erupted in applause.

His candid request for help led to countless suggestions for cost savings, including an offer by the 13 medical department heads to save 10 jobs through personal donations totaling $350,000. These efforts ultimately reduced the number of planned layoffs by 75%.

Generate leadership.

Corporate adaptability usually comes not from some sweeping new initiative dreamed up at headquarters but from the accumulation of microadaptations originating throughout the company in response to its many microenvironments. Even the successful big play is typically a product of many experiments, one of which finally proves pathbreaking.

To foster such experiments, you have to acknowledge the interdependence of people throughout the organization, just as companies increasingly acknowledge the interdependence of players—suppliers, customers, even rivals—beyond their boundaries. It is an illusion to expect that an executive team on its own will find the best way into the future. So you must use leadership to generate more leadership deep in the organization.

> An executive team on its own can't find the best solutions. But leadership can generate more leadership deep in the organization.

At a worldwide partners' meeting in June 2000, Egon Zehnder, the founder of the executive search firm bearing his name, announced his retirement. Instead of reflecting on the 36-year-old firm's steady growth under his leadership, he issued a warning: Stability "is a liability, not an asset, in today's world," he said. "Each new view of the horizon is a glance through a different turn of the kaleidoscope" (a symbol of disequilibrium, if there ever was one). "The future of this firm," Zehnder continued, "is totally in the hands of the men and women here in this room."

From someone else, the statement might have come across as obligatory pap. But Egon Zehnder built his firm on the conviction that changes in internal and external environments require a new kind of leadership. He saw early on that his start-up could not realize its full potential if he made himself solely responsible for its success.

Individual executives just don't have the personal capacity to sense and make sense of all the change swirling around them. They need to *distribute leadership responsibility*, replacing hierarchy and formal authority with organizational bandwidth, which draws on collective intelligence. Executives need to relax their sense of obligation to be all and do all and instead become comfortable sharing their burden with people operating in diverse functions

and locations throughout the organization. By pushing responsibility for adaptive work down into the organization, you clear space for yourself to think, probe, and identify the next challenge on the horizon.

To distribute leadership responsibility more broadly, you need to *mobilize everyone to generate solutions* by increasing the information flow that allows people across the organization to make independent decisions and share the lessons they learn from innovative efforts.

To generate new leadership and innovative ideas, you need to *leverage diversity*—which, of course, is easier said than done. We all tend to spend time with people who are similar to us. Listening and learning across divides is taxing work. But if you do not engage the widest possible range of life experiences and views—including those of younger employees—you risk operating without a nuanced picture of the shifting realities facing the business internally and externally.

Creating this kind of environment involves giving up some authority usually associated with leadership and even some ownership, whether legal or psychological, in the organization. The aim, of course, is for everyone to "act like they own the place" and thus be motivated to come up with innovations or take the lead in creating value for their company from wherever they sit.

Zehnder did in fact convert the firm into a corporation in which every partner, including himself, held an equal share of equity and had an equal vote at partners' meetings. Everyone's compensation rose or fell with the firm's overall performance. The aim was to make all the partners "intertwined in substance and purpose."

Zehnder's collaborative and distributed leadership model informed a strategic review that the firm undertook just after his retirement. In the short term, the partners faced a dramatic collapse in the executive search market; their long-term challenge was a shifting

competitive landscape, including the rise of online recruiting and the initial public offerings of several major competitors. As the firm tried to figure out how to adapt and thrive in this environment, Zehnder's words hung in the air: "How we deal with change differentiates the top performers from the laggards. But first we must know what should never change. We must grasp the difference between timeless principles and daily practices." Again, most sustainable change is not about change at all but about discerning and conserving what is precious and essential.

The firm took a bottom-up approach to sketching out its future, involving every partner, from junior to senior, in the process. It chose to remain a private partnership. Unlike rivals that were ordering massive downsizing, the firm decided there would be virtually no layoffs: Preserving the social fabric of the organization, crucial to long-term success, was deemed more important than short-term financial results. In fact, the firm opted to continue hiring and electing partners even during the down market.

Rooted in its culture of interdependence, the firm adapted to a changing environment, producing excellent results, even in the short term, as it gained market share, maintained healthy margins, and sustained morale—a major source of ongoing success. Adaptive work enabled the firm to take the best of its history into the future.

Taking Care of Yourself

To keep yourself from being corralled by the forces that generated the crisis in the first place, you must be able to depart from the default habits of authoritative certainty. The work of leadership demands that you manage not only the critical adaptive responses within and surrounding your business but also your own thinking and emotions.

This will test your limits. Taking care of yourself both physically and emotionally will be crucial to your success. You can achieve none of your leadership aims if you sacrifice yourself to the cause.

First, give yourself permission to *be both optimistic and realistic*. This will create a healthy tension that keeps optimism from turning into denial and realism from devolving into cynicism.

Second, *find sanctuaries* where you can reflect on events and regain perspective. A sanctuary may be a place or an activity that allows you to step away and recalibrate your internal responses. For example, if you tend to demand too much from your organization, you might use the time to ask yourself, "Am I pushing too hard? Am I at risk of grinding people into the ground, including myself? Do I fully appreciate the sacrifices I'm asking people to make?"

Third, *reach out to confidants* with whom you can debrief your workdays and articulate your reasons for taking certain actions. Ideally, a confidant is not a current ally within your organization—who may someday end up on the opposite side of an issue—but someone external to it. The most important criterion is that your confidant care more about you than about the issues at stake.

Fourth, *bring more of your emotional self* to the workplace. Appropriate displays of emotion can be an effective tool for change, especially when balanced with poise. Maintaining this balance lets people know that although the situation is fraught with feelings, it is containable. This is a tricky tightrope to walk, especially for women, who may worry about being dismissed as too emotional.

Finally, *don't lose yourself in your role*. Defining your life through a single endeavor, no matter how important your work is to you and to others, makes you vulnerable when the environment shifts. It also denies you other opportunities for fulfillment.

Achieving your highest and most noble aspirations for your organization may take more than a lifetime. Your efforts may only begin this work. But you can accomplish something worthwhile every day in the interactions you have with the people at work, with your

family, and with those you encounter by chance. Adaptive leadership is a daily opportunity to mobilize the resources of people to thrive in a changing and challenging world.

Note: Some of the information in this article was drawn from "Paul Levy: Taking Charge of the Beth Israel Deaconess Medical Center," HBS case no. 9-303-008 and "Strategic Review at Egon Zehnder International," HBS case no. 9-904-071.

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