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FORTUNE

JUNE 21, 1999

WHY CEOs FAIL

These men all had what it takes to get to the top. One weakness brought them down.

By Ram Charan and Geoffrey Colvin

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Waste Management

◀ KAY WHITMORE
Kodak

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American Express

◀ GILBERT AMELIO
Apple Computer

▲ ROGER SMITH
General Motors

◀ ROBERT STEMPEL
General Motors

▲ JOHN SC
Apple Co

▲ WILLIAM SMITHBURG
Quaker Oats

▲ MICHAEL SPINDLER
Apple Computer

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Westinghouse

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Compaq Computer

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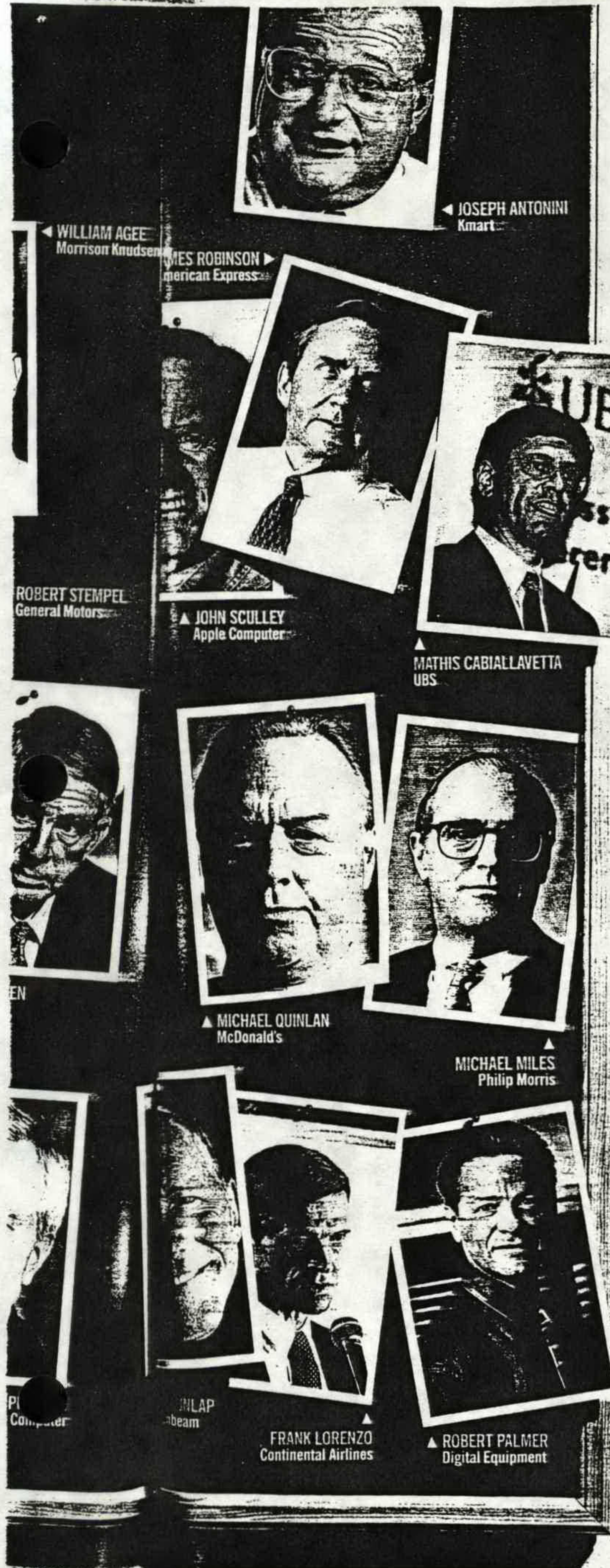


FORTUNE

WHY CEOs FAIL

It's rarely for lack of smarts or vision. Most unsuccessful CEOs stumble because of one simple, fatal shortcoming.

by **RAM CHARAN** and **GEOFFREY COLVIN**

What got Eckhard Pfeiffer fired? What fault did in Bob Allen? Or Gil Amelio, Bob Stempel, John Akers, or any of the dozens of other chief executives who took public pratfalls in this unforgiving decade? Suppose what brought down all these powerful and undeniably talented executives was just one common failing? It's an intriguing question and one of deep importance not just to CEOs and their boards, but also to investors, customers, suppliers, alliance partners, employees, and the many others who suffer when the top man stumbles. The answer even matters to the country; America is the world's most competitive nation, thanks in large part to the overall high quality of its CEOs. If people knew how to spot CEOs headed for failure—even if the company's results still looked fine—they could save themselves much pain. Trouble is, they usually look in the wrong place.

Consider the Pfeiffer episode. The pundits opined, as they usually do in these cases, that his problem was with grand-scale vision and strat-

OPPOSITE PAGE FROM TOP LEFT: CHRISTOPHER CORMACK—IMPACT; MICHAEL L. ABRAMSON; JOYCE RAVID—OUTLINE; STEPHEN SHAMES—MATRIX; LOUIS PSIHOYOS—MATRIX; PHILIP SALTONSTALL—OUTLINE; KEVIN HORAN—OUTLINE; LOUIS PSIHOYOS—MATRIX; LOUIS PSIHOYOS—MATRIX; JOHN ABBOTT; JOHN ABBOTT; LOUIS PSIHOYOS—MATRIX; ANN STATES—SABA; MICHAEL L. ABRAMSON; JOHN ABBOTT THIS PAGE FROM TOP: MICHAEL L. ABRAMSON; LOUIS PSIHOYOS—MATRIX; JOHN ABBOTT; DAVE THOMSON—AP; MICHAEL L. ABRAMSON; MICHAEL O'NEILL—OUTLINE; BRIAN SMITH—OUTLINE; LOUIS PSIHOYOS—MATRIX; JOHN ABBOTT

CEOs are three times like

JOHN ABBOTT (2)

egy. Compaq's board removed the CEO for lack of "an Internet vision," said *USA Today*. Yep, agreed the *New York Times*, Pfeiffer had to go because of "a strategy that appeared to pull the company in opposite directions."

But was flawed strategy really Pfeiffer's sin? Not according to the man who led the coup, Compaq Chairman Benjamin Rosen. "The change [will not be in] our fundamental strategy—we think that strategy is sound—but in execution," Rosen said. "Our plans are to speed up decision-making and make the company more efficient."

You'd never guess it from reading the papers or talking to your broker or studying most business books, but what's true at Compaq is true at most companies where the CEO fails. In the majority of cases—we estimate 70%—the real problem isn't the high-concept boners the boffins love to talk about.

It's bad execution. As simple as that: not getting things done, being indecisive, not delivering on commitments. We base our conclusions on careful study of several dozen CEO failures we've observed over the decades—through our respective work as a consultant to major corporations and a journalist covering them. The results are beyond doubt.

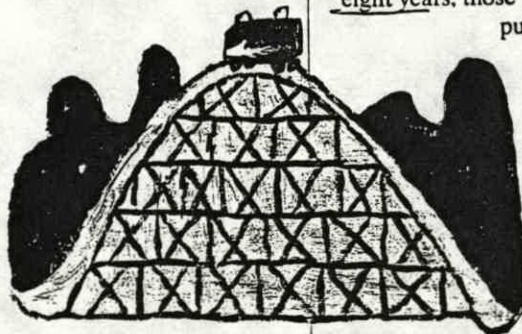
Here's what we aren't saying: That failed CEOs are dumb or evil. In fact they tend to be highly intelligent, articulate, dedicated, and accomplished. They worked hard, made sacrifices, and may have performed terrifically for years: Pfeiffer, for example, transformed the company more than once and multiplied Compaq's revenues, profits, and market values, a remarkable achievement. And failure as a CEO is never final. These are strong people who can come back successfully in other roles.

Nor are we saying execution is the only reason CEOs falter. Sometimes they adopt a strategy so flawed that it's doomed, or they refuse to confront reality in their markets, or they antagonize their board. And when a CEO really goes down in flames, there's almost always more than one reason. But business people learn to focus on the main thing, the explanation that accounts for most of what they're worried about, and in the realm of CEO failures that explanation is clear.

It's clear, as well, that getting execution right will only become more crucial. The worldwide revolution of free markets, open economies, and lowered trade barriers and the advent of e-commerce has made virtually every business far more brutally competitive. The frantic spread of information through technology is making customers everywhere more powerful and pushing toward the commoditization of everything. Institutional investors now own more than half the equities in U.S. corporations and relentlessly demand results. Indeed, two of the nation's preeminent headhunters, Tom Neff and Dayton Ogden of Spencer Stuart, calculated recently that while average CEO tenure in the biggest companies has remained fairly steady at seven to eight years, those who don't deliver are getting pushed out quicker. (See the graph later in the article.) A new academic study reaches the same conclusion—poorly performing CEOs are three times more likely to get booted than they were a generation ago. Even if their boards spare them, their companies often get taken over, like Digital Equipment under Robert Palmer and Rubbermaid under Wolfgang Schmitt. Bottom line: Whatever cover CEOs used to hide behind has been blasted away. Either they deliver, soon, or they're gone.

So how do CEOs blow it? More than any other way, by failure to put the right people in the right jobs—and the related failure to fix people problems in time. Specifically, failed CEOs are often unable to deal with a few key subordinates whose sustained poor performance deeply harms the company. What is striking, as many CEOs told us, is that they usually know there's a problem; their inner voice is telling them, but they suppress it. Those around the CEO often recognize the problem first, but he isn't seeking information from multiple sources. As one CEO says, "It was staring me in the face, but I refused to see it." The failure is one of emotional strength.

FIVE SIGNS OF FAILURE: A SELF-TEST FOR CEOS



1. **How's your performance--and your performance credibility?**
   Of course you have to deliver results, but you're unlikely to do so if you haven't developed performance forecasts for the next *eight* quarters, not just the usual four. You should have ideas now for changes you may have to make six to eight quarters out.

2. **Are you focused on the basics of execution?**
   You should feel connected to the flow of information about your company and its markets; that includes regular, direct interaction with customers and front-line employees. Are you following through on all major commitments from your direct reports? Are you listening to the inner voice telling you whether these things are going well or badly?

3. **Is bad news coming to you regularly?**
   Every company, even the most successful, has bad news, usually lots of it. If you're not hearing it, are you letting the trouble build? The information you get should force you to take competitors seriously.

4. **Is your board doing what it should?**
   That means evaluating you and your direct reports, asking for information about your markets, and demanding a succession plan—but not formulating strategy (your job) or trying to manage operations.

5. **Is your own team discontented?**
   Top subordinates often start bailing out before a CEO goes down.

ILLUSTRATIONS BY ESTHER PEARL WATSON

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mes likelier to get booted than a generation ago.

The excuses and rationalizations that CEOs concoct are largely unconscious, a mechanism for avoidance. They make an impressive list; six cover most cases:

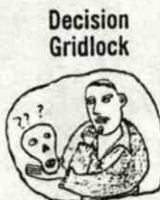
"He has to succeed." The CEO may become a victim of "intellectual seduction," installing a subordinate so talented that the CEO persuades himself failure is impossible. If the protégé then fails to deliver, the CEO can't come to terms with it, especially if the protégé is a succession candidate. Often these subordinates have been promoted into line jobs from staff positions or consulting firms, with their high-level executional abilities untested.

"He's my guy!" The problem of blind loyalty shows up more often than you may suspect. The boss and the subordinate may have worked together a long time; in some cases their families vacationed together. Judgment becomes blurred. Mention this to people who were around General Motors in the early '90s and they tend to nod vigorously and say, "Lloyd Reuss!" He became president when Robert Stempel became CEO, and many GM managers considered him a smooth talker who belonged nowhere

SIX HABITS OF HIGHLY INEFFECTIVE CEOS

How did these chief executives come up short? Count the ways.

Not all would agree that these CEOs, chosen solely by FORTUNE, failed. Those who returned calls vigorously disputed it. All here were pushed, saw their company bought, or left a company that had lost its way.



CEO Name COMPANY, TENURE	People Problems	Decision Gridlock	Lifer Syndrome	Bad Earnings News	Missing in Action	Off-the-Deep-End Financials
William Agee MORRISON KNUDSEN, 1988–95	X			X	X	
John Akers IBM, 1985–93		X	X	X		
Les Alberthal EDS, 1986–98	X	X	X	X		
Robert Allen AT&T, 1988–97	X	X				
Ron Allen DELTA AIR LINES, 1987–97	X		X			
Gil Amelio APPLE COMPUTER, 1996–97	X	X		X		
Joseph Antonini KMART, 1987–95	X	X	X	X		
Tom Barrett GOODYEAR, 1989–91		X	X	X		
Dean Buntrock WASTE MANAGEMENT, 1968–96	X		X			X
Mathis Cabiallavetta UBS, 1998			X			X
Al Dunlap SUNBEAM, 1996–98	X			X		X
Jeffrey Erickson TWA, 1994–96				X		
William Fields BLOCKBUSTER 1996–97 / HUDSON BAY 1997–99				X X		
Walter Forbes CUC, 1976–97						X
Robert Ferguson CONTINENTAL AIRLINES, 1991–94	X			X		
Carl Hahn VOLKSWAGEN, 1982–92			X	X		
Robert Horton BP, 1990–92	X			X		
Arnold Langbo KELLOGG, 1992–99		X	X			
Paul Lego WESTINGHOUSE, 1990–93			X	X		

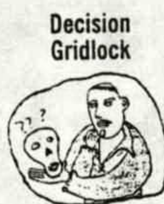
TABLE CONTINUED ON NEXT PAGE

near the company's pinnacle. Stempel emphatically disagreed, often putting his arm around Reuss' shoulders and exclaiming, "Lloyd's my guy!" Not anymore, said the board, as GM's losses sank to historic depths. When the directors took the chairman's title away from Stempel, they also demoted Reuss, and when they fired Stempel six months later, they booted Reuss too.

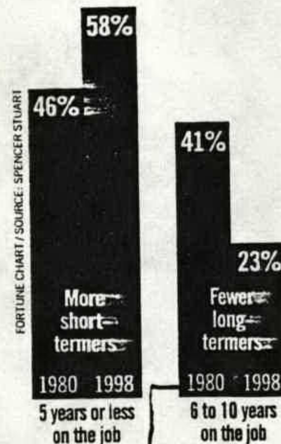
"I can coach him." The CEO of a FORTUNE 500 manufacturer brought in an outsider a few years ago to run North American operations and eventually become the next CEO. The executive missed his commitment the first year, then missed it again the second, causing the whole company to fall short of its publicly stated promises to Wall Street. The CEO decided he wasn't giving the subordinate enough coaching and resolved to help more. He was human. But was this response humane? It wasn't. Results continued to decline, the stock collapsed, and the company was taken over. Both executives are gone, later joined by several thousand employees deemed unneeded by the new owner. It isn't uncommon for a strong CEO, otherwise decisive, to be blind to this fatal flaw.

"Wall Street and the press like him—I'd better keep him around." When a failing subordinate forms strong links with these important constituencies—sometimes through his own public relations efforts—the CEO faces a dilemma. Poor performance hurts the company's results, but taking out the subordinate may hurt its image. Typically the CEO doesn't act until the problem is acute, and by then it's sometimes too late.

"I've fired a lot of people lately. The board won't like it if I sack another." Specifically, the board may begin to worry that the CEO



CEO Name COMPANY, TENURE	People Problems	Decision Gridlock	Lifer Syndrome	Bad Earnings News	Missing in Action	Off-the-Deep-End Financials
Philip Lippincott SCOTT PAPER, 1982–94			X	X		
Frank Lorenzo CONTINENTAL AIRLINES, 1972–90	X			X		
Michael Miles PHILIP MORRIS, 1991–94	X					
Robert Palmer DIGITAL EQUIPMENT, 1992–98		X		X		
Eckhard Pfeiffer COMPAQ COMPUTER, 1991–99	X	X		X		
Michael Quinlan MCDONALD'S, 1987–98		X	X	X		
James Robinson AMERICAN EXPRESS, 1977–93	X			X	X	
Charles Sanford BANKERS TRUST, 1987–96			X	X		X
Heinz Schimmelbusch METALLGESELLSCHAFT, 1988–93			X	X		X
Wolfgang Schmitt RUBBERMAID, 1993–98		X	X	X	X	
John Sculley APPLE COMPUTER, 1983–93				X	X	
William Smithburg QUAKER OATS, 1981–97			X	X		
Michael Spindler APPLE COMPUTER, 1993–96		X		X		
Robert Stempel GENERAL MOTORS, 1990–92	X	X	X	X		
Cornelis van der Klugt PHILIPS, 1986–90			X	X		
Kay Whitmore KODAK, 1990–93		X	X	X		
Stephen Wiggins OXFORD HEALTH PLANS, 1984–97			X	X		
Walter Williams RUBBERMAID, 1991–92	X					
John Zabriskie PHARMACIA & UPJOHN, 1994–97	X	X		X		



isn't developing the company's leadership. But if the subordinate is failing, delaying action just makes the problem worse.

"He's in the job, and I'll take the devil I know over the devil I don't." The CEO may be insecure about his ability to hire an outsider, especially someone from outside the industry. If the company has a strong, insular culture, he may rationalize that the culture wouldn't accept an outsider.

We've heard all these statements, and they're virtually always a sign of trouble ahead. Quick action on problems in the top team is simply imperative. Bob Allen of AT&T deserves credit for trying to break company (and Bell System) tradition by concluding that his successor had to come from outside. He recruited four candidates—most notably President John Walter—but none worked out. When Walter got fired, the board seized control of the process, and the company took considerable heat from Wall Street and the press. "If you have three or four people in the mill and some run short along the way, you can't wait," says Larry Bossidy of AlliedSignal, one of America's most successful CEOs. "You've got to make a change right then."

Yet you needn't be ruthless to get things done. Ron Allen's willingness to swing the ax so antagonized Delta's work force that the board asked him to leave. When Lou Gerstner parachuted in to fix the shambles John Akers had left of IBM, famously declaring that "the last thing IBM needs right now is a vision," he focused on execution, decisiveness, simplifying the organization for speed, and breaking the gridlock. Many expected heads to roll, yet initially Gerstner changed only the CFO, the HR chief, and three key line executives—and he has multiplied the stock's value tenfold. The best CEOs never hesitate to fire when they must, but the larger point is that they're deeply interested in people—far more so than failed CEOs are.

The motto of successful CEOs: "People first, strategy second."

GE's Jack Welch loves to spot people early, follow them, grow them, and stretch them in jobs of increasing complexity. "We spend all our time on people," he says. "The day we screw up the people thing, this company is over." He receives volumes of information—good and bad, from multiple sources—and he and his senior team track executives' progress in detail through a system of regular reviews. His written feedback to subordinates is legendary: specific, constructive, to the point. Of course some come up short. When Welch committed the company to achieving six-sigma quality a few years ago, he evaluated how the beliefs of high-level executives aligned with six-sigma values. He confronted those who weren't on board and told them GE was not the place for them.

This continual pruning and nurturing gives GE a powerful competitive advantage few companies understand and even fewer achieve—extraordinary longevity in top executives. Consider: Robert Wright is in his 13th year running NBC; vice chairman Dennis Dammerman was CFO for 14 years; Gary Wendt ran GE Capital for 12 years; John Trani ran GE Medical for 11 years; vice chairman Eugene Murphy has been in top positions for 13 years, plastics chief Gary Rogers for 13 years, vice chairman John Opie for 16 years. Because Welch has the right people in the right jobs, he can leave them there and things tend to get better, not worse.

The motto of the successful CEO, worthy of inscription on his or her office wall, is "People first, strategy second."

Regular review of subordinates is a vital process, but every process carries a mortal danger—that the CEO will forget its purpose and begin to think that the process itself is what matters. It happens all the time. A CEO becomes committed to an organizational model. Maybe he insists on 100% consensus. Middle managers resort to informal networks to get things done. Cliques form. Indecisiveness takes over, and a fast-moving competitor grabs the advantage.

Decision gridlock can happen to anyone, but it happens most often to CEOs who've spent a career with one company, especially a successful one. The processes have worked, they're part of the company's day-to-day life—so it takes real courage to blow them up.

Listen to Elmer Johnson, a top GM executive, describe this problem to the executive committee: "The meetings of our many committees and policy groups have become little more than time-consuming formalities. The outcomes are almost never in doubt.... There is a dearth of discussion, and almost never anything amounting to lively consideration.... It is a system that results in lengthy delays and faulty decisions by paralyzing the operating people...." That was in 1988, during Roger Smith's troubled tenure, and the problem persisted through Stempel's brief reign. Neither man could break the process machine, and both must be considered failed CEOs.

Process gridlock is never good, but in the unforgivingly fast Internet Age it's the way to catastrophe. It was a major problem during Gil Amelio's short time atop Apple Computer. Roger Siboni, who spent 20 years as a KPMG consultant, now runs a Silicon Valley startup called Epiphany and says the differences in process are stark: "You can't imagine the contrast here with the cordial-

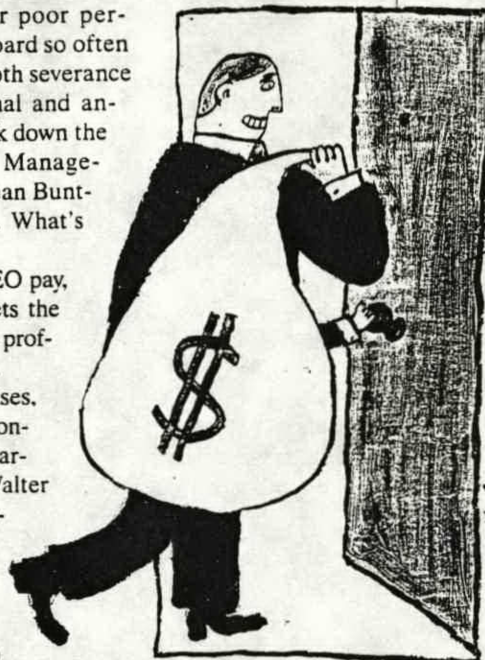
LEFT: ANN STATES—SABA; RIGHT: MICHAEL L. ABRAMSON

High Po's for Succession Career Movement [illegible]

I'LL EVEN PAY YA TO LEAVE

Why failed CEOs take so much of their shareholders' wealth with them.

It makes shareholders steam: When a CEO gets shoved out for poor performance, why does the board so often reward him with a mammoth severance package? EDS fires Les Alberthal and announces that his exit pay will knock down the quarter's earnings 12%. Waste Management crashes, and former CEO Dean Buntrock gets a $14 million goodbye. What's going on?



In this, as in most matters of CEO pay, there's more happening than meets the eye. Yes, the boards may have been profligate—but then again, maybe not.

In many of the highest-profile cases, directors were simply abiding by contracts negotiated months or years earlier. That was the case with John Walter at AT&T (who left with $25 million) and Michael Ovitz at Disney ($100 million), both of whom were hired as president and lasted less than a year. Attorney Joe Bachelder, America's No. 1 negotiator of top CEO employment deals, estimates that most FORTUNE 500 CEOs now have contracts, and many have learned that the time to negotiate severance is when the board still loves you and divorce seems unthinkable.

When a divorce does happen, much of what a CEO gets is what he would have received upon ordinary retirement. In Buntrock's case, most of that $14 million was a garden-variety supplemental retirement plan that had been building for 30 years. Even so, some Waste Management board members believe that Buntrock ought to contribute at least some of his pension toward the settlement of lawsuits stemming from accounting irregularities during his tenure.

With a contract, whether the booted boss gets a lot or a whole lot depends on whether he was fired "for cause." If so, he'll probably have to forfeit his unvested restricted stock and options and be forced to exercise vested options almost immediately, a penalty that could cost him tens of millions of dollars. Directors may *believe* they had ample cause for firing the S.O.B., but proving it is tough, so they often give him the big money and get it over with.

The stock holds a going-away party

Indeed, getting it over with—whatever the price—is sometimes the best thing for shareholders. Look what happened when Joe Antonini left Kmart, EDS fired Les Alberthal, Bill Smithburg departed Quaker Oats, and GM booted Bob Stempel. In each case the stock jumped immediately after the change at the top was announced—even though no successor had been named. That is a pretty clear indication that investors had already made up their minds that the CEO had to go, even if the board hadn't. And the severance package was worth every penny. — *G.C.*

ness of corporate America. That whole world—meetings, facilitators ... facilitators? Out here that would be ludicrous." There's just no time.

Effective CEOs use processes to drive decisions, not delay them. They start by focusing on initiatives that are clear, specific, and few, and they don't launch a new one until those in progress are embedded in the company's DNA. We've heard many employees, and so have you, speak witheringly about their CEO's flavor of the month—vision statements, quality, empowerment, leadership, all of which beget process and apparatus. By contrast, Welch has introduced just five major initiatives in 18 years as CEO (the most recent is e-commerce).

With their initiatives firm, effective CEOs implement them through a process that seems simple, even obvious, but has profound effects. Watch the likes of Welch or EDS's Richard Brown or Bossidy or any other proven implementer in a meeting. Near the end he'll grab a pen and start writing: He's noting exactly what is supposed to be done by whom, by when. He'll go over this with everyone before the meeting closes, and he'll probably send each one a reminder afterward.

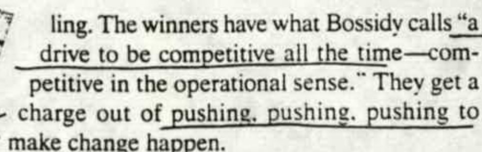
It's fascinating to watch what happens when a CEO who executes well brings these habits into a company where they didn't exist. The whole tone changes. People prepare for meetings differently. They interact differently. They begin to see a fundamental distinction between failed CEOs and effective ones: For many failures, process is everything; for the great ones commitments are everything. As Dick Brown says, "Delivering on commitments is the most important thing. Great CEOs hold people accountable, always.

Keeping track of all critical assignments, following up on them, evaluating them—isn't that kind of ... boring? We may as well say it: Yes. It's boring. It's a grind. At least, plenty of really intelligent, accomplished, failed CEOs have found it so, and you can't blame them. They just shouldn't have been CEOs.

The big problem for them is not brains or even ability to identify the key problems or objectives of the company. When Kodak ousted Kay Whitmore, conventional wisdom said it was because he hadn't answered the big strategic questions about Kodak's role in a digital world. In fact, Kodak had created, though not publicized, a remarkably aggressive plan to remake itself as a digital imaging company. Whitmore reportedly embraced it. But he couldn't even begin to make it happen. Same story with William Agee at Morrison Knudsen—plausible strategy, no execution.

The problem for these CEOs is in the psyche. They find no reward in continually improving operations. Failing CEOs ask, "Why can't people do it themselves?" They're afraid of being seen as too control-

"Strategy is less than half the battle."



ling. The winners have what Bossidy calls "a drive to be competitive all the time—competitive in the operational sense." They get a charge out of pushing, pushing, pushing to make change happen.

That's why they're also constantly hungry for information from the battlefield. Effective CEOs have a strong external focus and get stimulated by details of what's happening in their markets, details that others might find boring. They're haunted by a familiar warning: "The CEO is always the last to know." They pull in loads of data from diverse sources. Then, as Welch says, you don't do what you want to do, you do what must be done—what reality demands.

Failed CEOs, by contrast, avoid facing market realities in all sorts of inventive ways. They remain in denial (see next article). They may become prisoners of one or two executives or of a guru or consulting firm, looking nowhere else for advice. Or they may look outward—but not at their markets.

Some CEOs get distracted by serving on too many boards. Others, like former American Express CEO James Robinson, see themselves as global ambassadors and lose focus. John Sculley became enamored of politics—he was a vocal supporter of Bill Clinton. By the final months of his tenure, the board realized he "was not focused on the day-to-day operations of Apple, other than on its technology," said former inside director Albert Eisenstat in a lawsuit. When profits deteriorated, the board asked him to leave.

But wait. In all this talk about CEOs and execution, aren't we forgetting someone? What about the COO? If operating the company isn't the job of the chief operating officer, whose is it?

Good question, but it doesn't get the CEO off the hook. Certainly some CEO-COO partnerships have been terrifically successful. Look at Tom Murphy and Dan Burke at Capital Cities/ABC or Roberto Goizueta and Don Keough at Coke. Today, Steve Case and Bob Pittman at AOL could be a winning team.

But be careful—these partnerships depend on a rare chemistry that's hard to predict, and the stakes are high. If it doesn't work, the resulting trouble is worse than most. Compounding it, the CEO must then fire the COO fast, which is often a problem.

Note how many of today's best CEOs, the master executors, don't even have a COO: Craig Barrett of Intel, Bossidy, John Chambers of Cisco, Michael Dell of Dell, Gerstner of IBM, Ray Gilmartin of Merck, Herb Kelleher of Southwest Airlines, Jacques Nasser of Ford, and Welch, among others. That's a multi-industry all-star team of CEOs who've put themselves squarely in charge of meeting their commitments and getting things done. Of America's ten most admired companies, as determined in FORTUNE's latest survey, eight don't have COOs (Microsoft and Wal-Mart are the exceptions). Most of the best CEOs seem to agree with Bossidy, who acknowledges that COOs can work but believes that someone needs to "know in total what's going on." His view: "It's best to have that responsibility invested in one as opposed to two people."

Any way you look at it, mastering execution turns out to be the odds-on best way for a CEO to keep his job. So what's the right way to think about that sexier obsession, strategy? It's vitally important—obviously. The problem is that our age's fascination with strategy and vision feeds the mistaken belief that developing exactly the right strategy will enable a company to rocket past competitors. In reality, that's less than half the battle.

This shouldn't be surprising. Strategies quickly become public property. Ask Michael Dell the source of his competitive advantage, and he replies, "Our direct business model." Okay, Michael, but that's not exactly a secret. Everyone has known about it for years. How can it be a competitive advantage? His answer: "We execute it. It's all about knowledge and execution." Toyota offers anyone, including competitors, free, in-depth tours of its main U.S. operations—including product development and distributor relations. Why? The company knows visitors will never figure out its real advantage, the way it executes. Southwest Airlines is the only airline that has made money every year for the past 27 years. Everyone knows its strategy, yet no company has successfully copied its execution.

Yes, strategy matters. A good, clear strategy is necessary for success—but not sufficient for survival. So look again at all those derailed CEOs on the cover. They're smart people who worried deeply about a lot of things. They just weren't worrying enough about the right things: execution, decisiveness, follow-through, delivering on commitments.

Are you? ■

Dallas-based RAM CHARAN *advises many* FORTUNE *500 CEOs and is author of an acclaimed book on corporate governance,* Boards at Work.

THE SUPERIOR CEO: A PROFILE

Our study of scores of CEOs, successful and otherwise, yields eight qualities that characterize the champs.

- **Integrity, maturity, and energy.**
  The foundation on which everything else is built.
- **Business acumen.**
  A deep understanding of the business and a strong profit orientation—an almost instinctive feel for how the company makes money.
- **People acumen.**
  Judging, leading teams, growing and coaching people; cutting losses where necessary.
- **Organizational acumen.**
  Engendering trust, sharing information, and listening expertly; diagnosing whether the organization is performing at full potential; delivering on commitments; changing, not just running, the business; being decisive and incisive.
- **Curiosity, intellectual capacity, and a global mindset.**
  Being externally oriented and hungry for knowledge of the world; adept at connecting developments and spotting patterns.
- **Superior judgment.**
- **An insatiable appetite for accomplishment and results.**
- **Powerful motivation to grow and convert learning into practice.**

CEOs IN DENIAL

Reality avoidance has long been a favorite executive perk. No more. We name five chiefs who need to wake up--fast.

by PATRICIA SELLERS

New technologies are strangling your strategy. Global tremors are blurring your vision. Upstart competitors—call 'em screwyou.com—are stealing your customers. Once upon a time, not long ago, you commanded your market, or at least you understood it. Now you're an analog traveler stumbling behind the digital curve. You're slipping toward ... can it be?... failure!

Are you dealing with your danger?

BARRON CLAIBORNE - OUTLINE

JILL BARAD, Mattel

Problem: Hyped Mattel's outlook just before disclosing enormous shortfall. No. 2 Bruce Stein quit in March.

Reaction: Barad recently told analysts, "We're going to work hard to regain our credibility with you."

Outlook: Give her a year. If the stock doesn't recover, she'll be gone.

There's something in the nature of CEOs—pride, vanity, a primal need for control, an obsession with success, good old-fashioned idealism—that makes many smart, well-regarded chief executives into idiots when the world turns against them. They rationalize. They justify. They circle their wagons, build their bunkers, mollify their troops. They claim themselves "victims" of their "situations."

In these trying times for executives, denial is more popular than ever. "It's a generic disease," says Intel Chairman Andy Grove, who wrote a bestseller (*Only the Paranoid Survive*) about the importance of facing reality. The most vulnerable executives, he says, "are the ones whose business models are being affected by change in fundamental ways." Which, adds Grove, means just about everybody. "What's unusual right now is that we're all being affected by the Internet at the same time. Corporate America looks like a flotilla of boats in a stormy sea."

Even the best CEOs are having trouble adapting their navigation systems. "Let's consider a group of competent CEOs," Grove says. "They're good people. They've been selected and trained to do a particular task very well. Now, you change their environment so that their skills are no longer relevant. The more adept they were in the prior world, the harder it will be for them to adjust in the new world."

We believe there are several current CEOs who, even as you read this, are in the cold grip of denial. (They're the ones pictured on these pages.) Like Compaq's Eckhard Pfeiffer, the most recent poster boy for the consequences of denial, they are high-profile chiefs who once basked in high praise and good press. They tend to lead companies with well-known brands, once secure market positions, and once golden reputations. They have tasted success, but now they are in clear and present danger of becoming tomorrow's case study in executive decline. And they may be the last to realize it.

That could never happen to you, could it? If your answer is no, well, you're probably in denial. Spencer Stuart's Tom Neff,

[illegible] SCHULTZ–MATRIX

GARY DICAMILLO, Polaroid

Problem: Predicted a turnaround after his 1995 arrival, but shifting strategies and new-product clog killed his plan.

Reaction: He blames poor performance on "environmental issues"—Russia, global turmoil.

Outlook: Improving, but it could still get ugly.

who has placed many a FORTUNE 500 CEO, believes that denial is in many chief executives' DNA. "These people are accustomed to winning. They've probably won in high school and college as well as in the business world," Neff says. "Typically, they can't believe that when something is going wrong, it's their fault."

What these chiefs need is a good knock on the head ("Hey, emperor, you got no clothes!"). But who's going to do them such a favor? They're often surrounded by people who keep the CEO happy by opening doors for him, saying 'Yes, sir,' and feeding his delusions. Says Heidrick & Struggles' Gerry Roche, Neff's main rival in the headhunting jungle: "I see an awful lot of CEOs who desperately need to be taken to the woodshed. Deep down, they want it. But they're afraid to reveal their insecurities. Some of these poor SOBs sit in their cocoons of isolation and denial at the pinnacles of their careers."

Complicating the, uh, situation is the chief executive's duty to be a cheerleader in trying times. "There's a fine line between denial and optimism," notes Delta Consulting's David Nadler, who works with top management at Lucent, Xerox, and Corning. "A great CEO sees a situation that appears to be negative and provides hope and confidence. The trick is to do that while recognizing the problems." Yes, it's a difficult trick to master, but it must be done. As Warren Buffett warns, "The CEO who misleads others in public eventually misleads himself in private."

To see what we mean, take a look at our Gallery of Deniers, sprinkled throughout these pages.

Start with Jill Barad, the CEO of Mattel. The consummate marketer, she has made the big mistake of using her style of promotion and hoopla (which worked so well to build Barbie into a global brand) on Wall Street. She told investors the business looked fine late last year, just before Mattel revealed huge sales and earnings shortfalls. The stock dropped 27% and hasn't recovered. Now Barad says, "We'd rather underpromise and overdeliver." She'd better. Her job is on the line.

Deniers tend to be inveterate optimists, seduced by past glory. Consider Gary DiCamillo. He overestimated the strength of a famous franchise, Polaroid, when he walked into the company as CEO in 1995. A perpetually upbeat and likable fellow, DiCamillo predicted a turnaround within three years. Turns out Polaroid has missed analysts' estimates almost every quarter since. The stock is down 49%. "We could have managed expectations more conservatively, but this was a much more dramatic turnaround than I or even the board imagined," says DiCamillo (the only one of the five CEOs who returned our calls). Now he's banking Polaroid's 1999 recovery—and his own—on a risky strategy: selling low-priced cameras to young people.

Longtime company insiders tend to be particularly prone to denial. Desi DeSimone is a 42-year veteran of the once premier but famously insular 3M. He has been reluctant to hack costs fast enough—and as a result has frequently missed earnings targets. Lifers such as he tend to share with entrepreneurs this blind spot: the belief that success is rooted in their unique vision of the world. "So when they feel threatened, they focus even more on what brought them their success," says leadership expert Warren Bennis, a professor at the University of Southern California. "They get that narrowing of the eyes. They dismiss anything that clashes with their beliefs."

MICHAEL L. ABRAMSON

DESI DESIMONE, 3M

Problem: Has frequently missed profit targets. New-product flow is like "waiting for Godot," says one analyst.

Reaction: At the annual meeting in May, he promised "increased growth, profitability, and shareholder value."

Outlook: Targets again in doubt in 1999. Some speculated he'd step down this spring, but he's holding tight.

This seems to be the case with Reebok's Paul Fireman and Advanced Micro Devices' Jerry Sanders, who built substantial companies but have returned paltry wealth to shareholders during the past decade. Firemen and Sanders are both boastful salesmen who have major credibility problems with investors. They've held on thanks to cronies and unwavering supporters on their boards.

LAURIE STEINER

JERRY SANDERS, AMD

Problem: At $19, the stock is at its 1983 level. The company just recorded its worst loss ever.

Reaction: Perpetually blames Intel's monopoly and production problems. Analysts joke that Sanders' theme song is "Tomorrow," from *Annie*.

Outlook: Tomorrow is always a day away.

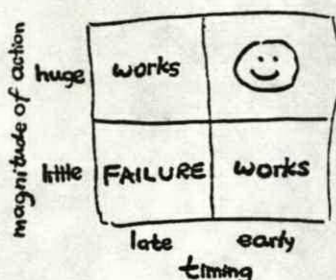
This is not to say that any of these CEOs are necessarily doomed. Sometimes deniers are plain lucky and keep their jobs. "It depends on what the meaning of the word 'is' is. If the—if he—if 'is' means 'is and never has been,' that is not.... That is one thing. If it means 'there is none,' that was a completely true statement," uttered the Leading Denier of the Free World.

In other cases, deniers wake up to their crises and reform. John Reed had an epiphany in the early '90s, when Citicorp was reeling and he was blaming the troubles on "externalities." The problems were bad real estate and LBO loans made on his watch, in addition to Third World debt, his predecessor's blunder. Just in time, Reed acted, instituting draconian cuts and sweeping out dozens of executives. Thus he salvaged the company and his career.

Another famous denier was Steve Jobs. People in Silicon Valley had a phrase, "reality distortion field," for his dazzling ability to ignore the realities of the marketplace. Denial—and arrogance—undid Jobs. But Apple's near failure brought him back, newly self-aware, somewhat humbled, and far more realistic about

how to run a company. (But he's still a denier about his role; two years into the job, he remains "interim CEO.")

Kodak's George Fisher also seemed to have a denial problem a couple of years ago when he was discounting the threat of archrival Fuji and dragging his feet on cost cuts. Then, in 1997, he had his Kodak moment. He collapsed his five-year cost-reduction plan into two years and replaced a bunch of top managers. Though still under fierce pressure, Kodak's revenues and profits are going up again. "I'd never want to go through that again, but it made me an infinitely better business person," he says.



How CEOs achieve happiness. by Andy Grove

Most of the time, of course, deniers don't change; the board changes them. Remember Al Dunlap, who ludicrously blamed Sunbeam's earnings problems on El Niño? "I hate excuses, but it's a reality," he said as he was going down in flames. "People don't think about buying grills during a storm."

Artists in self-preservation, deniers usually prefer to play the fool rather than the crook. Cendant's deposed chairman, Walter Forbes, says he was unaware of an accounting scheme that created $500 million in false profits—a denial many people find hard to believe. Similarly, entertainment impresario Garth Drabinsky won't fess up to the mess-up at his company, Livent. His defense against charges that he helped orchestrate a massive fraud: Putting on *Ragtime* and all his big shows, he was too busy to pay attention to the accounting.

If a company's directors are realists themselves, they replace deniers with truth seekers. After American Express' patrician CEO Jim Robinson came the bulldog Harvey Golub, who warned that the Amex brand was dying—and revived it. After laconic Bob Allen at AT&T came Mr. Change or Die, Michael Armstrong. IBM replaced insider John Akers with outsider Lou Gerstner. Gerstner was leery of taking the job and even told FORTUNE that IBM "looked like it was going into a death spiral." Plunging in, he urged his lieutenants to be as brutally frank and skeptical as he is.

Surprisingly, the most celebrated realists (besides Gerstner) are company lifers. When Jack Welch took over GE in 1981, he inherited an old, inward-looking conglomerate; he had to be a realist just to make the machine run. Welch defines leadership as "looking reality straight in the eye and then acting upon it with as much speed as you can."

The most insightful realist of all is Andy Grove. His respect for realism developed from several near-death experiences: scarlet fever and the Holocaust as a child, prostate cancer a few years ago, and several crises inside Intel. "It's natural to say, 'The problem is just a distraction. My strategy still works,' " Grove says. "If you end up being right, you're praised for being steadfast in the face of change. If you're wrong, people say you've been in denial." To avoid that trap, Grove suggests three steps: "Listen to people on the periphery. Try and let go of your ego. Undertake a task of justifying your case to the most challenging audience you can gather."

This issue really charges Grove. After our conversation, he doodled an illustration and faxed it to us. (That's it above.) Our interpretation: Act early, act decisively—and don't waste time denying.

Of course, that's easier doodled than done, as Grove himself admits. "I always react too little or too late," he says. Good to know. The guy who you'd think has risen above denial is struggling, just like the rest of us, to reach the smiley face. ■

GEORGE LANGE—OUTLINE

PAUL FIREMAN, Reebok

Problem: A salesman who rarely delivers. "He's not a liar. He's an extreme optimist," says one analyst.

Reaction: Fireman has ceded some of the spotlight to his new No. 2, Carl Yankowski, formerly of Sony.

Outlook: He's entrenched. He owns the board and 13% of the stock.

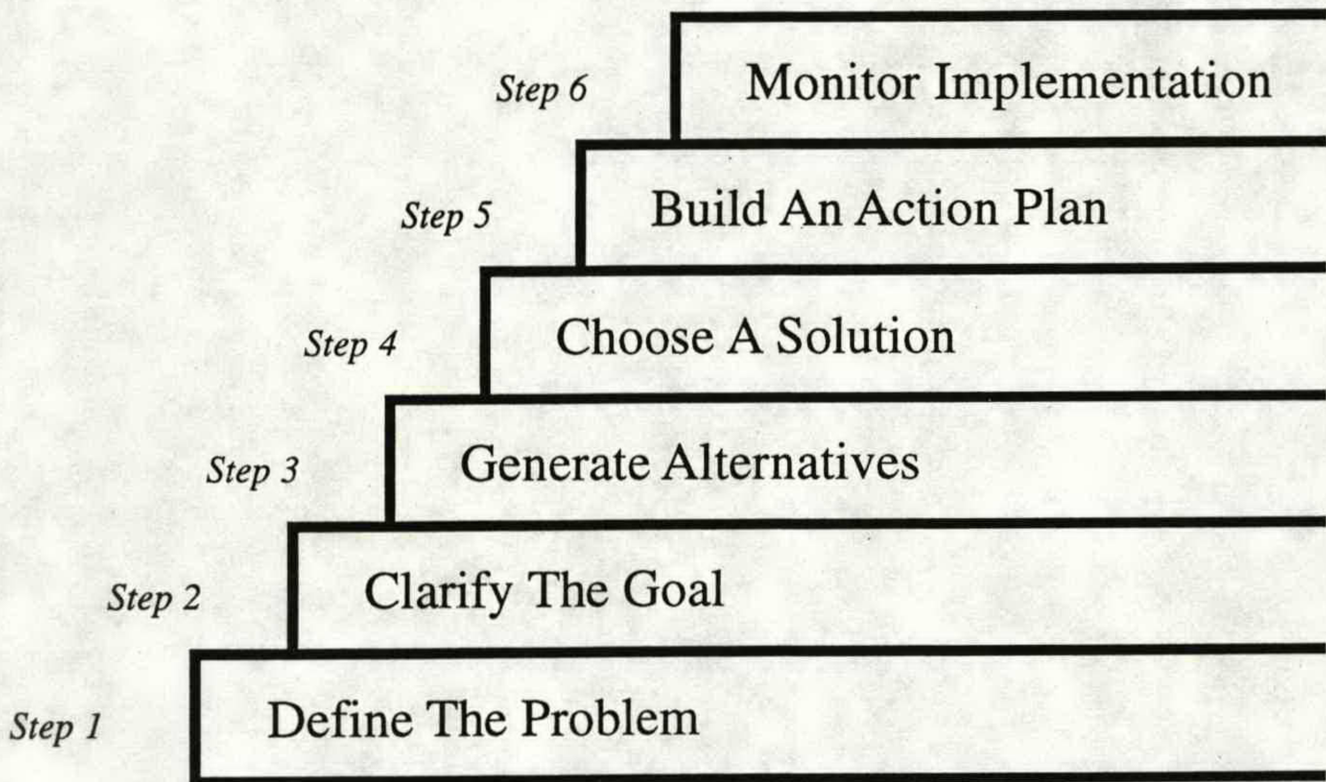
ARE YOU A DENIER?

Okay, you say you're not. But do you have any of these traits?

1. You believe all the stuff in your annual report.
2. Your company has sales of $10 million and a market cap of $1 billion--and you say that valuation is gonna last.
3. You blame shortfalls on the weather, technology, or unfair competition.
4. Your background is in sales or marketing.
5. Your direct reports gripe about power issues or corporate strategy--and leave.
6. You often take restructuring charges (the "distortion du jour," says Warren Buffett).
7. You load up your end-of-quarter shipments to make profit targets.
8. You reprice your stock options.
9. You work in Hollywood--or in Boston (land of fallen giants Wang, DEC, Polaroid, and Reebok).
10. You say you're a realist.

THE PROBLEM SOLVING PROCESS

ONE STEP AT A TIME



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Step 1 DEFINE THE PROBLEM

Define the visible symptoms of the existing situation. How do you know there is a problem? What needs fixing? If several problems are identified, focus on one of them before going on to *Step 2*.

Step 2 CLARIFY THE GOAL

Focus on those aspects of the problem which you can do something about. First, **pick a project name** which reflects the overall goal. Second, **envision the desired outcomes.** What would be happening if this problem were fixed? What would people be saying or doing differently? Third, **specify the timeframe** for achieving these results. If more than one major outcome is identified, focus on one of them before going on to *Step 3*.

PROJECT NAME: ______________________________

OUTCOMES: ______________________________

TIMEFRAME: ______________________________

Step 3 GENERATE ALTERNATIVES

Identify as many ways as possible to achieve the goal. One good way to do this is to **brainstorm within your group.** When you brainstorm, do not evaluate any alternatives. Just encourage people to be creative and resourceful, then write down everyone's ideas. Another way to generate alternatives is to **seek input from other sources:** superiors, subordinates, other departments, customers, vendors, other organizations, consultants, manuals, journals, books . . .

Step 4 CHOOSE THE BEST SOLUTION

Focus only on those alternatives which could realistically achieve the goal. **Evaluate the costs** of these alternatives in terms of time, money and other resources. Then **choose the best alternative** or combine several alternatives to create the best solution. Be careful in this step not to over-commit people or resources. Also, try to solve this problem without causing other, bigger problems.

Alternatives	Costs

Step 5 DEVELOP AN ACTION PLAN

Use the next page to turn your solution into a specific game plan. First, **record the project name, outcomes and timeframe.** Second, **identify a coordinator** who will be accountable for this goal. Third, **list the actions needed** in the order which is required, **decide who is responsible** for each action, and **specify the due dates.** Also, for each action, identify the key people who need to be involved or informed, and specify any resources which will be needed.

Step 6 MONITOR IMPLEMENTATION

Use the bottom of the next page to **set critical checkpoints** for monitoring your action plan. Identify what success or failure would look like at each checkpoint and anticipate the decisions that will need to be made.

ACTION PLAN

Project Name: ______________________ Outcomes: ______________________

Timeframe: ______________________

Coordinator: ______________________

Actions Needed	Who Is Responsible	Due Dates	Key People/Resources

Critical Checkpoints	Indicators of Success or Failure	Critical Decisions To Be Made

DIAGRAM

PARADIGMS

FOUR LEADERSHIP PARADIGMS

PARADIGM	METAPHOR	NEED	PRINCIPLE
Authoritarian	Stomach	Financial Security	Fairness
Human Relations	Heart	Social/Emotional	Kindness
Human Resources	Mind	Recognizing, utilizing & developing talent	Contribution, Development
Principle-Centered Leadership	Spirit	Self-Transcendence	Meaning

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How To Manage Your Employees

Your employees will tell you how to manage them most effectively, if you know how to listen for clues. This requires interpreting each employee's individual behavioral "style," noting those signals which indicate how he/she would like to be managed by you. You can begin evaluating your employee's behavior by observing how they manage themselves and how they manage information.

Which of these best describes how each of your employees manage their own behavior?

Open: Is the employee ready and willing to show emotions or feelings? Open behaviors depict a person as relaxed, warm, responsive, informal and personable. Employees displaying open behavior tend to be flexible about time, share their personal feelings and like to tell stories and anecdotes.

Self-Contained: Is the employee formal and proper, reluctant to show emotions and feelings? Self-contained behaviors depict a person as being guarded and aloof. Employees displaying self-contained behavior tend to base their decisions on cold, hard facts. They tend to be disciplined about time and are task oriented.

Which of these best describes how each of your employees manage information?

Indirect: Does the employee avoid control and involvement? Employees who manage information indirectly come across as quiet, shy and reserved. They tend to move slowly-meditating on their decisions. They are quite supportive and listen more than they talk. Often, they reserve their opinions, make tentative statements, and avoid risk.

Direct: Does the employee exercise a great deal of control over the information presented? Employees who manage information directly tend to come on strong, take the social initiative and create a powerful first impression. They tend to be fast-paced swift decision-makers, risk-takers and impatient with others who cannot keep up with their fast pace. They do a lot of talking, express their opinions readily and appear confident.

THE FOUR EMPLOYEE STYLES

The way in which each of your employees manage themselves and manage information will place each employee in one of four "behavioral" styles. These styles are the Socializer, the Director, the Thinker and the Relater.

Each style represents unique combinations of self-management and information management and is linked to separate and unique ways of behaving with other people. The name given to each style

reflects a very general characteristic rather than a full or accurate discription. Your knowledge can help you communicate effectively and openly in a way which helps them feel more comfortable in their interactions with you as you better understand why employees behave the way they do

Each style has its own unique strengths and weaknesses, and successful people as well as failures populate each style group. There is no "best" style.

Employees possess traits from all four styles in varying degrees. Depending on circumstances, one style may be more dominant than any of the others. However, most employees do have a single dominant style. In order to increase your managerial effectiveness, you need to accurately identify each employee's individual style and manage him/her accordingly.

THE SOCIALIZER STYLE

The Socializer manages information directly and exhibits open behavior. She/He possesses characteristics such as animation, intuitiveness and liveliness. The socializer is an idea person — a dreamer, a fast-paced person with spontaneous actions and decisions and a lack of concern for facts or details. This disregard for details sometimes prompts him to exaggerate and generalize facts and figures.

Socializers have the ability to quickly win people over to their side because of their exciting, playful and persuasive nature. However, they can sometimes come on too strong or appear to be artificial. Sometimes, their playfulness and spontaneity is perceived as a lack of seriousness and unpredictability.

Socializers are more comfortable with "best guesstimates" than with hard, researched facts. They thrive on involvement and tend to work quickly and enthusiastically with others. They often seek recognition for their accomplishments, are very creative and think quickly on their feet.

THE DIRECTOR STYLE

The Director manages information directly, and displays at the same time self-contained behavior. Directors exhibit firmness in their relationships with others and are oriented toward bottomline results. Closely allied to these positive traits are the negative ones of stubbornness, impatience and toughness. Directors tend to take control of other people and situations and are decisive in both their actions and decisions. They like to move at an extremely fast pace and are very impatient with delays. They seem to want things yesterday.

A great strength of Directors is their ability to get a job done quickly and correctly. They can generalize from details rather fast to see the big picture and the bottom line. Their major weaknesses, however, lie in their apparent bluntness and insensitivity as well as their poor listening behavior.

Directors are high achievers and exhibit very good administrative skills. They certainly get things done and make things happen. Directors like to do many things at the same time. Because of their high achievement-motivation, they show a tendency toward workaholism.

THE THINKER STYLE

The thinker manages information indirectly and communicates self-contained behavior. Thinkers are regimented and are persistent, systematic problem-solvers. They can also be seen as aloof, picky and critical. Thinkers are very security-conscious and have a high need to be correct. This leads them to an over-reliance on data collection. In their quest for data, they tend to ask many questions about specific details.

Thinkers will persevere on what otherwise might be considered a boring task by others. They are precise, efficient and well organized. On the other side of the coin, they can be viewed as too cool and impersonal with others and nitpickers who are too much of a perfectionist to be effective.

Thinkers work slowly and precisely by themselves and prefer an intellectual work environment that is organized and structured. They tend to be skeptical and like to see things in writing. (This comes across as a "show me" attitude.) Although they are great problem-solvers, thinkers are cautious and slow decision-makers.

THE RELATER STYLE

The Relater manages information indirectly and exhibits open behavior. Relaters tend to be unassertive, warm, supportive and reliable.

They are sometimes seen by others as compliant and soft hearted. Relaters seek security and belongingness and are slow at taking action and making decisions because they have to know how other people feel about it.

The strengths of Relaters lie in their warmth and their ability to build meaningful relationships. They are loyal and team players. Their weaknesses include their sometimes over-sensitive nature that requires others to walk on "eggshells" when broaching uncomfortable subjects and their tendency to avoid conflict through compliance and conformity.

Relaters dislike interpersonal conflicts so much that they some-

times say what they think other people want to hear rather than what is really on their minds. Relaters have tremendous counseling skills and are extremely supportive of other people. They are also incredibly active listeners. You usually feel good by just being with a relater.

RELATIONSHIP STRATEGIES WITH THE SOCIALIZER

The socializer likes to interact with other people, so try not to hurry the discussion. Attempt to develop mutually stimulating ideas together. Focus your conversation on opinions, ideas and dreams and then try to support them. Make sure you try to move at a pace that is both entertaining and fast. Instead of arguing, try to explore alternative solutions you both can share with enthusiasm.

When you finally reach agreement, iron out the specifics concerning what, when, who, and how. Summarize in writing what you both agreed upon, even though it may not appear necessary.

WHEN MANAGING SOCIALIZERS

To motivate, offer them incentives and testimonials. They love to get "special deals."

To compliment, pay direct compliments to them as individuals.

To counsel, allow them plenty of opportunity to talk about things that are bothering them. Listen for the facts and for the feelings. Probe and direct with questions. Many times Socializers merely need to "get something off their chest" and talking in and of itself can solve the problem.

To correct, specify exactly what the problem happens to be and what appropriate behavior is required to eliminate the problem. Be sure you confirm in writing the agreed-upon behavior changes.

To delegate, make sure you get clear agreement and establish check points so that there is not a long period of time between progress reports.

RELATIONSHIP STRATEGIES WITH THE DIRECTOR

Directors are easy to deal with so long as you are precise, efficient, time-disciplined and well-organized. Make sure you keep your relationship businesslike. Do not attempt to establish a personal relationship unless that is one of the Director's objectives. Focus your conversation around the Director's goals. If during the conversation you must take issue with the Director, argue the facts, not personal feelings. Make sure you can back-up your facts with solid, tangible proof. Provide the director with options because they like to make their own decisions.

WHEN MANAGING DIRECTORS

To motivate, provide them with options and clearly describe the probabilities of success in achieving their goals. They like to be winners.

To compliment, compliment what they have accomplished rather than complimenting them as a person.

To counsel, stick to the facts. Draw them out by talking about the desired results and discuss their concerns. Remember, they are much more task oriented than relationship oriented so they'll focus on things more than feelings.

To correct, describe what results were desired and show them the gap between the actual and desired outcomes. Suggest clearly the improvement that is needed and establish a time when they will get back to you. Don't hover over them while they are working on a task.

To delegate, give them the bottom line and then get out of their way, but so that they can be more efficient, give them parameters and guidelines.

RELATIONSHIP STRATEGIES WITH THE THINKER

Try to be systematic, exact, organized, and prepared with thinkers. Support their organized, thoughtful approach. They may require that you send them solid, tangible, factual evidence that what you say is true and accurate. List the advantages and disadvantages of any plan you propose and have viable alternatives for dealing effectively with the disadvantages. If you do not bring up the obvious disadvantages in your plan, the Thinker will certainly discover them and then question your future credibility. Try not to rush the decision making process with Thinkers because they need time to verify your words and actions.

WHEN MANAGING THINKERS

To motivate, appeal to their need to be accurate and to their logical approach to things.

To compliment, compliment their efficiency and their thinking processes, i.e., "I like the way you think."

To counsel, describe the process that you will follow and outline how that process will produce the results you both seek. Ask questions to help them give you the right information.

To correct, specify the exact behavior that is indicated and outline how you would like to see it changed. Establish checkpoints and times.

To delegate, take time to answer all their quesitons about structure and guidance. The more they understand the process and details, the more likely they will be to complete the task properly. Be sure to establish targets and deadlines.

RELATIONSHIP STRATEGIES WITH THE RELATER

Support the Relater's feelings by projecting that you are interested in him as a person. Move along in an informal, casual manner and constantly show the Relater that you are actively listening. Discuss personal opinions and feelings. The Relater likes guarantees that any new actions will involve a minimum of risk. Therefore, offer personal assurances and suggestions. Try not to rush the relater, but do provide guidance. Project genuine sincerity in your relationship.

WHEN MANAGING RELATERS

To motivate, show them how it will benefit their relationships and strengthen their position with others.

To compliment, compliment the way they are regarded by other people, their relationship skills and their ability to "get along" with others.

To counsel, allow plenty of time to explore their feelings and to understand the emotional side of the situation as well as the factual side. They tend to keep many of their feelings to themselves. They are trying to express their feelings, but in an indirect and tentative way. Therefore, you'll need to draw them out through specific questioning and reflective listening techniques, i.e., "This is what I heard you say... Is that on target?" Be sure to create a non-threatening environment for them. Don't push or make them feel that they are getting pressured or undergoing the third degree.

To correct, reasure them that what you are seeking to correct is their behavior only. Don't blame or judge them personally, but rather keep things focused on the behavior and its appropriateness. Relaters tend to take everything "to heart", so you'll need to be extra sensitive in the way you make your comments.

To delegate, appeal to them personally and appeal to their sense of loyalty and team spirit. Give them the task, state the deadlines that need to be met and explain why it's important to do it in that specific time.

Employees need to be managed as individuals, according to their own personalities. This concept of "Relationship Strategies" allows you to have a general management strategy for each of the four major "styles" of employees. With this general strategy in mind, you can then be more sensitive to the unique individual differences of each person by simply listening to the "clues" they send you.

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access the World Wide Web from home, there is a feeling of independence. Yet, should the computer, our car, or even our toaster give out, we are instantaneously dependent upon others. Increasing interdependence demands deeper understanding of our processes and their interdependencies to avoid suboptimization.

3. Processes are the building blocks of value creation. To improve future results you must improve the processes that generate them. This fact is driving the movement from management of functions to that of core processes. It is the essence of reengineering, concurrent engineering, activity-based costing, process improvement and horizontal structures.

4. Learning and knowledge deployment are the basis of improvement. Improvement comes from building an understanding of process elements and their interrelationship, and then using that knowledge to take action on the underlying system. Diversity enlarges the frame of learning. Skill in learning, communicating, and coordinating enables effective sharing and deployment of knowledge.

5. Partnership is the basis of interaction. In the industrial era, people were viewed and treated as interchangeable cogs. Management structures were hierarchical in nature, with control concentrated at the top. Relationships were at best paternal, with loyalty and responsibility as driving forces. At their worst, they were adversarial, with individuals and groups working to best one another: *customers vs. suppliers, management vs. labor, function vs. function, and person vs. person.*

Third wave market demands for innovation, flexibility, and speed are breaking the hierarchical contract. Knowledge is the source of competitive advantage. Traditional management responsibilities are distributed at the process level. What, then, is the nature of relationships within this framework? In this highly interdependent system, where the only path to sustainable success is ongoing value creation, partnership becomes a singularly viable model. Partnership is not equality, but it requires shared benefit and shared responsibility. In a free market, it also implies a personal responsibility to continually enhance the value we each bring to the process.

Long-term relationships based on common goals, mutual trust, and mutual benefit offer significant potential advantage. With experience and time, partners can develop deep understanding of their common system and a joint process for continual improvement. EE

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MICHAEL MAZZARESE

The CEO Challenge

The CEO often challenges the troops, but what challenges might come from the troops to the leaders of the organization?

CEOs FREQUENTLY PRESENT challenges to their organizations, but what happens when the tables are turned? Recently I asked a group of executives, "How would you challenge the CEOs of your organization?" Their responses can be summarized in five statements.

• ***Stay focused on long-term goals.*** Ed Pisani, a senior director at Merck, challenged CEOs "to stick to the strategic plan as much as possible and see to it that your people do, too. Maybe it's time to change the reward system to encourage such behavior." That sentiment was echoed by other executives. All too often, they said, CEOs seem to think *long term* means Friday morning. "Stay focused. Don't get sidetracked," emphasized Bill O'Keefe, director of executive development for BASF.

• ***Boost productivity—don't just cut costs.*** John Finnerty, executive vice president for NatWest Bancorp, said, "Grow the business. Don't accept the *status quo*." Jack Zenger, president of Times Mirror Training Group, put it this way: "Do something to increase productivity. Productivity has no constituency. Yet all our living standards depend on it. It is a huge gold mine of opportunity."

Executives need to remember that cost-cutting alone is not their future. What their future does depend on, however, is their people. Lance Miyamoto, vice president of human resources for Dunn & Bradstreet International, posed the challenge "to increase the value-added of your people by utilizing 4 I's: Information, Ideas, Involvement, and Investment." Doing this raises another challenge: "To be honest with themselves and with their people," according to consultant Bill Hengen.

• ***Increase intelligence.*** Gifford Pinchot, author of *Intrapreneuring* and *The End of Bureaucracy & The Rise of the Intelligent Organization*, challenges CEOs "to build an organization that uses the intelligence and ingenuity of all its people to achieve its strategic intent. This requires moving beyond bureaucracy to systems whose primary feedback and control come not from above but rather through lateral links and choice."

"Exactly!" added Vijay Govindarajan of Dartmouth's Tuck School. "I would challenge them to create an environment within their organization for continuous strategic renewal—an environment where people are encouraged to challenge current success formulas without fear of reprimand."

• **Exercise visible leadership**. That takes real leadership—something Nancy Burzon, director of executive and quality education for GTE, champions over management acting as overseers: "Executives need to be more visible. They need to balance their time more between external *and* internal stakeholders."

Slogans should not be the basis for executive decisions.

• ***Abstain from quick-fix solutions.*** Sandra Feagen, director of executive education at the University of Virginia's Darden School, and Gerry Kraines, M.D., president and CEO of the Levinson Institute, challenged CEOs to overcome their tendency to go for quick-fix solutions. What this entails, explains Kraines, is "to learn and apply sound knowledge about organizations; to reject simplistic and wasteful solutions which never work." So what if these challenges are met? We might "truly operate and reap the benefits of teamwork," noted Nick Mancini, president and CEO of D&B Information Services.

I have one more challenge for CEOs. First, I challenge CEOs to notice and do something about the gaps in your organization between common sense and common practice! Second, I challenge you to study the implications of the five Challenges. What do they say about the focus of your own work? What are you, and I, going to do about it? EE

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GREGORY A. GULL

Understanding Transformation

Transformation of an organization begins and ends with a system, but it doesn't end in the system in which it begins.

THE TRANSFORMATION doesn't require change, it is change. The transformation of the organization is a change in the system that defines the organization. It means a change not only in structure but also in the assumptions, values and practices of those who affect and are part of the system. In fact, the transformation cannot be fully accomplished without a change in both the members as well as the structure of the organization.

In short, transformation, in the words of Deming, "is not a job of reconstruction, nor is it revision. It requires a whole new structure, from foundation upward."

Two Types of Change

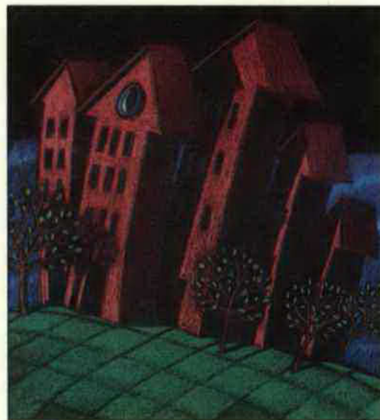
There are two types of change: adoptive and adaptive. Adoptive change involves the taking in or annexing of something. It is a static change, in that it does not affect the underlying beliefs, culture and values of the adopting system; with this type of change the system is fundamentally unaltered.

Unlike adoptive change, adaptive change necessitates the internalization of something, not merely its annexation. Adaptive change is a response to an environmental challenge; it is change that is essential for preserving one's existence. It requires both an understanding of and a letting go of "what is," followed by activity toward "what will be." While adoptive change leaves the underlying drives intact, adaptive change—being systemic—precipitates the arousal of new drives. In adaptive change, the culture and values of a system are created anew.

The transformation of which Deming spoke is an adaptive change. It is not something that can be accomplished by the adoption of new tools and techniques—it requires more than providing training for new skills. Thus it is understandable why the wholesale training of people would fail to move an organization closer to accomplishing the transformation.

System and Change

Whether the system will embrace or resist change depends on whether it is open or closed. Closed systems segregate themselves and seek to maintain their existence in their isolated environment. They do not willingly or readily accept ideas that bring into question their concept of reality. Such systems inhibit adap-



tive change as a result of their inability to receive, acknowledge or understand information that doesn't fit with their map of reality. The closed system will shun ideas that challenge it to fundamentally change and only willingly accept change that is consistent with current knowledge, beliefs and values. So, an institution organized and managed as closed literally runs out of ideas; it eventually realizes the destiny of all closed systems, the state of maximum entropy.

If a system is open, it will welcome and promote change. Open systems do not segregate themselves, for they are vital living entities that freely exchange energy with their environment. Thus through change, they seek to preserve their existence and transcend current reality. Since their energy resources are not constrained or bounded, they are able to continually regenerate themselves and reach beyond the status quo; they forever seek to adapt in order to preserve their existence.

Strategies for Change

In general, there are two approaches to transformational change: revolutionary and evolutionary. Revolutionary is mechanically forced change that involves the imposition of one's will over that of another. A revolutionary approach, while faster, is self-limiting for it stifles creativity and participation, thus inhibiting feelings of security, safety and joy among members. Because of these adverse effects, once executed, constant control and coordination are required to sustain the transformation.

The evolutionary approach is grounded in the ability to learn and to adapt. With this approach to change, people become engaged in the transformation. An evolutionary approach permeates the organization by evolving a culture and values consistent with an enlivening vision. The vision becomes the means to discovering meaning in what one does; it provides a compelling reason to continually learn and change. By its very nature, an evolutionary approach to transformational change is self-sustaining and self-generating.

Planning the Transformation

Any approach that inhibits a person's ability to learn and to actively participate and engage in the transformation will ultimately fail. Since the transformation involves people, the transformational change can only be successfully realized if it is consistent with the nature of man.

In planning the transformation, it is important to understand the holographic nature of the system—that people are a reflection of the system and the system is a reflection of the people. The transformation is a change in both the people and the system; it is a change in the system of orientation and the system of work. The transformation of an organization entails: creating a vision; establishing beliefs, values and organizing principles; creating structure and developing the pattern that connects. Planning and guiding the transformation necessitates not only understanding where you are and where you desire to be, it also requires understanding people and the learning process.

Walter Shewhart once said: *"You cannot change anything until you change that which makes it what it is."* Deming, a student of Shewhart, spoke similarly when he stated, *"You will not have quality until you build a system for improvement."* Both were expressing the importance of approaching the transformation systematically. **EE**

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