

Management Styles & COVID-19: A Case Study on Commercial Real Estate

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Introduction:

For our final project, we decided to focus on the impact of COVID-19 on organizational management styles. The pandemic completely disrupted the global business landscape, and changes were made at every level of organizations. We were specifically interested in analyzing the commercial real estate industry because of its unique position during the pandemic. As more of life became online, and people were stuck at home, the need for office buildings specifically dwindled. We were curious as to how commercial real estate leadership would have managed remote work and flexibility for their employees with the demands of the business that had declining opportunities. The following report will explore a literature review of previous research on management theories, dissect typical management in commercial real estate, and dissect the reasonings behind changes due to COVID-19. Then, we will examine these topics in connection to our interview with Scott Brown, Managing Director of Morgan Stanley Investment Management.

Literature Review:

Changes in the workplace have historically revolved around political and economic happenings of the time. For example, our first management theory, Classical Management Theory, can be traced back to the early 1900s when industrialization was on the rise (Kramer, 2021). As science and engineering grew in factory management, the main concerns of organizations were their level of effectiveness and efficiency (Gidley, 2020). Thus, at its core, Classical Management is about finding the one best way to perform and manage tasks. In his Theory X, Douglas McGregor followed two assumptions: first, that workers are naturally lazy and unmotivated, and second, management's job is to persuade, reward, punish, and control workers (Kramer, 2021). Today, companies with repetitive work are organizations still using

Classical Management Theory. It is now a little more flexible, but employees are still heavily monitored and not included in decision-making conversations.

In criticism of Classical Management Theory, motivation was noted as missing when analyzing employees (Wellens, 1980). McGregor reconstructed his theory, noting that motivation to work could come from improved relationships within an organization, specifically between bosses and subordinates. As detailed in Maslow's Hierarchy of needs, people have inner needs rather than just physical or monetary. “According to Theory Y and the human resource approach, effective management recognizes the importance of motivating employees' higher-level ego and self-fulfillment needs in motivating employees” (Kramer, 2021). Human Resources values employees as creative, problem-solving individuals who are an organization's greatest asset.

Management Style Theory in the Commerical Real Estate Industry

Management Style Theory closely relates to leadership styles, and Lee et al. study conducted in 2022 in Taiwan analyzed transactional vs transformational leaders. Transactional Leaders tend to have a more classical management style; they set well-defined standards for employees to be rewarded for high performance. This study claimed transactional leadership should be applied when managing high-ranking brokers. On the other hand, transformational leaders encourage employees to think from different perspectives and seize opportunities for personal growth. Like in human resource management theory, transformational leaders help set employee goals but do not offer external rewards. From their survey, Lee and other researchers found that Real estate managers should be trained in observational skills to understand the needs of employees better and handle interpersonal conflicts to create trusting environments. This whole idea of creating a trusting environment relates to the human resource management theory.

Conversely, from a transactional leadership view, Lee's (2022) study stressed the importance of setting standards and implementing rewards and punishments.

Impact of COVID-19

The major impact of Covid-19 has caused many changes in management styles. This has led to a reassessment of traditional management theories. Challenges created through stress, financial problems, and uncertainty of the future have forced organizations to adapt their management approaches to address the changing needs of their workplace. Traditional work expectations, such as long work hours and high productivity levels, often associated with classical management theory, have been drastically changed. The pandemic brought forth new realities to the workplace as “more firms continue to make hybrid work arrangements part of their long-term strategy” (Moss, 2022). New trends are reimagining the workplace by changing policies such as paid leave. This management style shift has started prioritizing employee’s well-being and increasing flexibility. Recognizing the changing needs of a workplace and being able to adapt to that change fosters a better working environment and the overall success of a company.

The sudden shift in priorities due to the level of uncertainty caused by the pandemic left many individuals with mental health issues. A survey from 2021 explains that “employees are reporting a high degree of stress, anxiety, burnout, and fear — and employers are listening” (Moss, 2022). During this time, the limitations of classical management theory became evident. To overcome this problem, it was crucial that organizations acknowledge and prioritize their employees’ well-being. Recognizing the impact of stress, burnout, and worry employees face allows organizations to better know how to move forward. The importance of understanding employees' mental health not only increases productivity, but fosters a more positive workplace

culture (Mor Barak, 2017). This adaptation to adversity ensures that companies respond to not only immediate challenges but also long-term employee satisfaction.

As the pandemic caused many employees a decreased sense of workplace security, managers had to implement different management styles to ensure security for their employees. Human resource management found it effective to increase information sharing with employees to positively effect the sense of security within employees and make them feel more important and valuable to the company and this could help with avoiding burn out syndrome. Managers also found that it reduced stress and negative emotions during the pandemic when they communicated frequently with their employees and prioritized building trust.

In a study done in 2021, the research concluded that a compilation of highly constructive and lowly ineffective management styles produced greater work engagement, satisfaction, manager assessment, lower turnover intention, and high levels of workplace security. Those who followed a bureaucratic style of management where there was more controlled and formally scheduled actions did not provide high levels of job satisfaction, even though this style provided a relative sense of workplace security. Finally, the study found that managers who supervised with autocratic leadership had employees who reported the lowest level of workplace security when the pandemic hit (Wojtkowska et al., 2021).

Case Study: Scott Brown

Scott Brown, managing director for Morgan Stanley Investment Management (MSIM) with a specialization in Morgan Stanley Real Estate Investing (MSREI) ¹ has worked in the industry for over 20 years and has been in his current position as managing director for more than ten years. The fund invests money globally, primarily on behalf of institutional investors worldwide that desire some alternative asset class exposure to their broad investment portfolio. Within MSREI there are 200 professionals globally and 75 professionals in the U.S. There are 17

offices in 11 countries². MSREI has a total of 6 managing directors that make up part of senior management globally, Scott being one of them. There are a total of 25 managing directors around the globe within MSREI³. From top to bottom, the company's hierarchy consists of managing directors, executive directors, vice presidents, senior associates, associates, analysts, and professional. Promotions within the company are based upon tenure and productivity, however the management styles of the company have evolved with the times.

Pre-Covid Management

Before the GFC (Global financial crisis)⁴, Scott believed that the company followed more of a classical management theory approach⁵ as employees were motivated by money and opportunity. There was more of a reward versus punishment presence in the environment given that employers were using the potential for high compensation to increase productivity. Morgan Stanley is a global investment bank that attracts very high-quality professionals seeking a career in finance, which often prompts a fairly intense atmosphere. Pre-COVID but post-GFC the move toward a human resource management approach⁶ was used to better balance the demands of employees. The company still included long working hours, an increase in what was asked of professionals, as well as the expectation of productivity. Scott describes pre-GFC as, “A very much up or out atmosphere. You either moved up or you were asked to leave.” The company was competitive at all levels. After the GFC up until COVID (2010-2020) MSIM became a more worker friendly environment. There was a push for more understanding including the need for work-life balance. The demands softened a bit at all levels. However, high standards were still expected even if work hours became more balanced

Post-Covid Management

The post-pandemic world looked dramatically different in the commercial real estate world, given that corporations had to be more understanding of the medical needs and personal situations of their employees. As a company, they moved even further toward a human resource management approach ⁷that included more flexibility for employees and more understanding from employers. Part of this was due to how society in itself was changing, and part was due to labor markets being tight. There was low unemployment and less options for outside employees to take the place of existing employees. Workers had started to express more independence and demand more flexibility than they had in the past. Furthermore, compensation levels were also increasing. It would often cost more to find a new employee outside the firm than to try to satisfy the employee existing inside the firm. As a company, they had to show workplace flexibility regarding work-from-home days. However, they were one of the early firms to push their employees to get back to the office close to full-time post-COVID. Some employees liked the comradery, the training, the collaboration, and the mentoring that came with being back in the office at least 4 days a week. Other employees realized that they had other alternative offers with flexibility to work a higher percentage from home, which led to some choosing to leave and go elsewhere. Morgan Stanley felt that to maximize productivity and performance they needed people to be together to collaborate; otherwise, they were not maximizing their potential ⁸. James Gorman, the CEO, said publicly, “If you can go out to lunch, you can come into the office.” Being part of commercial real estate, the group within MSREI felt that they needed to be leaders in terms of getting back to the office. The fund owns office buildings on behalf of investors, and it was important to model the way ⁹.

Speculations on Future Management

Scott Brown believes that as the economy softens, the leverage will return to the employer. The employees and workers will need to go back to the office for most job functions with some flexibility to potentially come in three to four days a week. To date, the leverage has remained with the employee, but many managing directors believe it is beginning to shift as they enter 2024. Additionally, they think most companies want their employees together but have had a hard time pushing their workforce back to the office. As the unemployment rates start to increase, corporations will have more hiring choices and options. Globally, several geographies are back to the office way more than in the U.S. Scott Brown does not foresee the workforce going back to the pre-GFC environment as he believes corporations have to become more employee-friendly and understand the pressures of individuals and their workforce.

Conclusion

Scott Brown believes that Morgan Stanley will not move toward a teamwork or theory z approach¹⁰ because he thinks it gives too much independence to individual teams, and they need to work cohesively within an organized platform to provide a consistent of approach within the organization. Morgan Stanley has incorporated some mentor/mentee relationships as well as 360 reviews throughout the year. They have also enhanced communication between managers and professionals. Like many “old school” companies, Morgan Stanley is slower to transcend with the times. However, they are slowly implementing new management styles to keep their employees happy while also setting the tone for a driven workplace environment, which should ultimately lead to better result for the company moving forward.

Appendix

Interview Prompts

1. Ask Scott to define MSREI
2. How big is the company?
3. Who manages the company with Scott?
4. What is GFC?
5. A manager must first break down jobs into specific tasks, then choose the right employee for the job based on skills and experience, followed by training and streamlined processes, then implement financial incentives.
6. The strategic approach to nurturing and supporting employees and ensuring a positive workplace environment.
7. Human resource management again as defined above
8. Collaboration was important and implemented to help employees reach their full potential
9. Modeling the way is a key aspect of being a leader. As a boss, you must lead and conduct the company.
10. Theory Z approach focuses on increasing employee loyalty to the company by providing a job for life with a strong focus on the well-being of the employee, both on and off the job

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