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A CEO's guide to reenergizing the senior team

In today's tough and fast-changing environment, CEOs must help their top leaders to work through fear and denial and to learn new rules.

Derek Dean

When business conditions change as dramatically as they have in the past year, CEOs need to be able to rely on their best leaders to adapt quickly. But what should they do when their strongest executives seem unable to play a new game? The costs—organizational drift, missed opportunities, unaddressed threats—are so big that it's tempting to replace leaders who are suffering from paralysis. But this is a mistake when, as is often the case, these executives possess valuable assets, such as superior market knowledge, relationships, and organizational savvy, that are difficult to replace.

Before sending promising executives off the field, CEOs should try to help them learn to play by new rules. While part of the task—making a compelling case for change, helping him or her meet new job demands—involves appealing to an executive's rational side, there's also frequently an emotional element that is at least as important. Empathizing with the complex emotions executives may be feeling as the assumptions underlying their business approach unravel can be a critical part of overcoming the fear, denial, and learning blocks keeping them stuck (see sidebar, "CEOs, tough times, and emotions").

Helping senior managers swim through this thick stew of challenges is a perennial problem that has become more acute for many organizations over the last year. The credit crunch and global economic slowdown didn't just cause the unraveling of many business models. They also unsettled the assumptions and confidence of many senior managers. Mopping up the collateral damage in the executive suite is now a mission-critical task for many CEOs and is likely to remain one even when business conditions begin to recover.

Overcoming fear

Among the many emotions that can influence how executives interpret and respond to events, there's one worth addressing on its own: plain old white-knuckled fear. In times of rapid change, when the actions that used to lead to success don't any more, even strong leaders can experience intense, unproductive levels of fear caused by threats to their identity, their reputations, their social standing, and even their basic survival needs of a job and a paycheck. Ironically, leaders with the strongest track records are often *more* susceptible to fear during tumultuous periods because they have less experience facing adversity than their colleagues with more checkered pasts do.

Spiking levels of fear can convert frank, flexible, open, and self-reflective leaders into defensive, close-minded, rigid, and literal ones. These leaders may take things personally, feel persecuted, cease productive self-reflection, and lose the ability to process new information and respond to difficult situations. Others in the organization will notice this, of course, and will let the executive know in subtle ways—reinforcing fear and defensiveness.

Breaking this cycle doesn't require a CEO to become an armchair psychotherapist, but it does require engaging team members on an emotional level. As leadership-development

CEOs, tough times, and emotions

Robert I. Sutton

I was taken with Derek Dean's compassionate essay about how CEOs can help their direct reports work through emotions and blind spots during tough times. This piece echoes numerous recent conversations I've had with CEOs who tell me they are spending big hunks of time helping top-team members who are "freaking out." It is also right in line with academic research indicating that anxiety, cognitive narrowing, and clinging tightly to old ways are natural responses when individuals and groups feel overwhelmed by scary events that they did not anticipate, do not understand, and believe they cannot control.

Here I want to expand on Mr. Dean's argument in three ways. One is to underscore a point that's implicit but unstated in his essay: CEOs must work just as doggedly to confront and deal with their own demons and foibles as they do to help their charges come to grips with theirs. This is crucial because followers—who usually watch the boss's moves closely anyway—become hyperfocused on every little move that their superiors make when they are worried about what tough financial times will mean for their fates.

An executive in a leadership program at Stanford, for example, described an assistant in his office who stopped a senior executive in the hall to ask him, "When are the layoffs coming?" This executive was dumbfounded by the question because, though layoffs were in the works, this was a well-guarded secret. After the executive confessed that job cuts were likely to happen, he asked how she knew. She explained that he had been unable to look anyone in the eye all day and instead looked down at his shoes when he spoke to others. She further said it was well known that when this boss was "having an interesting shoes day," it meant that bad news was on the way. The lesson is that executives, including CEOs, are real people too. Especially during tough times, they must go to even greater efforts than usual to unearth the fears that they can't quite articulate or don't feel safe enough to reveal. And they must make it safe enough for their people to point out when they are spreading fear or clinging irrationally to misguided assumptions.[1]

The second thing that struck me was how well Harrah's CEO, Gary Loveman, seemed to understand that when senior teams are freaked out and frozen in their tracks, the only way to enable reasonable decision making is to create a psychological safety zone. My research and experience suggest that CEOs create safety through the hundreds of little things that they say and do when dealing with their teams—like smiling at the right time, offering praise and reassurance, admitting their own mistakes, and gently but firmly calling out people who fuel fear, cynicism, and hostility. This is why being a skilled leader, especially a CEO, requires years of experience and relentless attention to tiny details, and why the job is a lot harder than it looks.

Finally, I would use the term "small-wins strategy" to describe Gary Loveman's encouragement of efforts aimed at rapidly identifying and implementing a host of small steps to reduce services and amenities in ways that do not alienate customers. As University of Michigan professor Karl Weick has shown, when people frame problems as enormous and insurmountable challenges, this drives up their anxiety and causes them to feel helpless: the problem seems so big that there is nothing they can do to make progress. They therefore freak out and freeze in their tracks. Breaking down a problem into bite-sized pieces (what Weick calls small wins) calms people and helps them take constructive action.[2] This strategy is especially useful during tough times, as it both dampens fears and gives people a much-needed feeling of control—and enables them to make collective progress in the right direction.

About the Author

Robert Sutton is a professor of management science and engineering at Stanford University. His upcoming book, *Good Boss, Bad Boss*, will be published by Business Plus in 2010.

[1] To see more on "interesting shoes days" and other ways the spotlight increases on managers in difficult times, watch our interview with Bob Sutton from May 2009, "Good boss, bad times," on mckinseyquarterly.com.

[2] For more on how leaders can employ the small-wins approach, see Bob Sutton, "How to be a good boss in a bad economy," *Harvard Business Review*, June 2009.

expert Donald Novak puts it, "helping executives verbalize their emotions and acknowledge their validity can allow them to move past fear and become more productive." Putting fear on the table, so to speak, helps get it out of the way.

To understand what this kind of empathetic coaching looks like in practice, consider the CEO of a large global firm who recently discovered that one of his best functional executives had become "stuck." Although this executive, at the outset of the downturn, had led his peers in dialing back investment and then cutting costs, he had subsequently boxed himself into a corner, telling the CEO, "I simply cannot cut any more if you still expect me to support the business." The CEO addressed this paralysis in a conversation about his functional leader's underlying fears: of failure, of disappointing his boss, and of losing his team, to name just a few. The CEO admitted that he had some of the same fears and emphasized that this was a completely normal way to react. This acknowledgement helped the executive out of his corner and stirred a discussion about ways to reinvent the function without sacrificing performance.

When CEOs acknowledge their own fears, they strip away the stigma attached to the emotion and make it easier for other executives to move beyond it. It's also important for CEOs to examine the role that they play in reinforcing fears. They may need to change some kinds of behavior (such as blustering about the consequences of underperformance) in order to engage productively with their team. They may need to address anxiety about reputations and job security more transparently than usual. Finally, the CEO needs to model the "right" sort of behavior, including openness to dialog and collaboration, respect for all opinions, and self-confidence. Some of these may be difficult to summon in tough times, but they are powerful counters to the prevailing defensiveness and fear that often are rife in those times.

Overcoming denial

In addition to the impact that fear has on how people interpret events, cognitive errors can lead even the most talented executives to deny otherwise clear evidence that times have really changed. Until recently, for example, several key members of a global semiconductor company's senior team were reporting to their CEO that the present downturn was little different from other recessions they had experienced throughout their careers in this highly cyclical industry. A revenue drop of more than 50 percent over two quarters didn't change their conviction. Some of their comments to the CEO could populate a textbook list of cognitive errors underlying denial:

- "We just got an order last week, so things are turning"—a classic example of the *availability heuristic*

- "This feels just like the last downturn; we'll come back eventually"—an *anchoring* error

- “My team agrees this will resolve itself”—the *bandwagon effect*

- “I found three different studies that support my view that this is a temporary downturn”—the *confirmation bias*

- “We need to study this more before we act irrationally”—the *information bias*

- “If we do the things we usually do in a downturn, everything will be OK”—the *optimism bias*

To combat these symptoms of denial, the CEO sought to overwhelm his team with objective data and analysis: the conditions facing the company’s customers and end consumers across a variety of economic sectors around the world. Through a series of exhausting working sessions, he immersed the entire team in raw data and used peer pressure to keep the team honest and expose cognitive biases early. In many cases, he needed to hold separate one-on-one meetings to help his top managers understand and emotionally process the full implications of market changes—including the improbability that several businesses would ever recover to historical levels.

It took about a month, but in the end the CEO successfully overcame the denial he had originally faced from his team. Once grounded in the new reality, his best executives returned to their best behavior and began leading serious reassessments of their strategies. Many had to reevaluate their product portfolios from the ground up, change their sales and marketing approaches, and eliminate activities and functions that used to be core to their strategies. Like true converts, they became zealous in rooting out any biases and denial they encountered among their teams.

Overcoming learning blocks

Provoking members of the top team to confront their fears and embrace the need for change is an important starting point, but it still leaves an enormous task before the CEO: helping the team learn new ways of doing business in response to changing conditions. When Harrah’s Entertainment CEO Gary Loveman talks about the difficulty successful executives face in learning, he likes to quote a line from a 1991 *Harvard Business Review* article by Chris Argyris: “Because many professionals are almost always successful at what they do, they rarely experience failure. And because they have rarely failed, they have never learned how to learn from failure.”[1]

Yet failure, or at least the dramatic upending of what yields success, is exactly what many executives face during times of tumultuous change. The basis of their success—clear mandates and time horizons, experience-based judgment, the ability to convert data

[1] Chris Argyris, “Teaching smart people how to learn,” *Harvard Business Review*, May/June 1991, Volume 69, Number 3, pp. 99–109.

into useful information for decision making, and a clear understanding of cultural norms—can go out the window overnight. Serious upheaval means mandates can become muddled, ambiguous, and highly dynamic. Time horizons may shrink dramatically, forcing executives into a near-constant scramble to replan and redesign their strategies as the ground shifts beneath them. The value of intuition based on past experience falls. And time-tested approaches, such as careful analysis and consensus building, can bog things down—a serious problem when the biggest risk may be not changing quickly enough.

At Harrah's, Loveman was confronted with the need to help his top team relearn how to succeed when the company experienced its first real revenue decline while striving to meet the debt service demands of its 2008 leveraged buyout. For years, Harrah's had expanded revenue and earnings consistently through a combination of customer relationship marketing, tailored guest service, and an incredibly strong loyalty program. The recession challenged the way Harrah's applied these tools to generate sales growth at each gaming location. And as things turned out, "the right actions in times of retrenchment," said Loveman, were "*not* the symmetrical opposite of the right actions during growth." The result of this asymmetry was a change in the job demands for nearly every member of his senior team.

To help his leaders learn, Loveman followed many of the approaches described earlier: acknowledging his team's emotions and immersing those teams in raw data and analysis. But more than that, Loveman pushed the members of his senior team to reexamine the fundamental "truths" upon which they had built successful businesses and careers. He challenged them to lay out the assumptions behind their past successes, and if those assumptions no longer held he charged them to go beyond simply adjusting their business and analytic models by running them down instead of up. Rather, in many cases, it was necessary to build completely new models.

For example, Harrah's had for years faced highly elastic demand curves with its core gaming customers: offering them incentives and rewards stimulated incremental visits and revenue (both gaming and nongaming). In this recession, Harrah's found itself confronted with inelastic demand curves in several of its key segments. As a result, it seemed impossible to justify the company's traditional types of marketing investments; they simply couldn't stimulate the customer behavior (and associated revenue) needed to generate positive returns.

One result was that Harrah's needed to cut its costs dramatically, which involved figuring out ways to reduce services, amenities, staffing levels, and "comps" without angering loyal customers. But the trickier challenge has been to learn new ways of applying the old tools (relationship marketing, guest service, and loyalty programs) in response to new and different customer behavior. The learning process instigated by Loveman has helped Harrah's leaders create new rules to manage falling as well as rising investments, to stimulate growth with less capital, and to deliver guest service effectively at much lower cost. These new rules, in turn, have led to new job mandates, new data to manage the business, and new norms for decision making—norms the team has put into action through a series of marketing, service, and lean-operations pilots.

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Fear, denial, and the need to learn aren't new challenges, but more senior executives are falling prey to them in today's shockingly tough and fast-changing environment. It's up to CEOs to help their leaders work through these issues, including the powerful emotions involved.

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