Leadership in Turbulent Times

An Interview with Mark V. Mactas,
Chairman and Chief Executive Officer, Towers Perrin

Mark V. Mactas

EDITORS' NOTE *In this interview with LEADERS, Mark Mactas, Chairman and Chief Executive Officer of global professional services firm Towers Perrin, talks about the challenges leaders face in balancing short- and long-term needs and actions in this economy. He outlines three dimensions of leadership that are necessary during turbulent economic times.*

Mark Mactas, who has a B.A. in mathematics and economics from Lehigh University, joined Towers Perrin as an international consultant in 1980. After a series of promotions, he assumed his present posts in January 2001. A fellow of the Society of Actuaries and the Conference of Consulting Actuaries, he is also a member of both the American Academy of Actuaries and the International Actuarial Association. He currently serves on the boards of the Association of Management Consulting Firms and Save the Children.

COMPANY BRIEF *Towers Perrin is a global professional services firm that helps organizations improve performance through effective people, risk, and financial management. The firm provides innovative solutions in the areas of human capital strategy, and program design and management, as well as in the areas of risk and capital management, insurance and reinsurance intermediary services, and actuarial consulting. Towers Perrin has offices and alliance partners in the world's major markets.*

How do you define leadership?

I've heard some say that management is power by position and leadership is power by influence. While I don't fully agree with that, it is an important distinction. I see the two as related, but different – and equally necessary. For me, viewing leadership as power by influence means first, that a leader's thoughts and ideas matter and that they must have merit; and second, that a leader must be able to get people to follow him or her. Done well, effective leadership provides direction, builds confidence, and helps people execute for their organization's sake as well as their own.

In the corporate world, effective leaders understand that most employees want to be involved in their work and their company, so they create an engaging environment that encourages and rewards this desire to expend discretionary effort. At the same time, however, corporate leaders must be the stewards of the organizations they serve, effectively managing risk, generating strong financial results, demanding integrity, and managing the organization in all its various dimensions in a prudent manner.

Organizations need leaders who can do both. At Towers Perrin, we call this "ambidextrous leadership." A leader who fosters discretionary effort on the part of employees, but fails to manage the financial aspects of the business, will see the organization quickly deteriorate. But the leader who focuses solely on the financial and operational side will, in the longer term, find that people are not giving discretionary effort because they have little reason to do so. So things like innovation, quality, customer service, and cost and risk management suffer. And it's easy to see how failures in those areas can erode the bottom line. In the economic environment we're operating in right now, it's particularly critical to have ambidextrous leaders who can simultaneously manage both the tangible and the intangible, and balance both short-term and long-term pressures and strategies.

So is leadership different now than it was in the past?

Traditionally, corporate leaders have often been promoted because of their technical abilities – financial, operational, or marketing and sales, for example – or for their expertise in a specific industry, or because they did their last job well. In today's world, however, new challenges demand new leadership skills: an ability to manage ever-increasing complexity, to deal effectively with a wider variety of key stakeholders inside and outside the organization, to communicate clearly and persuasively, and to identify and nurture emerging leadership talent. And perhaps, most importantly, today's leaders need the ability to engage employees in the work of the organization, encouraging them to put forth what I referred to earlier as "discretionary effort." Our research shows a very compelling linkage between high-engagement organizations and high-performing organizations, and that workforce engagement is one of the most powerful means of competitive differentiation. The challenges today are different and in some ways more varied, and one's approach to leadership needs to change in step with this.

What kinds of new challenges are we talking about?

Of course, the current economic situation comes to mind first. The old paradigm of leadership would dictate that the CEO of a company put all of his or her efforts into managing only the financial and operational aspects of the business in a downturn, and that's certainly critically important. But the people side of leadership is equally critical. For example, if talented individuals in the organization are worried about layoffs, they may start looking for other opportunities, because top talent has opportunities in virtually any economic climate. Even if there are no layoffs, the organization may be forced to take other steps, such as giving smaller-than-expected annual raises or bonuses, suspending 401(k) contributions, requiring longer working hours, and reducing training and development programs. These actions can damage confidence and morale across the entire employee population. The senior leader who has the skills and the willingness to address these issues up front – to clearly explain the reasons for the cuts and acknowledge the sacrifices employees are making – stands a better chance of keeping talent and keeping people engaged. Our research indicates that workforce engagement is highly vulnerable to decline in a time of change, and that leadership is among the most important drivers of engagement when companies are in transition. But a time of change or a crisis, whether internal or external, can be a real opportunity for leaders to galvanize employees around those efforts that are most important to keeping the business solvent and growing over time.

Globalization is another key challenge

that's helping to redefine leadership's role. Many CEOs today preside over far-flung organizations with increasingly diverse workforces. Their organizations recruit people from different parts of the world, move people as business need dictates, and create cross-geography teams that expand and contract to complete various assignments. The leadership team needs to represent the entirety of the organization, and through its actions and words, create an environment that embraces cultural differences and nuances while fostering shared goals and cooperation. As employees around the world work together on virtual teams, the ability of leaders to help them rise above demographics – and even to use their differences to develop better solutions to challenges – becomes very important.

This leads me to highlight another new challenge: the continued growth of the knowledge economy. More and more, competitive advantage comes not from being the low-cost producer or the first one out the door with an improvement to a commoditized product or service; another company may go lower on price, and commodities are easily replicated. Sustainable competitive advantage comes in a few specific areas that can't easily be replicated, such as outstanding customer service, savvy marketing, or consistently excellent product development and innovation. As a result, finding, growing, and keeping knowledge workers – people who can provide this competitive edge – has a direct effect on the bottom line.

So does the new generation of leaders need to be charismatic? Are true leaders born, not made?

Not at all. Everyone can point to a few charismatic CEOs who seem to take to leadership naturally, but most people aren't that fortunate. And it may not be in the best interests of some companies to have a single, charismatic leader. What happens when he or she leaves? How will employees and customers respond to a new leader who may not have the same qualities? There is no "one size fits all" here.

Leaders can be made, and we see value not just in developing one outstanding leader, but in developing a leadership culture in an organization. By that, I mean an environment that reinforces the importance of leadership; that defines a distinctive set of expectations for leaders consistent with its values and business needs; and that provides high-potential employees with the opportunity to become leaders and helps them to develop the requisite leadership skills. But a leadership environment like this doesn't just happen. It requires a well-thought-out leadership strategy that is actively championed and sustained from the top of the house.

What is a "leadership strategy," and what aspects are most important right now, particularly from a human capital perspective?

By a "leadership strategy," I'm referring to a conscious effort on the part of senior management to embed into the organization a set of leadership values and capabilities that will improve and sustain organization performance.

In the current environment, specific to human capital, three dimensions stand out: first, a focus on talent; second, a clear articulation of the organization's most critical priorities, such as the urgent need to reduce costs without hampering longer-term growth potential; and third, effective communication and change management related to those priorities.

In terms of talent, a key focus area is on pivotal roles and key individuals. This means developing a keen understanding of which leadership and management functions are critical to the operation of the organization today and in the next three years. The people in these posts are, or should be, the high-potential future leaders, the top performers, and people with key technical skills. Leaders need to define what skills are necessary to be successful in these roles and ensure that people get the training and development they need. It also means developing and maintaining a succession plan for key leadership roles to ensure a robust pipeline of the right kind of talent for the future. For example, a pharmaceutical company might decide that the head of research and development for an emerging specialty area is a pivotal role that requires special focus. So the organization needs to define the critical skills and capabilities individuals in this role will need now and down the road, establish the optimal development strategy for the leader in the role, and identify potential successors.

What happens when there is an unanticipated change? For example, when external circumstances force significant cost reductions?

This touches on the third dimension: communication and change. Leaders need to convey a consistent set of messages to employees that reinforce the organization's mission, vision, and values and that address what's on people's minds right now. What are our near-term business priorities and how will we accomplish

Leaders can be made, and we see value not just in developing one outstanding leader, but in developing a leadership culture in an organization.

In the economic environment we're operating in right now, it's particularly critical to have ambidextrous leaders who can simultaneously manage both the tangible and the intangible, and balance both short-term and long-term pressures and strategies.

them? How will we not just go beyond simply responding to the external economic environment, but proactively manage through it? What needs to change about how we operate, and what are we asking of our people?

Towers Perrin's research shows that employees want their leaders to explain and translate, to openly communicate about what's going on inside and outside the organization, and provide the line of sight about how individuals contribute to the success of their team, their business unit, and to the company as a whole. Certainly, senior leaders need to clearly communicate the overarching goals, but middle managers must be leaders, too, and that means supporting the organization's key messages and discussing the role each employee plays in the organization's success. There is incredible power in communication when messages are aligned and leaders speak with one voice. It generates and sustains employee engagement, even when times are tough. Even, and perhaps especially, when answers are not yet fully known and things are uncertain, a leader's commitment to forthright and frequent communication is of paramount importance.

Does this imply that leaders need to be much more effective at managing change as well as communication?

Yes, managing change is a major leadership responsibility, especially in turbulent times. Leaders must anticipate the magnitude of change and its potential impact on the organization and the workforce. Will the business contract, and if so, for how long and by how much? Will layoffs be required? Will people's rewards be affected, and by how much? There is often uncertainty around these questions, but the worst thing a leader can do is go silent until there is clarity around every potential situation or change. It's the ongoing role of senior leaders to explain the issues and communicate what the organization is doing to address them. It's also critical to convey a sense of confidence about the company's ability to persevere. I don't mean false optimism or "happy talk," but encouragement and a belief in people's ability to execute.

In all this, by the way, I find that context is very important and often overlooked. People need to know not just what you're doing, but also why you're doing it and how it fits with external circumstances and your broader strategy. Leaders tend to want to protect people from unpleasant messages and actions, but people have an enormous capacity to grasp and respond to a clear, direct explanation about what's going on and what the organization needs to do about it.

What are the best ways to implement cost-saving steps, especially those involving the workforce?

This will vary by organization and depend to a large degree on the amount of cost reduction that's required, the urgency of making changes, and where the greatest opportunities exist. It's important in a time like this for leaders to approach people-related cost reductions from both a long- and a short-term perspective. In other words, it's about doing what's right financially in the near term, but also preserving the organization's ability to grow and prosper longer term. This is the second essential leadership dimension in this environment. It means, as mentioned earlier, paying special attention to mission-critical employees – those in pivotal roles who are essential to strategy execution. And you need to focus on staff in non-critical roles, staff in units with substantial overcapacity, and the chronic underperformers that you may have been less diligent about coaching out when overall company performance was better. If layoffs are necessary, it's better that they be strategic and surgical rather than across the board. It's a more difficult approach in the short run, but it ensures that already lean departments aren't punished by being efficient, and helps ensure that critical functions have enough people to operate effectively.

What about making reductions in pay and benefits?

As with other workforce cost reductions, when looking at rewards, it's useful to take a more strategic view. Does the organization have a global rewards philosophy that's aligned with the times? This may be a good time to reexamine and test core assumptions and principles before undertaking major changes. It's also key to understand which pay, benefits, development, and work environment elements represent the best balance of cost and business impact. With our clients, we use a "portfolio optimization" approach, combining consumer research and investment management techniques, to inform these decisions. This work has demonstrated that it is often possible to provide a less expensive rewards program without significantly compromising its perceived value or negatively affecting employee retention and engagement.

Also, at a time when there may be less variable pay to go around, it's imperative that the lion's share of variable pay goes to the best performers. This is difficult to do and often is uncomfortable for managers, so it requires real leadership to implement. If you aren't seen as making tough decisions, others won't make them either. Finally, looking at the other end of the performance spectrum, if even your best producers will see a lower bonus, you need to think about what you'll do to retain and engage these individuals. Don't be lulled into thinking people don't have other options in this economy; the best people almost always have options. If they're feeling underappreciated and under-rewarded, they'll be much more open to move to a competitor.

What is the most important step a senior leader can take to engage employees during difficult times?

I think it's simply to be more present as a leader in every respect: to create shared focus and accountability among your leadership team; to set the tone and drive the pace of execution; and to be more visible with employees and communicate with candor and openness. You need to project a sense of confidence and encouragement. I say "simply" not because I think these things are easy to do, but because they involve a healthy dose of common sense. I find it encouraging that, as difficult as it can be to manage through a down economy, it provides an opportunity for leaders to refocus the organization. I recently read a relevant quote by Rahm Emanuel, President-elect Obama's Chief of Staff. Speaking to a conference of CEOs, he said, "You never want a serious crisis to go to waste. Things that we had postponed for too long – that were long term – are now immediate and must be dealt with. This crisis provides the opportunity for us to do things that we could not do before." I'm not sure I would have said it exactly that way, but crises do tend to focus the mind on those things that are most important at the moment and, therefore, provide a genuine opportunity for leaders to rise to the occasion.

Don't be lulled into thinking people don't have other options in this economy; the best people almost always have options. If they're feeling underappreciated and under-rewarded, they'll be much more open to move to a competitor.

"Closing the Engagement Gap"

by Julie Gebauer and Don Lowman.

Closing the Engagement Gap: How Great Companies Unlock Employee Potential for Superior Results *(Portfolio Publishers, $25.95), by Julie Gebauer and Don Lowman of Towers Perrin, with Joanne Gordon, discusses the ways eight top organizations – dubbed the "Engaging Eight" – encourage employees to go the extra mile every day. These organizations are food and beverage company Campbell Soup; data technology storage specialist EMC Corporation; Honeywell International, which produces products ranging from aerospace components to turbochargers and specialty materials; pharmaceutical giant McKesson Corporation; MGM Grand Hotel and Casino; North Shore-Long Island Jewish Health System; Swiss-based pharmaceutical company Novartis AG; and Recreational Equipment Inc. (REI), an outdoor gear retailer.*

The companies range from those that have weathered internal financial or operational crises to those that faced massive change due to mergers or other expansion. But in spite of sometimes overwhelming challenges, their leaders continued to focus on engaging employees in their work and the company. The book details real-life examples from these organizations to illustrate five keys that, together, unlock employee potential, even in difficult times.

"LEADING FOR ENGAGEMENT"

Know Them: Understanding employees' needs and expectations with the same focus and tools used for customers helps shape workplace programs that win people's hearts and minds.

"Get to know workers through conversations in addition to (survey) data, but let the latter inform the former. This responsibility usually falls to direct managers – from the CEO to line supervisors – who must call upon their communication skills, intuition, and experience to determine the combination of drivers that engage their people – especially the most valuable contributors. Indeed, at the height of McKesson's (internal accounting) crisis, Cochief (John) Hammergren left the corporate headquarters and visited with hundreds of employees, in person, to explain what had happened and articulate what the future might bring. In turn, he heard what workers had to say."

Grow Them: Giving people opportunities to learn and excel in their jobs helps win their engagement and commitment to the organization.

"Leaders must set the agenda and set the example. They need to demonstrate a personal belief in the power of intellectual challenge and natural curiosity to unleash human potential. More practically, C-level executives need to visibly sponsor company-wide learning efforts. When the CEO truly thinks individual growth – including his or her own – it will benefit the greater organization, and managers at all levels will mirror that commitment."

Inspire Them: Helping people find meaning in their work encourages employees to routinely go the distance.

"Employees are inspired when leaders exhibit a genuine ability to understand and identify with others' feelings, issues, and unique styles. Workers feel valued when even the highest-placed executives 'get' their world. It's easy for busy, pressured executives to forget where they came from as they become more and more removed from day-to-day operations, but employees respond to leaders who can identify with them – or at least those who make an honest effort to try. If employees never see C-suite executives out and about – walking the halls, eating in the cafeteria, even manning the cash register – then whatever strategic vision management puts forth is not as likely to carry much emotional weight."

Involve Them: Ensuring employees have the knowledge and appropriate authority to make decisions in their sphere of influence ensures they can consistently add more value. Fostering employee involvement centers on four steps:

"Inform employees about business operations and challenges and clearly show how those factors link to employees' day-to-day responsibilities. Gather input from employees via personal contact and organizational channels, and acknowledge and appropriately act on their ideas and contributions. Create opportunities and freedom for colleagues to collaborate on important issues. Give employees the authority to improve operations, reduce costs, and assist customers on their jobs and through special projects."

Here, too, C-level executives play a major role in involving employees in the organization by providing clear and relevant information about the organization, its strategy, and goals; providing avenues for employees to share their own ideas and suggestions; institutionalizing collaboration opportunities; and allowing employees to make certain independent decisions that can help the organization.

Reward Them: Recognizing performance and treating people fairly ensures they give more of their time and creative energy. When it comes to rewards, companies should follow their ABCs: Appreciation, Benefits and Compensation – a three-tiered approach to rewarding employees.

"Show knowledgeable appreciation that is small and spontaneous, as well as extravagant and expected. Optimize benefits to deliver health and financial security without breaking the bank. Provide competitive compensation programs that are fair and clearly communicated."

For C-level leaders, that means setting and articulating a rewards philosophy that aligns with the organization's business and human capital strategies, of course. But the hard work comes in directly showing appreciation, which the authors say has the greatest potential to increase employees' emotional connection to the organization. For example, "walk the floors of Campbell headquarters and you'll see handwritten notes from CEO Doug Conant pinned to people's bulletin boards. Conant writes – with pen, not keyboard – some 100 notes a week to employees at all levels."

As the authors summarize it, "Everything the CEO and his or her colleagues do and say – and how they say it – cascades down to affect people's behaviors. Philosophies formed and communicated at the top are the foundation of corporate culture and guide decisions at every level. Senior executives must set an example by leading in an engaging manner and giving employees the tools, resources, and permission to do their best work."

Despite the compelling examples of the "Engaging Eight" CEOs and other executives, many leaders are not yet setting this example for employees. As the authors also point out, according to Towers Perrin's most recent study of 88,000 employees worldwide, only one in ten believes that their organization's senior leaders treat employees as vital corporate assets. Yet according to the same survey, the greatest driver of engagement is employees' belief that their senior leaders truly care about their well-being.

For C-level leaders, understanding the importance of engagement and their own role in driving it is a critical first step in starting to improve those statistics. ●

