

Leading through Crisis: When Downsizing Results in a Standing Ovation

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When uncertainty reigns and an economy shrinks, management is often driven to engage in downsizing. Typically governed by conventional management thinking, most such efforts produce predictable outcomes: People are removed, money is saved, and signals of resolve are sent to the financial community. Meanwhile, the people remaining are traumatized and cannot talk about it. The culture is damaged and the organization will perform below its potential for a long time.

There is another way. The downsizing process can lead to long-term higher performance. In the alternative path, the people who leave and the people who remain can feel honored and validated. The culture can be ennobling and the organization can exceed expectations, even in times of crisis.

The Conversation

The alternative path to downsizing is explored through a conversation between Ricardo Levy, Robert E. Quinn and Brad Winn. Levy is a retired CEO entrepreneur who spent his life focused on technology. Today he teaches leadership at Stanford. He is passionate about unfolding human potential in organizations. Quinn is a professor emeritus at the Center for Positive Organizations at the University of Michigan Ross School of Business. Having spent his life focused on the processes of personal and organizational change, he is passionate about examining the best of the human condition and helping people discover how to learn from and create social excellence. Brad Winn is a leadership and strategy professor, and Executive MBA director in the Covey Leadership Center at Utah State University's Huntsman School of Business. He is passionate about helping leaders influence their organizations toward becoming both productive and humane.

In this installment of Linking Theory and Practice, Brad Winn interviews Ricardo Levy and Robert Quinn about a conventional downsizing case and, alternatively, an extraordinary downsizing case. Quinn explains the theoretical principles that underlie the two divergent cases and Levy speaks from his practical experience as a CEO. While the conventional path takes us where we do not want to go, the unconventional path takes us where everyone yearns to go.

Crisis and the Conventional Path

Winn: You've witnessed a number of downturns in the economy and the consequent financial challenges faced by organizations. What have you learned about leading in such times of crisis?

Levy: In times of severe contraction you tend to be tested beyond your preparation. In crisis, there's no blueprint. You feel vulnerable. You are required to learn in real-time, and you have to do it with others. The natural reaction can be fear, and the tendency is fight or flight. Both options lead to suboptimal performance. The conventional path is convenient but costly.

Quinn: Science confirms these observations. When our expectations are disrupted, we fill with negative emotions and our attention narrows. The cardiovascular and other internal systems are mobilized toward quick moves oriented to short-term survival.¹ The same research suggests that when we are filled with positive emotions our brains produce oxytocin. Reactivity is reduced, and we take a more proactive stance. Our attention broadens and we see more of reality. On every level — cognitive, social, psychological, and physical — we function more effectively. In the face of disruption, the first challenge is for the leader to engage in self-change, and influence others to transform negative feelings to positive emotions.

Winn: Is it really possible to transform these negative feelings of fear, despair and anger to positive emotions of hope, clarity and confidence?

Levy: The issue you raise is both personal and cultural. I grew up in the technical world, where the culture is very analytical. When hard times hit, we are expected to do rigorous analysis and to take fast, tough, decisive action. This expectation is part of the problem. During crisis, no one is thinking about feelings. No one believes it's either possible or appropriate to turn the negative, fearful emotions into positive, creative feelings. The assumption is that to do so would be a waste of time and shows weakness. In a crisis, everyone tends to pretend to be strong, while actually being fearful. Unintentionally, we create an environment of conventional reactivity and likely declining performance.

Quinn: Kim Cameron did research that confirms these points.ⁱⁱ In typical downsizing scenarios, authority figures manage rather than lead. They take a short-term perspective. They centralize power to the top and restrict information sharing. Instead of making cuts based on some prioritization or overall purpose and strategy, they make cuts across the board, signaling that efficiency and conflict-avoidance are the driving values. Employees become more self-interested, and conflict spreads. Resistance to change increases. Trust, morale, commitment and teamwork all suffer.

In cases where downsizing brings organizational improvement, Cameron shows the efforts tend to be unconventional. They are proactive rather than reactive. They are focused on organizational improvement rather than workforce reduction. The process tends to be innovative rather than the kneejerk application of conventional policies. Instead of a narrow focus on headcount, there is a broad approach that reviews all possible cost-saving changes. The process demonstrates that humans are not inventory or chess pieces, but the organization's most valuable assets and highest priority.

Levy: In practice, I've seen this negative pattern many times. The managers are not evil; they are just confronted with the reality that downsizing is brutal work. The authority figures do what comes naturally. They seek to solve the short-term problem: Get the miserable downsizing process completed and move on. Few consider the resulting future damage.

A Conventional Case

Winn: Can you share a case where this type of conventional thinking plays out in an effort to ensure financial solvency?

Quinn: A couple of years ago, I ran into a friend, who shared a chilling account. She was a first-line employee. She went to work one morning and everyone was called into a meeting. A list of names was read, and the people were asked to stand. They were escorted to their desks, then out to the parking lot.

My friend kept her job. Yet as she told this story an entire year later, she was crying and trembling. She was still traumatized. She told me that she had been looking for a new job since that experience.

What was going on? It was determined that a cut was necessary. Instead of engaging the challenge with vision, courage and creativity, the managers who had to make the cuts responded traditionally. Instead of leading, they operated with a conventional mindset.

Conventional, hierarchical thinking is not focused on creating excellence, it's focused on risk avoidance. The normal policies of HR and Legal are often not intended to create cultural excellence. They are intended to preserve the status quo. The conventional orientation to problem-solving in crisis is to return the company to the previous equilibrium. The conventional process sends an internal signal: People do not matter. As Cameron's research shows, self-interest spreads and intensifies, therefore collective effort declines.

In acting conventionally, the authority figure destroys the culture.

Levy: Unfortunately, your friend's story is not unique. In my experience, the tendency of those in authority is to hold a narrow focus, and to only consider the arithmetic. Even if they comprehend the importance of organizational culture, they can imagine no alternative. In the moment, they are blind to everything but execution of the task at hand, when in fact, in crisis we have our greatest opportunity to do the opposite — to reinforce a positive culture and continue to create a high-performance organization.

Personal Crisis and Personal Transformation

Winn: Many people will find your last sentence shocking, or they will dismiss it as naïve, the product of an uninvolved dreamer. In times of crisis, they see danger, not opportunity. Why do you believe that crisis can be a springboard to high performance?

Levy: Let me begin at the very personal level. In 1982, I was ready to take a successful contract R&D company I had co-founded in 1974 to a new level by exploiting our proprietary ideas. We secured external funding. Two years later we realized that success required total focus on our proprietary technology. Yet our initial funding was insufficient: We needed to raise ten times more! When I approached the lead investor, Tommy Davis Jr., who was also a member of our board, he said, “This is a lot of money. We can do it, but not with you at the helm. You are too young. You need to hire a more experienced CEO.”

Winn: You started the company; you were in charge. Now, the board was asking you to step down after almost a decade of building a very successful business. That had to be a huge personal challenge!

Levy: It ripped at my self-esteem. My first instinct was to fight; to convince Tommy that I could do it. I didn't know it at first, but I was full of ego and couldn't see that I wasn't ready to take the company where it needed to go without major help. I tried to make him “see the light,” but it was futile. Tommy was experienced. He had been an early investor in such giants as Apple and Genentech. In that league, compared to Steve Jobs and Bob Swanson, I was a young nobody.

For me, it was a pivotal point in my development as a leader. I was about to go through a transformation, a move that would force me to be driven by the common good when all I could see was the enormous personal cost. In the midst of this crisis, I had to let go of the past and acquire a new perspective.

Winn: This is a classic pattern. Leaders in crisis must take their organizations to a new order, but to do so they must transform themselves. What principles come into play when the good of the organization calls for one path, while the ego of the authority figure calls for another?

Quinn: In the conventional perspective, the organization is a hierarchy and we are on top. The hierarchy will succeed or fail according to our analytical thinking and our clever use of authority. In crisis, this hierarchy, which is anchored in the past, begins to go latent and a new order tries desperately to emerge. It will only happen if it is not stifled by conventional thinkers, yet it is frequently stifled.

To make the shift, we need to recognize that we cannot control the changing organization; we can only influence it. We shift from acting on people to acting with people. We shift from exerting authority to exerting influence. We shift from knowing to learning.

In the process of making these shifts, the most counter-intuitive discovery is that we best change the system by becoming a better version of self. It's a shift from ego and control, to virtue and inspiration. When Tommy asked Ricardo to give up the role of CEO, he was asking him to take the first step — to become a more moral person, someone who would put the collective good ahead of the personal good.

The Cauldron of Learning

Winn: Leaders in crisis are almost always required to make incredible personal sacrifices for the good of the whole. In this case, you were asked to step down and make a dramatic shift or conversion. How would you describe this work of personal transformation?

Levy: I like to use the metaphor of a cauldron. As a chemist, I used a cauldron or crucible to melt and mix metals. This strong container can hold the powerful forces crashing into each other and generating great heat. A crisis is a cauldron. As I step into the throbbing heat of conflict, my ego can liquify, and if it does, I either self-destruct or I open up. If I open I become capable of seeing differently, of seeing a much bigger reality. When I do, a new vision appears and I am committed to it.

Quinn: You are describing deep change, or transformative learning. In the process of such deep change, your old beliefs are challenged. You agonize over the issues of identity and destiny until you finally shift from self-interest to the collective interest. The call to leadership is a call to rebirth, a call to find your most transcendent self. It is a call to ego-death, a call to put the common good ahead of personal good.

Levy: Most of the time, most of us are in the ego state. Few people are attracted to the hard work of deep change. In fact, I expect many feel repelled by it. When they are called to do what Tommy wanted me to do, the usual response is the same initial response Tommy got from me: resistance.

Quinn: That initial response is natural. And when we do not make the change, the organizational decline that follows is also natural. Einstein has been credited with stating that a problem cannot be solved at the same level of thinking at which it was created. In crisis, we make conventional assumptions that can lead us to the destruction of culture. Only when we transcend ego and embrace the common good, we find a higher purpose and a new vision. New behavior follows.

A New Perspective; A New Authentic Voice

Winn: Leaders experience their own personal crucibles of transformation differently, but there appears to be patterns. What changes did you notice from this cauldron of learning?

Levy: As I came out of that first experience in the cauldron, I noticed two things: The first had to do with perspective and the second had to do with outcomes. First, I had a new vision; I simply knew what to do. I gave up the CEO role and was fine with that. I was resigned, resolved and reenergized. I could see the good of the whole, and I was sure about the direction to take. The vision didn't come from my analytic mind; it was inspiration.

Second, and perhaps most importantly, I had acquired a new voice. I was speaking from my core, revealing my authentic self. I was speaking from concern rather than self-interest, and people could detect it. They trusted what I said. I was more influential than I had been when I had held the position of senior executive. I was making the shift from managing by authority to leading the organization toward the best collective future.

Quinn: You made an important shift. You were outside of the normal mindset. You were becoming unconventional.

A Financial Crisis; A Downsizing

Winn: You experienced a personal and professional crisis and you allowed it to transform you. What happened next?

Levy: There was actually a bigger crisis looming ahead. When I stepped down, we hired a wonderful leader who became my mentor. He helped guide our company effectively for five years, and he had my full support. But then something happened that was perhaps the most dramatic event in my entire 30-year career: We received a call from our largest client and were informed that they were pulling out in three months. I was the one who received the phone call because I had originally negotiated the agreement. In that instant, it was clear to me that it would be impossible to sustain the current number of employees and survive. This was my second personal leadership crisis. I could feel the pull of the cauldron; I could feel the burning heat. I went home and cried.

My ego was again totally melted by the fire. Fortunately, another moment of enlightenment occurred. I immediately knew what I had to do for the collective: I had to take the destiny of the company into my hands again. I had to be the one fully bearing the difficult burdens ahead. For five years I had been mentored, and I had become the person the company needed. I had the vision of what had to happen.

Winn: That is a great description of a person who is learning how to engage in transformation while being fully in the very discomforting moment. What difference did the learning create?

Levy: There were two extraordinary outcomes.

First, when I declared to the board that I needed to be reinstalled as CEO, it was with complete authenticity and commitment to the common good. It was about the company, not about me. Interestingly, not a soul resisted, not even the CEO who I was proposing to replace. Virtually everyone fully and deeply saw it was the way to go.

Yet that remarkable outcome paled in comparison to the second. The challenge was that I then needed to fire 25% of our team. I had personally hired each one. They were my friends and I had to tell them that they no longer had a job. It was a dreadful task, but I knew I had to do it.

I went into that meeting to announce this severe downsizing without preparation. Everyone in the company was there. I had to be present with full authenticity and vulnerability. Instead of acting on my employees, I had to be with them. I spoke to them with the same sincerity and candor with which I had spoken to the board, and they responded just as the board had responded: No one resisted. No one expressed hurt or anger. Everyone accepted that it was the way to go. When I finished, the entire group stood and applauded. The people I had just fired gave me a standing ovation! There was a sense of oneness and a sense of awe. It was truly extraordinary.

Ovation and Transformative Influence

Winn: That is indeed extraordinary! In reflecting on your experience, how did you go from announcing a downsizing to receiving a standing ovation?

Levy: That ovation was not for me; it was for us. For years, those people had watched me put the organization ahead of my ego. When I gave up the CEO role, it was for the common good. When I took the role back, it was for the common good. They could feel my commitment. I was all in and they knew it. They knew I would do anything to help them at any time, even after they were gone. That was what they were celebrating — an incredible sense of unity.

At an economic juncture that required harsh actions, we were prepared to implement those actions with respect and concern. This created a paradox: The people being fired were also being honored. In giving that standing ovation, they were expressing appreciation for the fact that they were being fully validated. And the people not being fired knew that their less-fortunate colleagues would be treated right. I had genuine concern for every individual in that room. In retrospect, I realize that many people never feel honored, and all of us need to be.

Quinn: There is much research suggesting that people with transformative influence, people who get others to transcend conventional beliefs and pursue social excellence, operate in four related domains,ⁱⁱⁱ and have greater impact than others^{iv}:

1. They exert idealized influence. That is, they live their values, they transcend ego, and they selflessly serve the greater good. They become role models who others want to emulate.
2. They show individualized concern. They know, understand and value each person. Every individual matters.
3. They exert inspirational motivation. They have a genuine vision and they authentically orient people to a desirable future.
4. They provide intellectual stimulation. They provide challenges, ask questions and stimulate people to think for themselves. They empower people.

The Opportunity in Crisis

Winn: In what ways did this crisis actually become a catalyst or an opportunity for transformation?

Levy: Many leaders in crisis tend to be reactive. I was able to recognize that much more is gained by seeing all crises as opportunities. In searching for a path forward, I realized that if we go the extra mile, continually clarifying the

highest purpose and treating everyone with respect, we enhance our culture of excellence. The organization is going to transform.

Quinn: In crisis, you have a great opportunity to create a high-performance culture or to reinforce the one you already have. The people see that if the leaders will sacrifice to embrace the common good in bad times, they will certainly embrace it in good times. The people respond. There's a point at which leadership and culture become linked in a reciprocal relationship. When you transcend the ego, you become a symbol — an extension of the best that exists and the common good that's trying to emerge.

In personal transformation, a person gains cognitive complexity and can see in new ways, able to integrate conventional dichotomies and see new possibilities. The work of leadership is no longer dreaded labor, but attractive self-expression and growth.

Getting Practical

Winn: When a crisis hits we expect our leaders to guide us through the fog of uncertainty. What are the practical principles that can help leaders transform from fear and self-preservation that traumatizes an organizational culture to embracing the greater good and clarity of purpose that ennobles and honors organizational culture?

Levy: We are laying out an alternative view of influence and learning. How do you lead in crisis? In conventional approaches, authors give practitioners check lists: "Here are the ten best practices for your organization." We are saying that the success of any change is a function of the interior condition of the change agent. The key is getting into the highest level of personal functioning, and then inviting others to engage in an emerging culture of excellence. For me, that personal transformation sharpened my ability to embrace everyone, to show my vulnerability, to feel their inner dynamic and to relate to it, whether they were in agreement with my approach or not. Once that threshold was crossed, everyone is more open and willing themselves to be vulnerable, can be reached, and we move forward together.

Quinn: In conclusion, organizational change requires collective and individual learning. The old culture is always trapped in the past. It's in decay when truth cannot speak to power, when no one can adapt to the genuine demands on the organization or group. By orienting to the highest purpose and fully sacrificing your self-interest to it, you, as an individual, are bringing conscience to the culture. As people respond, they behave in new ways and this creates new expectations. A new culture emerges. The individuals and the collective all gain capacities they did not have before.

To live is to experience anxiety. To lead is to be anxious while trying to transport other anxious people to a new place. When you enter the fundamental state of leadership^v, you are bringing absorbing uncertainty while bringing your conscience and the collective conscience to the culture. You become a source of inspiration. The anxious people gain hope. They willingly travel with you. When they accept and embrace the covenant you are living, high collaboration emerges.

Crisis is an opportunity. The conventional road takes us where we do not want to go. But there is an unconventional path that can take us where everyone wants to be. When you lead, you commit to enact your best self. Every action gives rise to a culture of social excellence. The journey through organizational transformation begins with altering our own interior condition.

ⁱ Fredrickson, B.F. (2009), *Positivity*, New York: Crown, 21-36; 48-53; 75-96.

ⁱⁱ Cameron, K.S. (1994), "Strategies for successful organizational downsizing," *Human Resource Management Journal*, 33, 89-12.

ⁱⁱⁱ Antonakis, J., Avolio, B., Sivasubramaniam, N. (2003), "Context and leadership: An examination of the nine-factor Full-Range Leadership Theory using the Multifactor Leadership Questionnaire," *The Leadership Quarterly*.

^{iv} Gang, W., Wang, G., Oh, I., Courtright, S., Colbert, A. (2011-03-15), "Transformational Leadership and Performance Across Criteria and Levels: A Meta-Analytic Review of 25 Years of Research," *Group & Organization Management*.

^v Quinn, R.W. & Quinn, R.E. (2015). *Lift: the fundamental state of leadership*. Oakland, CA: Berrett-Koehler.