STYBEL PEABODY & ASSOCIATES, INC.

ADVICE FOR NEWLY HIRED/NEWLY PROMOTED LEADERS.

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The picture above is that of comedian Milton Berle, also known as "Mr. Television." Berle had a classic opening routine. After being introduced, the audience would cheer as he walked to the front of the stage. Berle would gravely bow and extend the palm of his right hand toward the audience—a gesture to signify the audience to be quiet. At the same time, he would repeatedly extend and curl the fingers of his left hand—a gesture to signify that the audience cheer for him even louder.

The audience would roar with laughter.

Milton Berle knew that the use of two symbolic gestures to convey mutually conflicting messages can be very funny.

When newly hired/newly promoted leaders are given explicit and implicit leadership mandates that mutually conflict, the consequences are anything but funny.

We will argue that a common component of newly hired/newly promoted leaders' "onboarding" is a Milton Berle-like routine. We will also argue that the Milton Berle routine also is a problem with effective M&A integration.

THREE TYPES OF MANDATES

Leadership mandates tend to fall into three major categories: (1) continuity, (2) good to great and (3) turnaround. *Continuity* means business as usual: carrying on policies, procedures and strategies. A typical example is the interim CEO, selected to maintain the status quo until a permanent CEO is found. *Good to great* refers to Jim Collins' bestselling book of the same name. A good-to-great mandate is essentially this: We've been doing fine but we can -- and need -- to do even better. *Turnaround* means dramatic changes are necessary: No business process, job or strategy is sacred.

A single clear mandate is the goal, but that doesn't always happen. One version of what we do see happening is an explicit mandate combined with a contradictory stealth mandate. For example:

Thomas Jones & Company was founded by Thomas A. Jones. At Mr. Jones request, the Board hires an outside CEO to take the company to the next level. The new CEO is given a Good to Great Mandate. Mr. Jones, however, remains on the Board as Chairman and major shareholder. Mr. Jones is willing to accept marginal changes in operations but no fundamental strategic direction. That direction was to sell harder in a commodity market and the new CEO had a track record in positioning commodity products into high value niches. Mr. Jones also refused to allow the CEO to make some key leadership changes.

This example is disguised but so common, most readers have first or second hand knowledge about similar situations. In our framework, the newly hired CEO was given an explicit good-to-great mandate combined with a stealth mandate of continuity. This is the Milton Berle routine applied in business!

The reader won't be surprised to learn that the new CEO was fired within a year. But the lesson wasn't learned. The board's attribution was that there was a personality clash between the CEO and the corporate culture. It doesn't focus on the mixed mandate. This board has begun a search for a new leader. Again, the board writes the job description as a good-to-great mandate.

We work with large, global companies. In these organizations, multiple mandates often co-exist. For example, one of our clients is a classic good-to-great scenario with respect to operating results. But, as far as corporate governance goes, the situation is a turnaround. Another client CEO has an overall good-to-great mandate, but two strategic business units are in turnaround mode. Multiple mandates are acceptable. Conflicting mandates are acceptable if the conflict is explicit. What we find deadly is the combination of explicit and stealth mandates.

NEW LOOK AT JOB DESCRIPTIONS

Stealth mandates can exist for a number of reasons. Sometimes, as in the previous example, organizational politics are a huge factor. In other instances, the senior management of a company might simply be too dysfunctional to agree upon – let alone communicate to others – a clear and consistent leadership mandate.

We find job descriptions create a fertile ground for stealth mandates.

Job descriptions serve two conflicting goals. One goal of a job description is to accurately convey the challenges of a role so that proper recruiting, performance review, and compensation can be conducted. Job descriptions are often the foundation for many integrated human resource information systems.

A second goal is the job description is to advance the image of the company in its marketplace.

Job descriptions are public documents. Its readers include competitors, suppliers, customers, and shareholders. Is it any wonder that leadership job descriptions are heavily loaded towards good to great?

Candidate selection and job interviews use the job description as the framework. And yet that framework is explicitly incomplete.

Newly hired/newly promoted leaders are at their peril if they fail to recognize this fact and deal with it. Companies hire at their peril if they fail to take this simple issue into account. They will constantly hire the leaders they say they want to hire and ultimately be dissatisfied with the results.

Three Crucial Questions

To avoid such situations, newly hired/newly promoted leaders and their employers need to ask three crucial questions:1) What needs to be changed within the next 12 months? 2) What needs to be honored or kept within the next 12 months? and 3) What must be avoided at all costs?   Ask a number of people the same three questions. Look for consistency of responses. Each of these three questions should elicit sub-discussions of substance in the following content areas: technology, business processes, culture/people.

Because of the inherent conflict in goals, most job descriptions focus only on the first question ("what needs to be changed"). This will give newly hired/newly promoted leaders a picture that may be both true and one-dimensional.

Any executive also needs the other two dimensions ("what's to be honored or kept?" and "what's to be avoided?").

We make a distinction between the words "honored" and "kept."

In a turnaround situation, senior management will find little that is worth honoring, but it might want to retain certain things just as a matter of expediency (for instance, "Don't deal with the purchasing system this year. Focus on the manufacturing operations.") In contrast, in a true good-to-great business, there will be a consistent message of what things are worth honoring.

Mandate Clues
In addition to verbal responses the compensation system and the company termination policies will also provide an important clue regarding the leadership mandate in operation.

Reward Systems

In companies with a continuity mandate, reward systems tend to be variations of, "If it ain't broke, don't fix it." So, for example, a company continues to tie its salary raises to cost-of-living increases, even if that means the firm is falling behind what competitors are paying. The prevailing management view might be something along the lines of, "People always complain that they're underpaid, but that doesn't mean we need to change anything. And there's no need to conduct yet another employee survey because our retention rates are just fine."

We find that in good-to-great situations, reward systems tend to be "Yes, and…" For example, "Yes, we'll pay for the certification program like we have always done. The difference is now that when you give us your certification we will put you down on a list for rapid promotion." In good to great compensation systems, employees are often rewarded for taking important first steps towards a goal. The good to great company realizes that starting positive behavioral momentum has positive value and seeks to reward it.

In turnaround situations, on the other hand, reward systems tend to be variations of, “No, not anymore.” For example, employees are told, “Yes, I know we used to provide automatic cost-of-living increases, but we can’t afford that anymore.” Gone, too, are the sales retreats in the Caribbean, the business-class seats on company travel and even the free doughnuts on Friday mornings. In contrast to good-to-great situations, people tend to be rewarded primarily for business results and not necessarily for their attempts in achieving those results.

Here is an example of how employees can infer the existence of an explicit mandate operating alongside a stealth mandate through a review of the reward systems:

The Dean of a University’s College was hired with an explicit “Good to Great” mandate. The faculty was known for its practitioner-oriented focus and it tended to attract local students seeking practitioner-oriented education. The College was now to become nationally recognized for excellence in both practice and research and it would be aggressively targeting students around the world.

The tradition at this College was to pay faculty expenses for research projects, even if the research was designed for publication in second tier academic journals. A Good to Great compensation framework would have kept that expense policy but provided even more money and recognition for faculty seeking to publish in top tier academic journals. The Dean, however, stated that money would be limited only for faculty seeking to publish in top tier journals and no money would be given to faculty seeking to publish in second tier journals.

The faculty interpreted these and similar policies as meaning that the stated mandate was Good to Great but that the stealth mandate was Turnaround. Like most employees, faculty tends to put greater credibility in how management spends its budget than what is verbalized.

Is it any wonder that the faculty senate voted no confidence in the Dean?

Termination policies

In continuity situations, termination policies are typically set up so that they create as little disruption as possible. When staff needs to be cut, management encourages people to take early retirements and departing individuals are sent off with going-away parties that symbolize continuity. For cases in which an employee is fired, the termination is cast as management’s handling of a “bad apple,” someone who was not playing by the company rules (that is, a person who was disruptive to the status quo and bad for continuity).

When a good-to-great mandate is in effect, employees who are no longer qualified, capable or interested in remaining are treated with dignity. That often means generous severance packages and an outplacement program that helps them land on their feet. The dignified approach reinforces the good-to-great mandate by acknowledging and rewarding individuals for their past services (those employees are, after all, the people who got the company to the laudable point where it is now). It also provides an incentive for workers to accept the package and leave on good terms rather than remain and passive-aggressively resist change.

Turnaround mandates are a completely different animal. Here, management's objective is simply to make terminated employees vanish as cheaply as possible with no negative legal consequences for the company. To use a brutally honest analogy, turnaround businesses often treat unwanted employees like physical refuse. That attitude, of course, contradicts the good-to-great mandate. After all, if these people were so valuable to the company up to this point, then why are they being treated so poorly now? And what does it say about the culture of the company going forward? In turnaround situations, though, corporate culture and long-term reputation are not typically high on management's list of priorities, whereas reducing the burn rate of cash generally is. Saying the mandate is Good to Great while terminating employees like a Turnaround will prove to employees that a stealth mandate is operating along the explicit mandate.

A No-Win Situation

In general, stealth mandates are no-win situations, and stealth turnarounds are particularly treacherous. This happens frequently with M&As. The explicit mandate may be continuity or "merger of equals" but employees look at the reward and the termination systems and soon learn that the real issue is stealth turnaround. Sometimes management doesn't know what it purchased until it actually buys the company. Once having told investors and customers that this is a continuity situation, they don't want to admit that they were wrong. It is difficult to achieve successful M&A integration with stealth turnaround mandates. No one trusts anyone.

Leadership failure is costly. According to Michael Watkins, professor at INSEAD, the cost to the company can be estimated at ten times base salary. And that figure only includes measurable costs. It does not include damage to the brand in the eyes of customers, a decrease in investor confidence, loss of political capital suffered by those who approved the hire and the time required for management to undergo another search process. In a different survey, the price of failed leadership was estimated to be as high as 28 times base salary when both direct and indirect costs are considered. And new leaders are particularly vulnerable. *Fortune* magazine estimates that for U.S. companies hiring a new leader from outside the organization, there is a 40% probability that the person will be gone within 18 months.

We believe a key reason for many of these costly failures is the use of stealth leadership mandates existing alongside stated leadership mandates.

Companies that provide newly hired/newly promoted leaders with an explicit mandate and then let these leaders discover the existence of a second, stealth mandate are doing a 21st Century business version of the old Milton Berle routine.

Milton Berle knew how to structure comedy. We are discussing an unintentional set-up for tragedy.

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