The Power of Moral Purpose: Sandler O'Neill & Partners in the Aftermath of September 11th, 2001

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Abstract

Despite devastating losses in the September 11th attacks, Sandler O'Neill, an investment bank formerly based in the World Trade Center, emerged stronger than ever within one year. The combination of moral work and the pull of opportunity released extraordinary physical and psychological resources that fueled this astounding recovery.. The case shows that in an organization that permits advancement through moral work, people feel exceptionally energetic and psychologically available.

"If we possess our why of life, we can put up with almost any how."—Nietzsche (1968, p. 23)

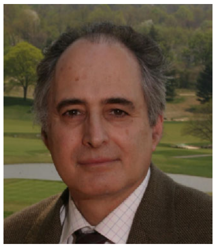
Sandler O'Neill & Partners

The Disaster and Recovery

On September 11th, 2001, Sandler O'Neill & Partners, formerly of the 104th floor of the World Trade Center's South Tower, lost thirty-nine percent of its people, including nine partners and two-thirds of its management committee, and nearly all its physical assets and corporate records. Neither industry experts nor organizational scholars could have been optimistic about the future of the firm. Yet within one year, the firm not only had recovered but was doing better than ever, with record profits and revenues and new highly desirable lines of business, while also taking care of the health and well being of the surviving employees and the families of the deceased.

Academics … Skepticism… How We Came to Study It

Scientists are skeptical by nature and training. We tend to see concepts such as *power of purpose* as imprecise, unverifiable, and intractable—especially when these concepts include moral claims. But we are also open to evidence. The authors had been invited in autumn 2001 to document the



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organizational losses of the World Trade Center attacks. It soon became apparent, however, that valuable as this task might be, the biggest story here was explaining how one decimated firm carrying an extraordinary burden could rise with astonishing alacrity to unthinkable heights.

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Sandler O'Neill and September 11th, 2001

Sandler O'Neill & Partners

Sandler O'Neill is an investment bank that specializes in thrifts, community banks and savings and loans.[1] The firm was founded in 1988 by six partners who referred to themselves as the "3-2-1 gang" (three Jews, two Catholics and a Protestant). It became a mostly Caucasian, Catholic firm that grew by hiring friends, the sons and daughters of friends, and the sons and daughters and friends of business associates. From the onset, the firm had been very successful, rewarding partners and employees with considerable incomes. Partners referred to it as a "money machine."

September 11th Death Toll

September 11th, 2001. At 8:45 am, eighty-three Sandler employees, two consultants, and two visitors were in the company's principal office on the 104th floor of the South Tower of the World Trade Center. When the North Tower was hit, sixteen employees immediately left their offices (despite building advisories not to leave). Along with a seventeenth who happened to be on the 44th floor, these employees exited the building and survived.

Table 1: Sandler O'Neill Employees on September 11th, 2001

Employees	Total
Sandler O'Neill employees September 11th, 2001	171
Total based on the 104th floor of the World Trade Center	149
Killed by the attacks	66*
Exited building and survived	17
Witnessed events from concourse or nearby	24
Traveling or not yet to work	42
Total based in satellite offices	22

* Two consultants and two visitors were also killed.

The South Tower was hit at 9:02 a.m. and collapsed at 9:59 a.m. No one above the 78th floor at the time of impact survived (Table 1).

The sixty-six dead left forty-six widows or widowers and seventy-one children under the age of eighteen, including one child born in August 2001 and another born in October. Over 100 parents lost sons and daughters; many had sent their adult child to work for their colleague, friend, or banker at Sandler. The Equity Department was wiped out—twenty of twenty-four killed. Nine of Sandler's thirty-one partners perished, including Herman Sandler and Chris Quackenbush, two of the three partners who formed the management committee that ran the firm.

The Week Following September 11th

The following week. Ray Soifer, an independent banking consultant, issued a dire warning in *Business Week* on 9/13: "The loss of life is catastrophic in an industry that relies on personal relationships." On Monday September 17, CNBC misunderstood a press release and broadcast that Sandler would not remain in business because its losses were too devastating. The broadcast prompted numerous calls from clients, friends, and others who believed the story to be reasonable. How could the company remain viable after such devastating losses? Surviving employees asked the same question.

But by the day after the attack, Jimmy Dunne, the lone surviving management committee member, and his remaining partners had already decided that the firm *must* survive. The next day (9/13), Dunne announced this in an emotional meeting with the employees. On Wednesday, 9/19, two days after the erroneous CNBC announcement, he went live on CNBC pledging that the firm would remain in business so as to not let "terrorists win and undermine America." Dunne set three goals for the firm in the near term: to care for the families of missing colleagues, ensure the safety and health of all surviving employees, and personally assure the firm's clients and friends that the firm would continue.

Recovery

Recovery. In spite of the devastating losses, Sandler has amazingly managed not only to survive but to thrive, as evidenced by the following:

- No deals or clients were lost.
- Two months after the attack, the firm was profitable again.
- By May 2002, profitability and revenue recovered to pre-9/11 levels and continued to trend upward. Revenue per partner, per professional and per employee was higher than ever. (All occurring as Wall Street experienced a major downturn.)
- The firm substantially strengthened some of its core areas through new hires
- A new business underwriting an annualized $23 *billion* in initial public offerings, and a second new business in preferred stocks were developed.

Moreover, all this was achieved as the firm reconstructed records and infrastructure; hired and trained replacements; built a new facility; attended funerals; dealt with trauma, anxiety, and a dozen varieties of loss[2]—and while providing generous care, salary, bonus, and benefits to the families of the deceased.

Theory: Organizations *Non*-resilient in Response to Loss

General Organization Theory

Scholars would have had little reason to be more optimistic about Sandler's future than industry analysts would. Organization theory suggests that organizations are *not* resilient—at least not in the positive sense of being able to respond effectively to catastrophic events. Extensive research documents difficulty adapting to even narrowly circumscribed loss.[3] Crisis research indicates it is far more difficult to recover from a fatal disaster.[4]

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Self-Amplifying Feedback Loops

Moreover, problems in business tend to amplify through a vicious circle:[5] A setback depletes an organization's resources; creditors, alarmed by a shortage of cash, may be unwilling to risk additional capital; employees facing the possibility of joblessness may seek work elsewhere; and customers and suppliers worried about continuity of service may seek services elsewhere. Doubt begets more doubt and the firm spirals downward in a doom loop.

Segue

Yet despite catastrophic losses, Sandler not only avoided collapse, but managed instead to actuate a "virtuous circle" in which effort, opportunity, hope, and motivation created an *upward* spiral of confidence and performance.

The Source of Sandler's Resilience: Moral Purpose

Situational Factors

Several situational factors contributed to the resilience of firms hit in the 9/11 attacks.

The firms suffered no prior or subsequent attack, and although the attack was deadly, it was over quickly. The damage was done by strangers; no trusts were shattered or betrayed. Most important, the firms themselves were held blameless and their environment was exceptionally supportive.

Limits of Situational Factors

Aspects of the situation, however, can only augur the possibility of recovery; it hardly predicts Sander's phenomenal post 9/11 success. Likewise, Sandler generally managed the crisis well. But crisis management can only mitigate losses; it cannot produce growth. To explain the firm's remarkable post 9/11 performance, we were led to one dominant explanation: that a newly found moral purpose invigorated an entire community.

Moral purpose was a motivational factor in and of itself, spurring on the efforts of the partners and employees, as well as customers, suppliers, volunteers and other sources of external help.

Three Parts

Moral purpose was a motivational factor in and of itself, spurring on the efforts of the partners and employees, as well as customers, suppliers, volunteers and other sources of external help. It had multiplier effects in concert with other factors:

- *An ability to get help.* The world was sympathetic in the aftermath of these attacks; Sandler was particularly effective in obtaining and utilizing forthcoming assistance.
- *The pull of opportunity*. Death created opportunities for advancement, leadership, new business and structural change. These opportunities could be seized without guilt because of its link to moral purpose.

Moral Purpose

No Longer Just an Instrument

It was by no means a foregone conclusion that the firm would continue. The partners were already wealthy. For several years Dunne, an effective delegator, managed the operations of the firm while spending 200 days a year playing golf. (He was on the golf course the morning of 9/11.) He worked short hours, checked "ten emails a day," and spoke daily with his department heads. Herman Sandler was an active philanthropist committed to environmental issues, music, and numerous other nonprofits. Several senior partners were informally semi-retired, searching for what they were going to do next, including Fred Price, who after 9/11 became Chief Operating Officer. We learned that several partners believed that the firm's natural trajectory was coasting towards a shutdown or sale. There was no plan to sell the firm to a next generation of owners. Surviving owners were concerned with the financial well being of the families of the deceased, but that obligation could have been met through a capital reserve distribution. 9/11 changed this sense. The firm, once an instrument, as one owner described it, "for feeding the mouths of families," became a moral enterprise: to honor the dead, care for both the family members of the deceased as well as the living, and deny the terrorists a victory. Typical comments included:

> … the whole idea is that we are at war. It is important to keep our economy going.

> We are covering these families for the next five years. This is extraordinary and I take great pride in it.
>
> I feel more motivated and more determined. We have more responsibility to … [rebuild the firm] for those who are gone.

One employee who quit before 9/11 to start a non-financial business in his home, returned:

> They wanted to bring me back. [A partner] gave me a call, and we talked about it for a while, and the more I thought about it, the more it made sense to come back, from [many] points of view. I never really wanted to come back to the Street after I left, but this is different. From just a moral standpoint, it is absolutely the right thing to do.

Employee Motivation

When Sandler's salespeople sold stocks and bonds, they were selling for their dead colleagues emotionally and literally: Commissions generated through sales and trades on the accounts of a deceased employee went completely to that employee's estate. The firm continued to pay salaries and bonuses, to provide counseling services and medical insurance. It created a resource center to help the families of those killed to cope with financial and legal needs, and a foundation to help children of their lost colleagues attend the college of their choice.

Customers and Competitors

Customers treated the firm differently as well. It seemed doubtful to analysts and the media that a relationship-based firm in a relationship-based industry could survive the death of so many relationship managers. Yet all clients remained with the firm. Maintaining a relationship with the firm enabled clients, suppliers, and other stakeholders to honor their relationship to those who died and to work through their own feelings regarding the tragedy. Six months after the attack, Dunne noted that, early on:

> I made a mistake. I thought that clients would find it a bit presumptuous … if I interjected myself into those relationships. I was 100 percent wrong. Not only did they want it, they expected it. Now I am furiously … contacting the key people that our key people talked to.

Moral purpose enabled the firm to attract and retain help.

Attracting Help

Moral purpose enabled the firm to attract and retain help. After the attack, the firm was faced with an avalanche of extraordinary demands: managing the media, handling calls from well wishers, legal concerns, estate issues, regulatory issues, child care, funerals, and counseling. Dunne immediately put policies in place to care for the victims' family members and was in touch with most of the widows and widowers in the first few hours after the attack. He drew on outside help to deal with most extraordinary functions: On 9/11 Sandler hired a public relations firm and on 9/12 an organizational consulting/counseling firm. Dunne also drew upon top legal, financial, and other expertise. A close friend of a deceased managing partner approached Dunne at a memorial service and asked if there was any way he could help. When it turned out he had managed communications for a prior governor of New York, Dunne recruited him to manage these functions for Sandler O'Neill.

One employee noted, "We were fortunate to have good people with background and training in various areas come in to help us." Prominent CEOs, lawyers, financial advisers and many other volunteers showed up at temporary offices to help. Relatives laid cable and set up computers; ex-employees worked the phones; when trading began the following Monday, competitors conducted transactions (and refused commissions). When Sandler moved into temporary headquarters two weeks after the attack, it was difficult to distinguish among employees, hired hands, relatives, and volunteers.

The crisis generated publicity and celebrity (including profiles on CNBC and CBS' 60 Minutes and a cover story in *Fortune*). Public approval of Sandler's management, Dunne's charisma, and the effectiveness with which Sandler managed public relations led to invitations for new deals. Management fully accepted the generosity of others, allowing the firm to enter deals that were made available and made business sense. One partner told us, "XX gave us a deal. It was great. They practically filled out the paperwork for us."

Openness to Receiving Help Is Not So Easy

Although the ability to cope with trauma depends partly on the ability to attract and use help, there is an inherent paradox—trauma can be very isolating. Individuals and leaders of organizations feel violated; they worry that their experience cannot be understood and that others are judging them for the extremity of their response. They exhibit physical and emotional stress and are highly sensitive to their environment, openly reacting to a face, a memory, a picture, a plane, a siren, or other noise. Just when people or organizations most need help, they are often least capable of seeking or using it. Organizations may sensibly worry that if they solicit help, the resulting publicity could expose their weakness, leading to further losses of key personnel and business. Indeed, in the first month(s) after the attack, other badly damaged financial services firms (especially Cantor Fitzgerald and Marsh McClellan) provided little public access. This might explain why CEO Howard Lutnick of Cantor Fitzgerald made and then changed decisions, after getting bad publicity, on how he would financially treat the families of dead employees (*Wall Street Journal*, 2001). He lacked the openness that would have enabled him to test ideas and possible policies with friends and advisors.

The Pull of Opportunity

Enormous Effort Put Forth. How to Explain It?

One person described the tenor of the months following the attack as "sprinting a marathon." Sandler partners and employees put forth astounding energy and effort rebuilding the IT system, reconstructing records from memory, contacting the customers of deceased employees, and creating a working temporary facility while also planning for a permanent move. A partner noted that the intensity had reached a level of "white heat" and wondered how long the firm could sustain this tempo. One employee noted:

> After 9/11, I think everybody who worked here felt like a partner because they were involved in the company in a way that they're never

> going to be involved in any other job in their lives. So you felt like a partner …

Tragedy's Upside: Opportunity (for Individuals)

Personal opportunity. The loss of friends and colleagues was personally devastating, yet the tragedy had an upside: The loss of leadership and talent created new opportunities for survivors. "For every deconstruction there is construction," one respondent put it. Even though the work of reconstructing the firm was physically burdensome and psychologically difficult, many stepped forward to fill voids because the situation presented an opportunity to advance.

For every deconstruction there is construction.

The pull of opportunity was clear both to interviewees at all levels of the firm and to the many job seekers who contacted the firm in the months after the disaster. Although not part of our initial interview protocol, most interviewees alluded to it. Comments included:

> I am ending up with a chance to work on accounts of those who have died. There is good business there. These are situations I would not have had a chance to be involved in. There is more latitude in terms of where you can go.

> I will make more money now because they need competent people to maintain the relationships.

> I think that one of the neat things about this firm is that there are more opportunities that you could follow up on; bigger account lists than a salesman could cover, the matrix of accounts and potential accounts and products and opportunity. There will never be enough hours in the day.

Opportunities at the Firm Level

New Business Opportunity

Likewise, the tragedy created opportunities at the firm level, which management cautiously pursued. Some larger banks and competitors saw Sandler as a symbol of how the U.S.A. could and would respond to foreign attack. For the first time, Sandler was "invited to the table" to participate on large underwriting deals. One respondent asked rhetorically:

> Opportunity? A ton right afterwards. Competitors included us in underwriting. Companies that we would never speak with, such as X; there was an open forum… Some of these relationships will be enduring.

Structural Opportunities

The tragedy also created *structural opportunities*—the chance to make changes that otherwise would have been unfeasible because of either sunk costs or entrenched personnel. For example, an IT professional said that in a sad way the disaster was an opportunity to improve the computer systems: "Opportunities start from an empty space." One executive came over from a much larger firm because, "I thought the opportunity to rebuild the equities business was unique in such a small, well-regarded firm."

At the firm level, the tragedy created the opportunity to completely remake the equities group and to take the firm in new directions based on, in Dunne's words,

> . . . people that can broaden our scope. Some new senior hires have helped a great deal: I miss **X** at a business level so much but hiring **Y** has been a godsend for me. And it's also helped everybody else behave better.

Death generally created slots for strategic, high-quality new hires. The firm hired talent from prestige firms who, by virtue of their skills and relationships, brought new kinds of business. Recruitment was enhanced by the good publicity for the moral stance it took in relationship to its families. Young people from top universities, who might normally have gone to larger firms, began to apply for jobs at Sandler O'Neill.

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Under what conditions would finding opportunity in a colleague's tragedy not feel like dancing on their grave? Some respondents expressed ambivalence about making money and advancing because other people died:

> You have been given five new accounts that were existing Sandler O'Neill clients. ... Do I deserve someone else's money?

> I took on coverage of better accounts. This is not the way you want to get [these accounts]. It is an uncomfortable idea.

An employee hired November 2001 said:

> I don't know how to express how I feel. I am glad to be here but not happy for the reason why.

Ambition is a powerful drive that typically must be restrained. Under normal business conditions, coworkers' ambitions often clash. To maintain organizational cohesion, individual ambition must be circumscribed by norms of fair play and obeisance to team goals. In this case, however, altruistic incentives created a situation in which ambition became a gift to others: Seizing opportunity meant helping the firm survive, future opportunities for others, and resources for helping the families of deceased colleagues.

The combination of moral work and the pull of opportunity released extraordinary physical and psychological resources.

The combination of moral work and the pull of opportunity released extraordinary physical and psychological resources. Work typically involves a tradeoff between normal business activities, which we undertake for material advancement, and volunteer work, which we undertake for a moral payoff (Table 2). At the extremes, in a failing, demoralized organization, people feel depleted, but in an organization that permits advancement through moral work, people feel exceptionally energetic and psychologically available.

Beyond Resilience

The term *resilience* presently has a powerfully positive connotation, but literally it is insufficient to capture the magnitude of Sandler O'Neill's accomplishment. *Resilience* means the ability to spring or bounce back (from stress, illness or adversity), but is it sufficient to characterize a phenomenon in which an entity is almost destroyed yet

Table 2: Moral Work and Opportunity

		Moral Work	
		No	Yes
Pull of Opportunity	Yes	**Normal business life** Average psychological and physical resources	**Invigoration** (Sandler O'Neill) Substantially increased psychological and physical resources
	No	**Demoralization** (a failing firm or ineffective volunteer efforts) Psychological and physical resources are depleted	**Volunteer work** Average psychological and physical resources

emerges stronger than ever?

We opened this article with one maxim by Nietzsche; we close with another—his ubiquitous quotation, "What does not kill me makes me stronger" (1968, p. 8). A web search of the quotation reveals *thousands* of hits. What should we make of this popularity? Is it evidence of a world desperate for palliatives or is there a verifiable phenomenon? At least some compelling examples can be found, such as the autobiographical experiences related by Frankl (1946) and Armstrong (2000).

In academic and practice articles, we use this research to develop theory on organizational resilience and applications for management of risk and crisis management. But beyond crisis management, beyond resilience, the case begs the question of motivation and performance: Can we clarify the sources of strength and motivation that Sandler O'Neill drew upon? And can we help others achieve comparable results?

The most valuable extension of this research is to help make these sources of strength generally available to those who face great challenges and endeavor to perform great deeds.

Endnotes

[1] As a full service investment bank, Sandler O'Neill helps clients manage mergers, acquisitions, and conversions; provides guidance on fixed income and equity investment management and trading; and, more generally, on maximizing shareholder and company value.

[2] Sandler's performance might suggest that the 9/11 losses were perhaps not economic (i.e., insurance covers the physical assets; people can be replaced, etc.) Our findings suggest, however, that the losses—economic and otherwise—were, if anything, even more severe than media reports and death tolls might indicate. These losses can be placed into three categories, (1) people, (2) wealth, and (3) systems, routines and processes.

People. "When you lose people, you lose mentors, friends, colleagues and skills," one manager said. The one surviving member of the management committee, barely containing his emotion, told us, "I lost my mentor and my best friend… who do I even consult now?"

The deaths of colleagues and friends were particularly severe for Sandler O'Neill because it was an exceptionally related and tight-knit firm. One long-time employee noted that, "We all grew up together." This was a firm that "worked hard and played hard" together. Employees' families were best friends, vacationed together, belonged to the same social networks and owned homes next to each other.

Sandler was known as a "relationship" firm on Wall Street, a firm that prided itself on the way in which it managed its relationships with clients and potential clients." One reason why CNBC could report that Sandler would be terminating operations is because loss of life is catastrophic in an industry that relies on personal relationships.

Aside from the cost of death, came the cost of surviving. In the months following 9/11, surviving employees needed to:

- Attend numerous funerals/memorials, deliver eulogies, and help the families of the deceased with both consolation and concrete tasks such as childcare and estate management.
- Contact and speak with well-wishers, the media, and virtually "everyone we ever had contact with."
- Make personal sense of what happened, attending to their own psychological and emotional needs and those of their families.

Even to the degree that people could be replaced, hiring is hardly an overnight process. Moreover, management had to hire, orient and train on a mass scale at the same time that they were struggling to rebuild, deal with the tragedy, and actually do the ongoing work with a sharply reduced workforce.

Wealth. The moneymaking machine was shut down, at least temporarily. At the same time, expenses soared. In addition to all the ordinary expenses of running the business and the extraordinary expenses involved in rebuilding quickly (insurance covered much, but not all the costs), the company had to acquire an array of special services—counseling, legal and public relations help in order to manage the demands of the families of those lost, the employees, well-wishers, the media, etc.

The balance sheet was hit equally hard. Paying out the deceased partners' interests reduced the firm's equity and cash to a fraction of pre-9/11 levels.

Systems, Routines and Processes. Accountants and investors believe that much if not most of a firm's worth consists of "intangible" assets that reside in tacit knowledge of systems, routines and processes (Lev, 2001, 2002). At Sandler, this knowledge prior to 9/11 was rarely documented (a practice that the firm has since changed). On 9/11, the firm lost not only the tacit knowledge that was in the heads of the dead, but also:

Computers, paper files and corporate records. Physical records needed to be reconstructed (mostly from memory). Client and contact lists had to be recreated from memory. "The firm had to replace its underlying structure piece by piece."

Technical processes, including trading, research and client management. The firm had to reapply for all trading licenses and redevelop and re-implement all corporate protocols.

Physical systems. The firm had to develop temporary systems quickly, while also planning intermediate and long-term solutions.

The supervisory structure was decimated. Rebuilding the management structure was an enormous responsibility for surviving partners.

For every function, we had to ask, "Who's left here to do it? Can we still do it? Who do we need in the short term? Who do we need in the long term?"

Finally, the coordination that comes from years of teamwork was gone and dearly lamented. One respondent explained,

"Sixty-six of my colleagues died, [which] made my ability to do everything much more difficult. **Z** and I had a shorthand. I would talk to him at least 3 times a day every day. We didn't need to speak for long, just 30 seconds. But that takes 5 minutes with anyone else."

[3] Hannan & Freeman (1977, 1984, 1989) and their many students have written extensively on the inflexibility of organizations. Another highly

influential work, Staw, et al. (1981) documents generalized organizational rigidity. Christensen (2000), Anderson and Tushman (1990) and Tushman and Anderson (1986) have identified how technological change commonly leads to swift decline of established firms in an industry. A wide variety of other work illustrates the equivalent difficulty organizations have adapting to social changes (e.g., Hoffman, 1997, on the challenges faced by the chemical industry in response to environmental concerns) or new business conditions (e.g., Freeman, 1999, on the US auto industry in the 1960s and 70s).

[4] When the hard work of change and adaptation would need to be undertaken, the people who would do it are dead, traumatized, or consumed with extraordinary responsibilities. Individual recovery from loss is notoriously slow, painful, and difficult; when the community that would normally provide support in times of distress is also distressed, recovery may be impossible (e.g., Erikson, 1990, 1994; Shrivastava, 1987). Erikson (1976) concluded that such "collective trauma," is far worse than the substantial sum of these private wounds.

[5] Rudolph & Repenning (2002) observe a convergent insight in organizational studies: Even small problems can become major disasters (Vaughan, 1996; Perrow, 1999; Weick, 1993).Vicious circles are technically understood and analyzed as reinforcing feedback loops. See Sterman (2000) for a thorough mathematical explanation of system dynamics business applications or Senge (1990) for a less technical explanation. See Masuch (1984) for a theoretical analysis of vicious circles.

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