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CEO INSIDER

Why Robinhood Should Have Just Told the Truth

Joey Klein CEO Insider February 22, 2021



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Three lessons for CEOs facing crises, scandals, and disasters.

The free day-trading app Robinhood is back in the news after sparking a January trading frenzy that blew up the value of GameStop, AMC, and other stocks. Although the many financial details can be confusing, at its core, this story is a great reminder of the importance of transparency from the top down.

Robinhood's motto is "Investing for Everyone." The company promises day traders "commission-free investing, plus the tools you need to put your money in motion."

Yet despite its focus on opening up trading to everyone and democratizing markets, the company in January made some heavy-handed moves that drew scorn from users, lawmakers at opposite ends of the political spectrum, and the Securities and Exchange Commission.

It started when a group of retail traders on Reddit's WallStreetBets message board started buying up GameStop stock in a frenzy that sent the stock's value soaring 14,300% at one point. Robinhood slammed the brakes on trading, but only later revealed that it did not have enough money on hand to cover the trades as required by law.

As investors poured into the market and started buying up stock, Robinhood had to figure out how to raise capital very quickly to cover themselves. But instead of explaining their cash situation when they restricted trading, they doubled down and said that they were doing nothing wrong. This drew criticism from their customer base that toppled out of control when it went viral. Elon Musk even got involved.

The company announced the next day it was restoring "limited buys" for the restricted stocks, but the damage to its reputation was done.

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As the dust settled, it became clear that Robinhood simply didn't have the cash to cover requirements from the DTCC (Depository Trust & Clearing Corporation). That message, although frustrating, may have set this whole story on a completely different trajectory — if the company had **shared it** sooner. Instead, its actions angered users who felt Robinhood was siding with hedge-fund short-sellers.

Now Robinhood faces a tough time winning back the trust of its community, and will need to rethink its business model to remain innovative while meeting its obligations. There is an opportunity here, not only to inform and educate "the every day trader," but also to set an example of what great leadership in the face of adversity looks like.

Transparency, even when it's not great news, is paramount. Bad news sucks, but it's a lot better to be open about what's going on than leaving stakeholders feeling lied to or kept in the dark.

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Part of my work with CEOs is teaching them the tools they need to effectively face change, disruption, and crises such as this one. From that perspective, here are:

3 Steps to Turn Crisis Into Opportunity

1. Focus on the outcome, not the problem. That may sound counter-intuitive, but focusing on the crisis leaves no room for inspiration or innovation to come out the other side and support those affected. Oftentimes when a crisis hits, we end up focusing on a lot of non-essential things that are byproducts of the crisis, which takes us further away from the solution. Instead, be creative around addressing the right thing — not "How do we solve the problem?" but "How do we hit the outcome that we need to hit? If the threat or problem were solved, what would the outcome look like?" Then start to name how you can hit this mark, given your current reality.
2. Collaborate with smart people around you. Don't try to figure it all out on your own. Often CEOs or owners of businesses think they have to be the one to figure it out because it's their business, yet they are surrounded by very competent, highly talented individuals. So get together with your highest-talent people as soon as possible and create a strategy.
3. Transparency is paramount. Even though I don't recommend approaching challenges from a problem/solution mindset as a leader, it is important to address what others — your employees, clients, stakeholders, the public — are feeling and specifically what challenges they may face due to the oversight or mistake. It's important to tell people where you fell short, acknowledge the impact that caused for them, and then name what you are doing about it to mitigate that impact now and in the future. Honesty, transparency, and accountability go a long way.

Focusing on the solution and the mark you want to hit is not being ignorant of the things that are going on, but instead puts energy towards a solution. Pair that with transparency and accountability, and you're going to find the best way not only to answer the crisis and hopefully pull through it, but also to position yourself for the next steps after that.

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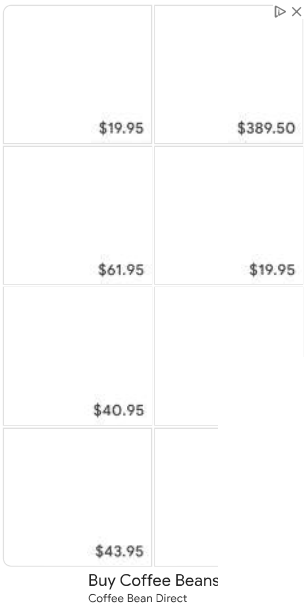
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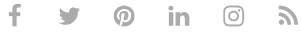
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