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Immunity from implosion: Building smart leadership

At the top of every "smart organization" is "smart leadership," vital, open-minded leaders. Moreover, these leaders and their organizations have an early warning system that enables them to remain "smart," and ahead of their competitors. These authors, who have conducted extensive research on different types of "smart leaders," describe the eight key skill sets that all "smart leaders" have.

By Sydney Finkelstein and Eric M. Jackson

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Have you taken the necessary steps to help maintain and grow your organization's preeminent market position? At some point, the officers and directors of Morgan Stanley, MassMutual, Worldcom, and Enron would have all answered "yes" to this question. All these firms had dominant market positions and were led by officers and directors with impeccable credentials. Over the last several years, our research has uncovered the key differences between these successful companies *that eventually failed in some manner* and other very successful companies *that have been able to retain and grow their market dominance.* We call the latter, "SMART Organizations," and they regularly track and improve in the Three Pillar areas of SMART Leadership, SMART Strategy, and SMART Process. In this article, we describe SMART Leadership and how to make it blossom in your organization.

Introduction

At the beginning of 2005, Morgan Stanley Lead Director Miles Marsh thought that the firm's performance was on-track. "Performance had turned up," he said, as earnings per share rose 18% in 2004 and the firm was #1 in stock underwriting. He and his fellow directors would no doubt have been surprised to learn that, just six months later, Chief Executive Philip Purcell would be ignominiously forced to resign his post, thus putting a cloud over the entire board.

It turned out that - despite several positive financial indicators - there were many warning signs that Morgan Stanley was headed for trouble. These signs went unheeded. The public and private battles, high-level executive turnover, and demoralized culture were not inevitable; it was through lack of attention that they became so.

In our research we have found that Morgan Stanley is not the first - nor likely will it be the last - highly successful organization that sowed the seeds of its own demise. Based on six years of research that went into the writing of *Why Smart Executives Fail*, as well as more recent research, we have identified the key organizational patterns that differentiate high-performance organizations like Morgan Stanley that fail in large part because of their success (what we call "Not-so-Smart Organizations") from other successful companies that have been able to maintain and grow their market dominance. We call the latter, "SMART Organizations," and, in this article, we outline the key factors that can help you determine whether or not you are building an organization with "SMART Leadership."

The "SMART Organization" defined

We have all seen successful organizations that have their day in the sun. Earnings are up, maybe there's a hot television show driving ad revenues, or there's a category-killer product that is generating a lot of buzz. The CEOs in these organizations are typically splashed across the covers of major business magazines, and ghost-written books often appear outlining the reasons why they have been successful. Alas, in many of these situations, the excitement does not endure. There are a couple of missed quarters or new competitors emerge with an even more interesting gizmo. Clothing retailer Mossimo and specialty footwear maker LA Gear come to mind. Where is the Second Act for these organizations?

For other one-time successful organizations, the Second Act is more of a slow bleed. They don't immediately head into bankruptcy. Rather these one-time giants quietly fade into market irrelevance, ceding market share and often profitability. Some of these firms are able to shake off the rust (look at Motorola's comeback under Ed Zander's leadership), while others must accept being acquired by competitors they used to dwarf in prestige and profits (think of Rubbermaid's acquisition by Newell). We call these organizations that struggle to maintain their market preeminence "Not-so-Smart Organizations," as their failures are almost always within their control. *Why Smart Executives Fail* outlines these major causes of corporate failure.

However, in our research leading up to and since the publication of the book, we noticed that there appeared to be other successful organizations that *were* able to keep churning out steady and consistent growth, quarter after quarter and year after year. Why? As we began to look closer at what was going on in these two types of organizations at the board level, at the top management team level, and across the entire organization, we noticed some compelling differences. For example, while the "Not-so-Smart Organizations" seemed almost consumed by their financial performance, other organizations paid close attention to their own financial indicators and remained carefully attuned to other key organizational factors as well. (Founder and CEO An Wang of Wang Labs, used to carry a note card displaying Wang Labs' stock performance versus IBM's). Because these organizations all maintained and grew their market dominance we refer to them as "Smart Organizations."

Again and again, the same kinds of organizational factors appeared across these firms. There are three types of such firms, so we call them the Three Pillars of a "Smart Organization:" Smart Leadership, Smart Strategy, and Smart Process. Examples of "Smart Organizations" in our study included Four Seasons Hotels & Resorts under Isadore Sharp, Dell under Michael Dell and now Kevin Rollins, Gucci Group under new head Robert Polet, and the world's largest retailer, Wal-Mart Stores under Lee Scott. According to our research, it's only through paying attention to each of these "Three Pillars" that an organization can help ensure that it will continue to execute the necessary high-performance financial indicators that all boards, top management team, investors, and analysts want to see. In the remainder of this article, we describe the role of the first of these pillars: Smart Leadership.

Smart Leadership

The first commonality that we found in Smart Organizations was that their "Smart Leadership" at the Executive Team and Board levels. The "smart" label doesn't reflect their collective IQ (although all would have scored highly). Instead, what made their

The Three Pillars of a "Smart Organization"

teams and boards "smart" was a combination of certain individual skill sets that each officer and director possessed. None of these organizations had "Imperial CEOs" with thousands of faceless followers. Instead, they had teams, boards, and leaders throughout the organization who were the stars of the show. These officers and directors had skill sets, knowledge, attitudes and behaviors that were in place in "Smart Organizations" but were conspicuously absent in successful companies who later headed towards failure.

Skill-set #1: Breeding "Proactive Paranoia"

In "Smart Organizations," the executives and directors believed that their market leadership was only a quarter away from slipping from their grasp. They maintained a healthy respect for all their competitors and never got too caught up in their success. Wal-Mart execs religiously track Target's and other retailers' moves, often visiting their stores at least once a month. By contrast, "Not-so-Smart Organizations" cavalierly disregarded the potential threat of competitors. Instead, they saw their market leadership as permanent and, perhaps because of this, often began spending lavishly on themselves and their corporate offices. Wal-Mart still requires all of its senior executives to share hotel rooms on corporate trips. And, if you have been to their Bentonville Home Office, you know that they don't waste an inch of space, stuffing cubicles together as tightly as they stuff product on Wal-Mart floor space. Sam Walton would be proud.

Skill-set #2: "We work for the Shareholders" Mentality

None of the "Smart Organization" officers and directors we studied breathed a whiff of entitlement - even when they founded the company. They didn't believe the company owed them anything. They saw it as a privilege to work for the organization and felt a deep responsibility to the shareholders (or stakeholders in the case of non-profits). They were very circumspect in spending company resources. By contrast, executives at "Not-so-Smart Organizations" often blurred the lines between their personal interests and the corporate interests. Robert

J. O'Connell, CEO of MassMutual Financial Group, was recently dismissed after the board learned that the top female executive with whom he had had an office affair had overseen a $30MM padding of his supplemental retirement account and bought a Florida condominium from the company at a discounted price.

Skill-set #3: The Executive Team and Board have the Answers, not Just the CEO

Instead of providing all the answers, CEOs at "Smart Organizations" consult frequently with members of their team and board. This is not to say that the CEOs still do not play a lead role in charting strategy. However, each officer and director is comfortable speaking up and in challenging the CEO's opinion. And, as important, the CEO knows that he/she doesn't have all the answers. Michael Dell puts it this way: "To assume that a CEO knows every single thing about every aspect of a company … I mean you take a guy like Jeff Immelt. Jeff's a great guy, a really smart guy. Can he know every single thing about all aspects of GE's business? Sorry. It ain't gonna happen. So, I think you got to have a system of processes and controls, and it's his responsibility, just as it is mine, to sit down with the teams on a regular basis and understand. 'Well, let's talk about your business, what are you doing, what's the control environment?' We rely on our teams to give us assurances." Together, the brainstorming and debate lead to better decisions. In "Not-so-Smart Organizations," you are much more likely to find the prototypical "Imperial CEO" providing the answers and believing that they are absolutely right.

Skill-set #4: Preventing Groupthink

"Smart Organizations" are never cults, where people are too afraid to speak up. You never hear the phrase, "you're either with us or against us." And, you certainly do not find key dissenters forced out of the organization. "Smart Organizations" prevent "groupthink" from setting in at the Top Team or Board levels. Michael Dell is famous for asking at meetings, "What could go wrong? What are we not thinking of?" In "Not-so-Smart Organizations," CEOs "take out" those who are not being supportive. In the case of Philip Purcell at Morgan Stanley, he simply eliminated the jobs of two key Morgan executives (Vikram Pandit and John Havens) who he saw as not being on his side when outsiders started to complain about Purcell's performance.

Skill-set #5: Projecting Authentic Leadership

We found that leaders at "Smart Organizations" weren't particularly fussed about how they or their organizations came across to others. It was much more important that they were clear on their own set of values and what their organizations stood for. Whether others "got that" or not was inconsequential to them. As a result, they came across as authentic. Examples include Herb Kelleher at Southwest, Sam Walton at Wal-Mart, and - a more current case - Brian Roberts at Comcast. "Not-so-Smart Organizations'" leaders were very conscious of their own and their organizations' image in the media. Great time, energy, and resources were spent crafting just the right media image. In some cases (think Carly Fiorina at HP), the effort probably ended up doing more harm than good.

Skill-set #6: Facing Reality

The officers and directors from "Smart Organizations" had no trouble seeing themselves and their organizations for what they were at that moment. Even if they were already #1 in their market, they knew their weaknesses as well as their competitors' key strengths. An example of wanting to stay ahead of the curve is Robert Polet, new Chief Executive at Gucci Group. He recently took the unprecedented step of applying standard business practices (such as focus groups, hiring outside consultants, and using industry benchmarks to increase the rate of inventory turnover in their stores) to the formerly highly cloistered organization that structured itself around the vision of its former creative head, Tom Ford. And, although some longtime employees reacted to Polet's 'facing reality' tools "as if he'd used foul language," Gucci Group's sales are up 13% in the last quarter. By contrast, leaders at "Not-so-Smart Organizations" saw themselves as dominating their environments. One emerging leader who feared his organization had an over-inflated sense of how dominant they were in their market expressed his concerns this way, "we are a kitten, who looks in the mirror and sees a lion."

Skill-set #7: Desire to Learn from Mistakes

Most organizations (and people) typically have a hard time admitting they have made mistakes. In fact, psychologists have demonstrated how cognitive biases often push people to persist in supporting bad decisions - even when we know logically that they do not make sense (throwing good money after bad). That's why most organizations' executives and directors don't want to hear about organizational mistakes. They want to hear success stories and see the financial indicators heading in the right direction. Sometimes, admitting a mistake is tantamount to an executive wearing the Scarlet Letter in front of the group. Yet, "Smart Organizations" don't run from mistakes; they embrace them. They understand that their future competitive advantage lies in their accurately understanding why a current venture or division or product has failed. And then taking corrective actions. In the case of Wal-Mart, although they were highly successful in the United States, some of their initial international forays were not as successful. Their mistake? Applying the US store model, exactly as is, to these new markets. Their push into Argentina was especially painful. Yet, they learned from this experience in time to prepare for entering China, where Wal-Mart offers such local delicacies as barbecued pigeons, live frogs, and snakes of purported higher quality than that available outside the store at the local street market.

Not-so-Smart Organization Officer/Director Skill-sets:	"SMART Organization" Officer/Director Skill-sets:
Narcissistic Self-Image	Breeding "Proactive Paranoia"
Blurring between Leader & Organizational Interests	Instilling "We Work for the Shareholders" Mentality throughout Organization
Leader has "All the Answers"	Executive Team & Board has the Answers
Demanding 100% Support	Ensuring there isn't Top Team "Groupthink"
Obsessed with Image	Projecting Authentic Leadership
Disregarding Major Obstacles	Facing Reality – no matter if good or bad
Unwillingness to Learn	Desire to Learn from Mistakes
Deferring to Others for Dec. -Making Personal Accountability Bias	

Skill-set #8: Personal Accountability

Beyond the skill-sets listed above, there was one more which was found all too frequently among officers and directors in the "Smart Organizations" we examined: Personal Accountability. These men and women took their roles and responsibilities very seriously. They did not accept simple answers to complex questions. They would push to further understand an organizational breakdown, or question an already successful process or division. Isadore Sharp, Chairman & CEO of Four Seasons Hotels and Resorts, has been responsible for driving this aspect of the firm's culture within its executives and employees for the last 35 years. One concept that epitomizes personal accountability has been etched into the culture as "The Golden Rule." Interviewed for this article, he explained the importance of this skill-set, and how it filters up to the Four Seasons' officers and directors: "'The Golden Rule' is at the heart of our operating principles, and is part of every aspect of our business. Hotel staff are empowered to serve guests by making instant decisions, guided by the idea that one should treat others as one would be treated. Executives are similarly empowered, and made aware that with empowerment comes responsibility. In that way, we are all personally accountable for our role in the company's success.

Conclusion

To have Smart Leadership in your organization - and take the first steps towards Building a "Smart Organization" - you must first understand its components, which we have outlined in this article. The 8 key skill-sets must be assessed on a regular basis to make sure that leadership retains its vitality and open-mindedness that characterizes smart organizations and is so often the downfall of the not-so-smart organizations. It is only through careful attention to an early warning system that smart leaders and smart organizations can remain smart.

Appendix A: Morgan Stanley vs. the 8 Skill-sets of "Not-so-Smart" Leaders[1]:

8 Skill-sets of "Not-so-Smart" Leaders:	How Morgan Stanley Fared:
Narcissistic Self-Image	Overdone executive offices on 39th Floor
Blurring between Leader & Organizational Interests	Purcell's Pay had to match or exceed those at Morgan competitors – apart from Morgan's performance
Leader has "All the Answers"	Purcell didn't consult with employees or clients
Demanding 100% Support	Those not onside with Purcell were forced out
Obsessed with Image	Purcell swept internal gripes under rug
Unwillingness to Learn	Two Cultures of Morgan and Discover Never Were Integrated even after 8 Years
Disregarding Major Obstacles	Purcell's Response to Criticism: "We just need to get out of the press"
Deferring to Others for Dec. -Making	Board calls internal complaints against Purcell "personal," based on "soft issues," and avoids discussion