HOW TO LEAD 'STEALTH TURNAROUNDS'

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For twenty-five years, Stybel Peabody Lincolnshire has provided senior level outplacement services. In this role, we are like hospital pathologists. Instead of trying to understand how diseases infect the body, we try to understand the origins of failed senior level business relationships that infect organizations. Could these failed relationships have been prevented?

Our work involves talking with the person who was fired, the person who did the firing, colleagues, subordinates, etc.

We have learned that when relationships at this level fail, they fail early in the business relationship. It often began to fail within 15 days of the person's taking over the new leadership role.

We have developed a model to prevent such failures from taking place. We bring what we have learned to our senior level outplacement work as well as our Retained Search Plus work.

Retained Search Plus integrates classic retained search with our structured Platform for Success ® program for new leaders. We are an appropriate choice when the issue is help us bring in a new leader under conditions when the leader will be asked to do a ballet dance in a mine field.

What follows is a speech based on that Platform for Success ® model. It was given to the global convention of the Financial Executives International in San Francisco in April, 2006 and to the Manufacturing Roundtable of Boston in April, 2006.

In the middle of the 20th Century, Milton Berle was television's most popular male comedian. He had a standard routine:

> As Berle walked to the front of the stage after his introduction, the audience would cheer. He would gravely bow to the audience and extend his right hand palm out to the audience as to ask them to quiet down. At the same time, his left hand would be extended palm away from the audience and his fingers curl to beckon the audience to cheer him even more!

The audience loved it.

The use of a simple gesture to convey conflicting meanings is great fun. Milton Berle theatrics are not amusing, however, to audiences composed of those who demand clarity.

I will argue that companies have a bias for providing new leaders with logically incongruous goals. I call these incongruous instructions "Stealth Turnaround Mandates:" How can leaders turn around an organization so that it escapes the notice of customers, investors, suppliers, and employees?

"Stealth Turnaround" is the business equivalent of Milton Berle's theatrical gesture. In our field of talent management, it happens all the time. We will argue that there are powerful forces at work that impel organizations to seriously discuss "Stealth Turnaround Mandates" when they know the subject is incongruous.

I will discuss what companies can do to avoid Stealth Turnaround Mandates and what job candidates can do to avoid getting involved in them. I will devote special attention to "Good to Great" leadership mandates, since we do not see much practical advise for these common scenarios.

WHY IS THIS TOPIC OF IMPORTANCE

The topic is of importance three reasons: management matters, new leadership failure is costly, and most of the new leadership "road maps" in the market fail to provide suggestions for concrete action.

Management Matters.

Does good management make a difference? Anecdotally, the answer would have to be "of course."

Does management **really** make a difference?

The London School of Economics and McKinsey & Company consultants actually examined the issue and published their results in the February 2006 issue of MCKINSEY QUARTERLY. The title says it all: "It's Official: a company's economic success rests on the quality of its managers."

The research team looked at 700 mid-size manufacturing companies in four different countries: Germany, The United States, Great Britain, and France. Outcome measures were market share, sales growth, and market valuation relative to peers. Input measures included use of management best practices concepts such as lean production, setting measurable goals, etc.

Their findings: mediocre management goes hand in hand with mediocre corporate results. Management quality has a greater contribution to value than the industry the company operates in or the country where it is located.

New Leadership Failure is Costly

What is the cost of failed leadership?

> According to FORTUNE magazine, whenever a new leader is hired from outside in the United States, there is a 40% chance that the person will be gone within 18 months. According to INSEAD Professor Michael Watkins, the cost of failure for the company is ten times base salary.
>
> Of course that figure only includes measurable costs.
>
> It does not include damage to the brand in the eyes of customers, damage to investor confidence, loss of political capital suffered by the manager who approved the hire and down-time for leaders as they have to go through another series of hiring interviews.
>
> According to Brad Smith's survey of 54 companies with failed leadership, a failed leader's total opportunity costs is actually 28 times base salary when one includes both direct and indirect costs.

Many General "Road Maps"But Few Specifics

I mentioned Michael Watkins of INSEAD. He is one of the thought leaders in the field of on boarding. Jack Gabarro of the Harvard Business School has written a fine book on management succession. Tom Neff and James Citron have also written a book on the subject called NOW WHAT?

My own work on the subject has been published in THE WALL STREET JOURNAL and BUSINESS WEEK.

Many of these published works are in the form of conceptual frameworks or road maps. Few provide practical, behavioral suggestions. I will try to focus on practical, behavioral suggestions.

WHAT IS A NEW LEADER?

When I refer to new leaders, there are three new leadership situations:

Hired from outside the company.

Promoted from within the company to a new and different job. For example, a Controller becomes the Chief Financial Officer.

Existing job restructured to become a new job in the wake of a larger corporate restructure. This is common in M&A integration.

CORE ISSUES TO BE DISCUSSED

We will discuss four core Leadership Mandates: Continuity, Turnaround, Good to Great, and Stealth Turnaround. What questions should companies ask themselves when writing up job descriptions to avoid Stealth Turnarounds? What questions should job candidates be asking hiring authorities to diagnose if there is a consistency between what is said and what is really desired? We will make the case that job candidates for leadership roles should presume pressures for Stealth Turnaround and not accept what is said at face value.

Finally, we will discuss the specific case of being a leader in Good to Great situations and some of the special challenges this new leadership assignment creates. We will focus on specific behavioral and reward systems issues in Good to Great situations and how they differ from Turnarounds. The case of Good to Great leadership mandates is of interest because employees are being given two messages which that are both logically clear and painful: "You've done a great job and it won't be good enough in the future." Handled poorly, employees may come to think that the Good to Great Leadership Mandate is actually a Stealth Turnaround.

There are severe political consequences when that happens. Our mission is to avoid that risk for new leaders.

DIFFERENTIATING STATED LEADERSHIP MANDATES FROM REAL LEADERSHIP MANDATES

A Leadership Mandate is a general orientation to guide attitude and behavior. We find four types of New Leader Mandates:

TYPES OF NEW LEADER MANDATES

Turnaround	**Continuity**
Stealth Turnaround	**Good to Great**

As mentioned earlier, Stealth Turnarounds are no-win situations. The conversation at the verbal level is that the job candidate is told the company is in a Good to Great situation. Once he/she enters the system, the picture emerges that it really is a major Turnaround. But that cannot be explicitly discussed. One common dysfunctional situation is that the former CEO who created the problems is promoted to Chairman of the Board and all the subordinates reporting to the new CEO remain loyal to the Chairman who hired them. Another common Stealth Turnaround is "Company A and Company B are proud to announce a merger with the new name of Company AB. We are going to meld the best parts of Company A and the best parts of Company B for added value to customers and greater returns for investors." Everybody knows, however, that Company A has acquired Company B and it really is a Turnaround of Company B but will not be discussed as a Turnaround. A similar Stealth Turnaround situation is Company A acquiring Company B and telling Company B management that the Leadership Mandate is going to be Continuity but it really is Good to Great. These familiar situations are set ups for failure.

Continuity means carrying on policies, procedures, and strategies. An example might be an interim CEO. Turnarounds are the easiest because there is a "do or die" sense of urgency. Many of the executives associated with the old regime will be gone or understand that they will be going prior to the arrival of the turnaround executive.

Good to Great is the most difficult Leadership Mandate and the one least understood. Whereas Continuity and Turnaround convey a clear message to customers, investors, and employees, Good to Great conveys an emotionally complex message: employees have been good but may not be not good enough for the future." It is a message employees don't like to hear.

STATED VERSUS REAL LEADERSHIP MANDATES: the job description.

In complex companies, there may be multiple Leadership Mandates. For example, one of my clients is a classic good to great scenario with respect to operating results. But it is a turn around as far as corporate governance. Another client is good to great as far as the company is concerned. But two of the strategic business units are turnaround situations.

In most organizations and for most positions, there is often only one core Leadership Mandate.

In writing job descriptions and talking about the leadership opportunity, company leaders would prefer to portray the Leadership Mandate as Good to Great. They are aware that job descriptions are public documents and will be circulated within the business community. Job candidates interviewing for these opportunities are not members of the company "family." They have not signed non-disclosure agreements. Job candidates might know competitors or get employed by a competitor.

For the above reasons, the stated mandate in the written job description may not be the real mandate. The better retained recruiters understand this discrepancy but do not feel the urgency to push the client for consistency. Less inquisitive recruiters accept the stated mandated as given. They do not want to know more than what they are told. After all, recruiters want to give job candidates messages that support their clients' stated positions.

Job candidates need to approach interviews with a degree of skepticism and self-awareness. The above model is a good framework to help diagnose the real situation versus the stated situation. It is also useful for job candidates to know what type of leadership mandate is best of them and to avoid getting involved in a leadership mandate that plays to their weaknesses.

How can one engage in a proper diagnosis?

WHAT NEEDS TO BE CHANGED, HONORED, AND AVOIDED?

In our work with companies, we try to draft job descriptions that clearly spell out what needs to be changed within the first twelve months, what is to be honored/kept in the first twelve months, and what is to be avoided at all costs.

Within each category, we discuss technology, business processes, and culture/people issues.

Having our client companies go through this discussion is useful because it forces them to confront the true Leadership Mandate is as opposed to the stated leadership mandate.

Whether it is public information or not, I need to know the true leadership mandate. If there is a discrepancy between the state and the true mandate and I recruit candidates appropriate for the stated mandate, I am setting up job candidates to fail.

And if job candidates fail to appreciate the distinction between stated and true Leadership Mandates, they will fail. Here are two examples:

> Company A. has a founder who will assume the role of Chairman of the Board. The Board seeks a new CEO who can execute a Good to Great leadership mandate. In conversations with the founder, it is clear that the company is "his" baby and he will only accept business process changes at the margins. He will oppose key strategic changes and changes in corporate culture. Because he remains a 51% owner of the company, the Board does not want to offend the founder. This is an example of a Stealth Continuity Mandate disguised as a Good to Great mandate. The Board insists it wants someone who can execute a real Good to Great leadership mandate but that person will fail if he/she tries to make good on the Board's instructions.

> Company B has a founder who will assume the role of Chairman of the Board. The Board seeks a new CEO who can execute a Good to Great leadership mandate. In conversations with the founder, it is clear that the company is "his" baby and he will only accept business process changes at the margins. He will oppose key strategic changes and changes in corporate culture. He has a major equity stake in the company and the Board of Directors expects the founder to eventually depart the company. His departure will be good for the company because it needs to show investors that it has outgrown its founder. This is an example of a valid Good to Great leadership mandate.

Why Are These Three Questions Important?

Most job descriptions only focus on what is to be changed. As a result, the intervention picture is one dimensional. We tell our clients to think of change as a three dimensional object with length being "what's to be changed," height being "what's to be preserved," and width being "what's to be avoided."

Job candidates should use our recommended wording in "What's to be Honored/Kept over the Next Twelve Months." In a turnaround situation, management will find nothing worth honoring and the omission of that worth is noteworthy. Listen to the words. Hiring authorities may gravitate towards the word "kept" and list functional areas not worth touching during the first twelve months. There is a difference between "Kept" and "Honored." In a true Good to Great situation, there will be a consistent message of what is worth honoring. Job candidates should ask the same question of everyone during employment interviews to gauge consistency.

It is doubtful that job candidates will get a valid response to the question, "What is to be avoided at All Costs?" Nobody likes to admit having company taboos, particularly to job candidates who might work for a potential competitors. The fact that the question was even asked should reflect well on job candidates. And if the hiring authorities react negatively to the fact that was even raised, that should have diagnostic importance for candidates.

RENEGOTIATE THE LEADERSHIP MANDATE IN TEN TO FIFTEEN DAYS.

At the time of hire, we recommend management explicitly tell the new leader that assumes that the leader will be doing his/her own research regarding what needs to be changes, preserved, and avoided. It is willing to keep the door open to a new discussion about the Leadership Mandate in light of what has been learned.

New leaders should ask as many people as possible the core three questions. It is important to ask key customers the same three questions to get their reactions. Is there a theme that seems to be emerging?

In ten to fifteen days, the new leaders should renegotiate the Leadership Mandate based on what has been learned. And that renegotiated Mandate will be the basis of the performance evaluation a year later. That renegotiated mandate will more approximate the true Leadership Mandate and establish realistic frameworks for evaluation.

THE SPECIAL CASE OF GOOD TO GREAT LEADERSHIP MANDATES

In our experience as recruiters, most leadership mandates are of the Good to Great variety.

As mentioned earlier, these mandates can be tricky because it starts off with a logical but emotionally conflicting message to employees: "You have done a great job and it won't be good enough in the future."

Handled poorly, employees will come to believe that there is no Good to Great Leadership Mandate. It really is a Stealth Turnaround Mandate. And once employees come to believe they are in the middle of a Stealth Turnaround, how long will it be for investors and customers to get the news? A core leadership relationship management failure in our experience has been leaders' failure to appropriately manage the critical relationships required of Good to Great situations.

Patience is a critical attribute in Good to Great Leadership Mandates. While turnarounds have a sense of urgency, Good to Great situations are managerial sculpting processes that take place over time. It is about continuous process improvement every year rather than "shock and awe" of abrupt change.

MANAGING SYMBOLS

Symbols are another critical attribute in Good to Great Leadership Mandates. Turnarounds have no worthy symbols of focus. Good to Great companies have plenty of symbols once you become sensitive to looking for them. Pick a symbol and use it consistently to express your goals in a concrete way. For example:

> At one of our client companies, an automobile mechanic went out in a blinding snow storm to repair a truck that had become disabled. And he did it when he was technically off duty. The President often cited this individual by name as an example of the company's historic customer service excellence.

Another example:

> A university's business school complex consisted of three buildings linked as a square with three sides. The center building faced a busy urban street. There was a large bronze door in the middle of the center this building facing the street. That door had no functional purpose. It was put there for design purposes. The business school had become so research oriented, it was receiving complaints from the business community that graduating students were no longer desired as employment candidates. The business community wanted to see a more balanced approach between practical business education and research focus. A new Dean was hired with a "Good to Great" mandate. His first act was to open the big bronze doors facing the street. In talks with the faculty and the business community, he referred to the open doors as the symbol of the school's openness to listening to community issues and his resolve to avoid lapsing into academic insularity.

The tried and true symbol for Good to Great is to constantly refer to the biggest competitive threat and focus on how the threat factor. For example, a recent HARVARD BUSINESS REVIEW article on the Good to Great change at Home Depot had the CEO constantly saying, "Why don't we call up Lowes and see if they might slow things down for us?" Lowes was perceived as their biggest competitor. Home Depot also provided management with on-going financial data so that they could see how they were doing relative to the competition.

GOOD TO GREAT REWARD SYSTEMS

Reward systems in Turnaround situations tend to be variations of "No, Not Anymore." For example:

> "Yes, I know we used to provide automatic cost of living increases. We can't afford that anymore."

Reward systems in Continuity Mandates tend to be variations of "Yes, If It Isn't Broken Don't Fix It."

> "I know people complain about their compensation. They always will complain. We offer plenty of financial and emotional compensation. No need to conduct yet another survey. Look at our retention rates."

Reward systems in Good to Great should be "Yes….and" conversations:

> "We will continue to pay you as we have paid in the past but we do want to provide a bonus for going on for additional business education credits. And if you get a degree, we will provide you with an additional bonus. You will also be on the "fast track" for promotion opportunities."

The "Yes….and" conversations may involve monetary rewards or non financial rewards: trips, gifts, recognition, etc. The concept of the Good to Great leader as someone who sculpts behavior also implies the limitations of management of end results. MBO type systems work well in stable systems where continuity is key. In Good to Great situations, you have a constant work in progress. Sometimes you need to reward people just for taking important first steps. Culture change in Good to Great situations is about creating positive behavioral momentum. Management should be confident that creating positive behavioral momentum leads to desired business results. Focusing on desired business results may inspire those at the top and frighten those who actually have to implement the change. The operational word of the day is: quick baby setps.

Sculpting behavior takes time. CEOs need to accept this and educate their Boards about the danger of quick fixes.

TERMINATIONS IN GOOD TO GREAT LEADERSHIP MANDATES

Consider how companies manage physical refuse: the goal is to make refuse go away as quickly as possible, as cheaply as possible, and minimize the "blow back" in environmental liability.

Terminated employees can often feel treated like human corporate refuse: once management finds that there is no value, toss them out. Management's objective is that terminated employees vanish as cheaply as possible with no negative legal consequences for the company.

One can understand this approach when dealing in Turnaround Mandates. Cash and time is limited.

In Good to Great Leadership Mandates, however, treating terminated employees like refuse contradicts the Good to Great concept. If these people were so valuable to the company up to this point, why are they being treated so poorly now? What does it say about the culture of the company going-forward?

In Good to Great situations, terminated employees who are not qualified or capable or interested in making necessary behavioral changes should be treated with dignity. Dignity means seeking better than median severance packages and an outplacement program that helps people land on their feet. This dignified approach reinforces the value the company places on past services. It also provides an incentive for employees to step up and declare that they would rather take a package and leave on good terms than passively aggressively remain.

SUMMARY AND CONCLUSIONS

Milton Berle had a funny routine to present a logical inconsistency with one gesture. Business also has a routine to present a logical inconsistency for new leaders. We call it Stealth Turnaround.

Milton Berle was funny. Stealth Turnarounds are not funny.

We discussed political and business reasons why companies might present job candidates with Stealth Turnaround Mandates, why recruiters do not challenge such mandates, and why job candidates accept such mandate.

We have made recommendations for the design of job descriptions and job candidate conversations to produce more clarity regarding the type of leadership mandate: continuity, turnaround, or good to great.

We have suggested a specific conversation to diagnose the leadership mandate. This conversation revolves around concepts of Change, Honor, and Avoid.

Finally, we are suggesting specific action strategies to be used in Good to Great Leadership Mandates. These action strategies are important because new leaders may create situations where employees will come to believe that a Good to Great Leadership Mandate is actually a Stealth Turnaround Mandate. It is easy for new leaders to become insensitive to this fear and thus loose credibility with the employees they need to depend on for their future success.

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Laurence J. Stybel is co-founder of Board Options, Inc. and Stybel Peabody Lincolnshire, Inc.

As a corporate leader, Larry was co-founder of Lincolnshire International, Inc. (www.lincolnshireintl.com) and its President for three years. Under his leadership, Lincolnshire moved from the start-up phase to a truly global career management company with 114 offices and 242 consultants around the world. Founded in 1987, Lincolnshire is a global human capital management company, focusing on senior level leadership interventions through retained search and senior level career management. He spearheaded distribution alliances with the American Management Association, the Financial Executives International, the Massachusetts Hospital Association, and the Massachusetts Association of Health Plans.

Stybel Peabody's twenty-five year old mission is critical leadership when the stakes are high.

Core services revolved around Retained Search+, a combination of retained search with Building a Platform for New Leader Success ® . The firm works with great functional executives to help them become enterprise-wide leaders. Stybel Peabody has a global reputation for working with sophisticated senior leaders to help them rapidly obtain new professional opportunities when their current assignments are concluded.

Larry is Co-Leader of the Financial Executives International Roundtable, a confidential national forum where CFOs of public companies can discuss critical issues with their peers. The Financial Executives International is the global professional association of senior finance leaders with a membership base of 50,000.

As a national thought leader on leadership, he is a contributor to Thomas Wheelen & J David Hunger (Eds) STRATEGIC MANAGEMENT AND BUSINESS POLICY. (Saddle River, NJ: Pearson Prentice HALL, 2006). He and his partner Maryanne Peabody are contributors to THE HARVARD BUSINESS REVIEW ON CAREER MANAGEMENT. (Boston: Harvard Business School Publishing, 2003).

Larry's articles on governance and leadership have been published in CALIFORNIA MANAGEMENT REVIEW, DIRECTORSHIP, THE HARVARD BUSINESS REVIEW, MIT SLOAN MANAGEMENT REVIEW, and the NATIONAL ASSOCIATION OF CORPORATE DIRECTORS. He is frequently called upon by the national press as an authority on leadership and governance. Larry's interviews include BUSINESS WEEK, CFO, FORTUNE, THE WALL STREET JOURNAL, THE NEW YORK TIMES, and CNN.

He is on the Board of CS Technologies, a company that produces database tools for the retained search industry. Larry is on the Program Committee for the Association for Corporate Growth's New England Chapter's Deal Makers' Breakfast series. He was on the Board of Directors of the New England Chapter of the National Association of Corporate Directors and served on the Board of COMPENSATION & BENEFITS MANAGEMENT JOURNAL. Larry is former President of the Boston Human Resource Association and was on the Board of Directors of the National Human Resource Association.

Larry received his doctorate at Harvard University in the area of organization behavior. He is referenced in WHO'S WHO IN INDUSTRY & FINANCE and WHO'S WHO IN AMERICA. Larry was previously a consultant in executive compensation with Hay Associates.

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