EXECUTIVE DECISION
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Certain Plans for Uncertain Times

Lessons of past cycles, confident action may provide guidance, moral

By Robert Voth

Robert Voth
Partner, CTPartners

The current economic malaise is "primarily, but not exclusively, from unsound real estate lending," according to a September, 1996 address entitled "The World Financial System: Lessons Learned and Changes Ahead" by L. William Seidman, former chairman of the FDIC. Well, it is déjà vu all over again. The saving and loan crisis of the late eighties and early nineties has returned in the form of the current sub-prime meltdown and its inevitable domino effect.

We find ourselves today awash in a negative credit death spiral, each piece of bad news today fueling worse news for tomorrow. No one truly knows where the bottom lies and from this uncertainty all bets are off on what constitutes a right from wrong move.

In this regard, much has been made lately of actions undertaken by Boards, via compensation, to ensure executive retention. For example, Washington Mutual was in the news recently about shielding executive bonuses from mortgage losses, leading to speculation about how other companies might follow suit. Particularly in down markets, any decision about compensation leads to the potential for shareholders to shriek, Congress to convene, and the media having a field day painting pictures of greed and incompetence. This focus, while understandable, is misguided.

The real questions must align around leadership. Boards must make a key and fundamental decision: does their senior executive team possess the competency, capability, and charisma to navigate their company through times not seen for a generation?

During an up market, Boards and their senior executive teams experience a certain amount of natural leeway in the measurement and assessment of talent. Up markets have a tendency to hide weak leaders forging ahead with average business decisions and sub-par management teams. Solid earnings often cover up potential blemishes while the microscope on senior management decision making is stored away in light of increased dividends and record profits.

Challenging markets reveal these weaknesses, often at an alarming pace. As earnings plummet and market dynamics begin to wear on entire industries (construction, financial services), the margin of error moves to zero. The microscope suddenly re-appears, zooming in on every comment and action of the executive team, and each pundit and water-cooler jockey voices their opinion on the "bad moves" and "horrible decisions" emitting from the corner office.

Questions from Boards and C-Suites around retention and compensation have markedly increased. These senior executives are looking for guidance and information on how their competitors are responding to these challenging times. While there is no standard playbook – we've no idea where the potential bottom may lay and there yet be more shoes to fall with hedge funds and credit cards – there are certain pillars of leadership that are mandatory in these uncertain times.

We've encouraged Boards and C-Suite executives to ensure their management teams are flush with three core traits – experience, intelligence, and action-orientation.

Experience – does your executive team possess the experience necessary to successfully navigate current and future market volatility? Those companies with executives at the helm who've experienced and successfully lead through past economic storms should have the advantage, assuming they possess the second pillar, intelligence.

Intelligence – does your executive team possess the right level of intellectual horsepower, tempered with humility, in order to learn from the important lessons of history? If so, are they able and willing to craft a strategy and tangible plan to guide their companies through this economic storm? A yes to this question defaults immediately to the third pillar, action-orientation.

Action-orientation – does your executive team have a proven track record of successfully implementing core strategies with the intestinal fortitude needed to see them through? Can you honestly assess your C-Suite and their direct reports as action-oriented? These actions are multi-faceted – battles must be fought and won internally (the company itself), externally (customers, the marketplace), and in Washington (regulators, Congress).

Possessing two of the three traits is not enough. If all three traits are proven hallmarks of the C-suite and their executive teams, then Boards are free and bound to do what they feel necessary and appropriate to retain their most valued employees.

It's too soon to tell if any action is correct or incorrect in this vein – attempting to evaluate retention packages today is a hindsight 20/20 question. If a company emerges from this current cycle alive, then regains its steam, the decisions were right and the Board and C-suite are lauded as heroes. If things do not turn out so well, they will be the first to blame.

But it is too early to expect any tangible results from such moves. We need to push through a handful of quarters and rely on experience, intelligence, and action-orientation, not emotional, knee-jerk reactions. This is the only certain plan for these uncertain times.