Articles in our ***Leadership & Talent*** series address key issues companies face in creating effective talent management strategies—to identify, develop and retain successful leaders and leadership teams.

Deleveraging The Organizational Structure: Rescuing Your Corporate Culture

In this article, George Wilbanks, a member of the global Asset and Wealth Management Practice at Russell Reynolds Associates, comments on the importance of corporate culture successful leadership strategies.

Immediately following a round of layoffs in early December of 2008, a young manager with great potential and a decade of experience with responsibility for a team of over 100 in the mutual fund service center had his door closed mid-morning as call volume built during another volatile day on Wall Street. The Divisional Head of Human Resources at one of our long-standing clients recounted that she was surprised at this, immediately assuming that he was out sick that day. She opened the door, and, to her surprise, the manager was sitting at his desk working. Asked why he was not, in his characteristic style, more visible to the team at this critical juncture, he replied, **"The layoffs earlier in the week have everyone on the team very upset. I just figured it would be best to lie low…you know, wait for the dust to settle. I will get out next week after our Monday staff meeting when the air has cleared a little bit."** Needless to say, the HR director sprang into action to rescue the situation, organizing an informal town hall meeting at the close of business that day, followed by daily breakfast meetings with smaller segments of the team over the next week. The manager committed to hour-long one-on-one sessions with every team leader before the holidays.

The current business climate requires a significant culture change for many financial services firms and there is no greater challenge in any area of business. It is a time-consuming, multi-year endeavor to change culture and leadership behavior practices. Better leadership starts with clear, transparent, repetitive, compelling and honest communications with all employees on mission, strategy, tasks, metrics and rewards. Only this type of prolonged, direct communication will build "cultural glue" through better alignment, reinforced using intangible rewards that will allow teams and firms to excel in a down market.

As financial services firms continue to go through the painful process of deleveraging their balance sheets and financial expectations, there is a concurrent deleveraging of the organizational management structure underway—senior managers are required to spend more time "leading" as opposed to "doing." The leadership of a firm that recognizes this fact and responds with the appropriate time and effort to replace tangible with intangible rewards has the opportunity to significantly outperform competitors through higher morale, better performance under duress, lower turnover and improved alignment with strategies and goals.

For several decades, most financial services firms, particularly large global banks and investment businesses, have experienced significant growth while maintaining extraordinary operating margins. This has allowed them to adopt aggressive, tangible pay practices to reward performers, and to take a "shortcut" verses investing the time to build a more sophisticated, intangible motivation and reward systems. This "shortcut" has permitted senior managers at multiple levels to expect more from employees and hold down turnover, while simultaneously allowing the managers themselves to spend a much larger percentage of their own time in the pursuit of "doing" instead of "leading." In the investment business, this meant finding clients and generating superior investment returns, as opposed to spending time face-to-face with employees. As a result, the "cultural glue" that binds many financial firms is disproportionately weighted to excess compensation.

As the industry enters a prolonged period of contraction, we will experience three to five years of significantly slower growth and lower profitability, which will be essential in replacing or augmenting the "money" culture that dominated previous years. The lack of coaching and mentoring by a manager leaves employees feeling isolated and uncertain. Furthering this concern, compensation is falling significantly which greatly impacts lifestyles of the more senior employees. If the culture of the firm does not respond to fill the gaps in leadership following the departure of these senior members, employee misbehavior and turnover will present significant enterprise risk management issue. Understanding the success of the cultures and motivation systems of other organizations with much lower margins and rates of historic growth such as airlines, hotels, and manufacturing, best practices in culture building can be quickly identified as highly successful without resorting to extraordinary financial rewards. These include:

- Frequent, consistent contact between staff and senior management (daily, weekly);
- Clearly defined metrics for performance that are transparent to all members of the team (daily, weekly);
- Regular and honest benchmarking against internal performance targets (monthly, quarterly);
- Extensive training to provide employees with the tools necessary to deliver against the tasks required (mandatory multiple weeks a year), and;
- Frequent efforts to recognize and reward superior performance by both individuals and teams, allowing the team to focus on small wins, rather than despair on broader market challenges and risks (weekly, monthly).

The time-consuming nature of these initiatives, even if only a few are utilized, is significant when compared to the half hour reviews at bonus time that occur once a year at many firms. The actual range of tools for building intangible rewards is almost endless and well-documented in business academic literature as well as in the leadership practices of best-in-class competitors like General Electric and Southwest Airlines.

This ***significant*** investment of time "leading" on the part of managers at every level will set a tone of upbeat momentum and will penetrate into the market with competitors and clients. There is no doubt that most employees are motivated to do a good job by the intellectual stimulation and recognition of good work, as much as by the money, and this is widely proven in surveys. The culture change will occur as managers replace a larger portion of the reward system from tangible financial rewards to intangible psychic gratification through social reinforcement. Managers must sacrifice a portion of their time in "production" to make this happen. It is a valuable undertaking in and of itself, worthy of rewards comparable to those usually associated with business production. CEO and Division Executives must reinforce to all managers that spending time "leading" is just as valuable as "doing." Every manager must step up and contribute to the business of building culture—sending the message to subordinates and peers that this deleveraging of the organizational structure is the only way to rescue the corporate culture in this difficult and complex market environment.

Author

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About Russell Reynolds Associates

Leadership. In today's global business environment, success is driven by the talent, vision and leadership capabilities of senior executives.

Russell Reynolds Associates is a leading global executive search and assessment firm with more than 300 consultants based in 39 offices worldwide. Our consultants work closely with public and private organizations to identify, assess and recruit senior executives and board members to drive long-term growth and success. We value teamwork, serving our clients with a collaborative approach that spans our international network of sector and functional experts.

Our in-depth knowledge of major industries and our clients' specific business challenges, combined with our understanding of who and what makes an effective leader ensure that our clients secure the best leadership teams for the ongoing success of their businesses. For more information, please visit us at www.russellreynolds.com.

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