This is one of a series of occasional papers by The Dilenschneider Group to bring clients and friends a different perspective. We hope you find it of interest.

# MANAGING UNCERTAINTY

## FOUR SIMPLE RULES FOR THE 21ST CENTURY

All around us today the world is moving faster and faster and challenges, problems and opportunities are coming with a frequency never before experienced.

The following four points, excerpted from a talk given to the Fixed Income Forum in Chicago on November 9, 2007, are sent to help you think about how to cope and succeed in today's environment. Many reflect just plain old common sense, but too often simply are ignored. We hope they are of value and would be grateful for any comments you might have.

These points are based on a recent conversation with my friend and Nobel Prize winner, Mr. Myron Scholes, derived from that Chicago speech. When Myron talks about managing uncertainty, he's talking about how to develop complex mathematic models to help guide decision-making.

But two of Myron's basic concepts are understandable by people like us and especially relevant to today's discussion:

Financial markets tend to be long-tailed; in other words, very extreme events occur at a higher frequency than you would expect from normally available data.

These events are of such magnitude that past experiences are of very little or even no help in predicting future outcomes. As Myron puts it: Disorder replaces order. Examples of these extreme events include the 1997-98 Asian currency crisis, the 2000 market collapse, and unfortunately, the credit crisis we are all living through right now.

In Myron's world, the interesting thing about these events is that, when they occur, the models we use in our decision-making break down. We've heard from some of the sector's leading experts how and why that happened in fixed income markets this summer. The question that fascinates Myron to this day is: Knowing that events will occur in which all of your tools break down, what is the best way to structure your investments and manage your risk?

These topics immediately jumped to mind today because, in an event like the one we are now enduring, it is not only financial models that are tested, it is also our models of business management. We cannot fall back on our past experiences because our past experiences offer no clues about how to best manage a situation that truly no one has ever experienced before. Disorder has replaced order.

So the question arises: How do you manage people when disorder has replaced order?

I would posit that there is no single answer to that question. Because long-tail events are entirely unpredictable, it would be foolish to stand here and say this is what you must do to succeed. Rather, I would like to suggest that the best way to improve your effectiveness as a manager in these times and thereby improve your organization's chances of success is to build a management structure that accommodates uncertainty in the same way Myron Scholes is trying to accommodate uncertainty in his financial models. There are several steps you can take to achieve this goal:

# PROJECT A SENSE OF CALM

Wall Street has been through many "sky is falling" crises before. In the last decade alone, consider the Asian debt crisis of 1997-1998 and the dot-com implosion of 2000.

In truth, the number and variety of potential events — some not even major — that are likely to send the Dow down 200-plus points on a given day seem to have accelerated in recent months. Panic is in the air.

Like panic, an aura of calm can be contagious, settling the frayed nerves of those around you.  Leaders should project a sense of continuity, of having managed through the years and through the crises, and of applying the lessons learned in a calm and reasoned manner to the situation at hand.

After this is all over, the capital markets will still function, and Wall Street will survive — often, healthier than before.

Remember:  This, too, shall pass!

# TAKE EARLY AND DECISIVE ACTION ON PERSONNEL

Create an immediate feeling of accountability and decisiveness.

In crisis you need to decide early on which employees you are letting go, and which you are keeping. One conundrum you will face: The very people that got you into this mess are often the best-equipped to help get you out of it.

It is imperative to decide at the outset of a problem what to do with the individuals directly involved. The calculation must be objective and fact-based: the benefit your organization will incur from their departure in terms of public perception, morale or operations versus the loss of these individuals in terms of their expertise and relationships.

If you decide to retain these individuals, you, as a manager, must act to ensure that their incentives remain aligned with those of the organization. At a minimum this should entail reassuring these employees that their jobs are secure—or will be when the organization navigates its way out of the crisis. In certain cases in which the individuals are playing a critical role in managing the crisis, other incentives might be considered.

The goal here is to reduce the sense of uncertainty or panic as soon as possible, and get everyone focused on the task at hand.

# Ensure That the Information You Get Is Accurate

It is difficult to overstate the importance of this simple truth.

I have advised many clients during many crises and have come to believe that the single most important thing you can do as a manager in the midst of a crisis is to ensure that the information flowing to you and your senior team is accurate and comprehensive.

In no circumstances can you delegate the collection of information to subordinates whose interests could diverge from those of yourself and the organization as the crisis spins in unpredictable ways. In short, they might well be focused on their own survival, while your concern is the well-being of your organization. While acknowledging that you will ultimately have to rely on your team for data, you must play a hands-on role in determining what information will be collected, how it will be obtained, and how and to whom it will be disseminated.

There is a key corollary here: What you say publicly and what you say privately to your line managers must be consistent. What you discuss publicly has to be accurate and consistent with what you are telling your key managers. If you violate this rule, the inconsistency will find its way into conversations with others and, in particular, with the media. That undermines in the most fundamental sense anything else you might be doing.

## MANAGE YOURSELF FIRST

Finally, and most importantly, there is one thing above all others that managers must seize control of when disorder replaces order – their own heads. Wall Street crises often seem like the apocalypse, and it is easy to get swept away in the flow of events. It is imperative that throughout the crisis, you as a manager take care of yourself from a health perspective, get enough rest, and keep stress levels to as low as possible.

Simply put, we make bad decisions when we are tired and stressed. It is amazing to me that so many top executives ignore their own state of mind and health in times of crisis.

As a manager, you get paid to do one thing: make good decisions. By tending to yourself, you are improving the quality of the decisions you will make.

Here are some steps you can take to remain calm and clear-headed:

Put limits on your workday. There is no way around the fact that, in times of crisis, your job becomes your life. But you cannot do your job well if you are dangerously fatigued. Cap your work hours or carve out enough time to ensure that you get enough sleep and spend at least some time every day with your family.

Attend to your physical self. Practice deep breathing and take a nap—both can be done in a few minutes, in your office, and can be vital in maintaining your equilibrium. Don't forgo your exercise routine. When an emerging crisis starts to fill up your schedule, the daily workout is often one of the first things knocked aside. It should be the last. Exercise keeps the mind sharp and routine helps retain your sense of calm.

The Dilenschneider Group, Inc.
*Helping Corporations Plan Ahead and Communicate Globally*

MetLife Building • 200 Park Avenue • New York, NY 10166
Phone: 212/922 0900 • Fax: 212/922 0971

Three First National Plaza • 70 West Madison Street
Chicago, IL 60602 • Phone: 312/553 0700 • Fax: 312/553 0695

thedilenschneidergroup.com