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Dear Reader,

Have you ever considered what are the factors that influence our leadership styles and patterns? What are the role-models that we replicate in our communications, decision making patterns, in our way we relate to others, in our role as leaders? Our behaviors are probably the result of an interesting mix of forces: our personal characteristics, what we learned as we grew up, the teachers and authorities we both enjoyed and endured, readings, feedback received, training we went through, personal learning goals, our beliefs and values, lessons learned through experience, our self-image, expectations we heard from others, or what we think significant others have for us, the organizational culture with its tacit punishments and rewards... the list goes on.

This month we take a closer look at some rules in American corporate life - and the impact that a generation of "celebrity CEOs" has had on the leadership practices. Taking one step further, we reflect on the new rules of the game and what these mean for the development of leadership profiles.

Enjoy the reading!

Isabel Rimanoczy
Editor

Quote of the Month

"Leadership has a harder job to do than just choose sides. It must bring sides together. "

Jesse Jackson (1941 -)
American politician and civil rights activist

LIM NEWS

20 YEARS developing your leaders while they develop your business

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New rules of the game - New leadership challenges

By Isabel Rimanoczy

During the last week of June 2006, a meeting took place in Brussels. A group of individuals gathered to discuss the dimensions and challenges of an initiative started over a year ago by a group of senior representatives from companies, business schools and organizations for leadership learning on five continents. The group was formed by the European Foundation for Management Development (EFMD) with the support of the United Nations Global Compact. The cause was called **The Globally Responsible Leadership Initiative.**

Conscious of the large and global challenges we are all facing, they realized that business has become the most influential power and has the greatest opportunity to shape a better world for this and future generations. As we have addressed here before (see http://www.limglobal.net/readings/69.htm), sustainability will be achieved only through globally responsible organizations, that focus on creating economic and social progress, while maintaining environmentally sustainable standards. The objective of this group is to promote understanding of the meaning of globally responsible leadership and to help develop it.

In the July 24, 2006 issue of Fortune Magazine, columnist Betsy Morris presents an interesting comparison of the 'old rules' and the 'new rules' of corporate America's business. Taking GE's former CEO Jack Welch as an icon of the rules that drove corporate decisions for the past 20 years, she explores the new scenarios that are developing, and the new leadership perspectives that are emerging to respond to the new context.

I thought it would be interesting to observe these old/new rules and reflect what they are telling us about the new leadership roles, values and profile.

Old Rule: The larger the better.
New Rule : Agile is best. Being big can backfire.

Until the end of the last century, in the business world 'big' was synonymous with 'good'. Business schools taught about the benefits of economies of scale, which allowed to spread fixed costs across units sold. Also size brought power and dominance of distribution channels, of industry, of suppliers, of influence in legislation. Merger mania represented the pursuit of increasing size of organizations. The median Fortune 500 company is these days three times the size it was in 1980, in real terms, according to Morris. But this makes it also much harder to manage. Scale didn't prevent GM from serious decline. New approaches like outsourcing, partnering and other forms of alliances have made it possible to convert fixed costs into variable ones.

In a study quoted by Mark Sirower[1] in his book *The Synergy Trap*, the ego needs of the CEO are listed as one of the reasons for mergers. In contradistinction, the new context requires leaders who pay more attention to extracting lessons from their own and others' experience. It also indicates the need to develop a collaborative attitude that fosters partnerships as a new option. To think of alliances and partnerships however means to transcend the win/lose duality and to begin thinking of win/win opportunities. A study by psychologist Robert Kegan[2] indicated that adult development goes through different phases or "orders of making meaning". One of the earlier stages is characterized by a win/lose mindset, searching to maximize the own benefit at the expense of others - hopefully unnoticed. It is easy to recognize this pattern among many of the "celebrity CEOs". To think in terms of win/win requires to think from the perspective of the other, and to realize that when both parties win, the success is more solid.

Old Rule: Be No. 1 or No. 2 in your market.
New Rule: Find a niche, create something new.

While being the best is certainly an attractive goal, it has proven not to be a safety net. As Morris indicates, Disney's dominance of animated films meant nothing once Pixar's digital innovation came to the scene, nor could AOL's established user base slow down the progress of Google. Coke's board vetoed a proposal to buy Gatorade in 2000 - a few years later energy drinks, with a margin of 85% according to Bernstein Research, are now expected to outearn every other category of soft drinks within three years. Starbucks never tried to be No. 1 or No. 2, according to CEO Jim Donald. They want to evolve, innovate, try out new things.

The intensity of the focus on being the best in one area can easily concentrate all the efforts into perfecting what is - at the expense of exploring what could be. This is certainly not an either/or option, and attention has to be given to both maintaining and improving while scouting the horizon for what could be created next. To innovate requires not only creative thinking, but also recognizing the thinking patterns that prevent innovation to flourish. Examples of those thinking patterns are "Not invented here", risk avoidance, zero-fault tolerance, a judgmental attitude towards mistakes. Instead, new thinking patterns need to be developed, that focus on extracting lessons from both errors and success, and involve constant review of held assumptions , and an attitude of increased tolerance.

Old Rule: Shareholders rule.
New Rule: The customer is king.

"When investor-driven capitalism took over from managerial-driven capitalism", as Rakesh Khurana[3] describes it, CEOs began managing the company by earnings per share instead of focusing on details like new products, service calls, customer satisfaction scores - all those things that are supposed to produce the earnings per share". To maximize shareholder value companies used aggressive pricing on hotel phone bills, rental car gas charges, credit card fees, to name a few examples, which resulted in unhappy customers. As a study of Bain & Co. reports, every four years the average company loses more than half its customers - and fewer than half of all Americans have a favorable opinion of business today.

But there are some companies that operate differently. Genentech, a biotech corporation, organizes "dreaming sessions" with key customers and measures customer satisfaction. As cancer patients each day greet the employees with billboards thanking them for their support, the employees develop a sense of pride that is a powerful motivation, according to consultant Fred Reichheld from Bain &Co.

To concentrate on the customer may mean to think long term - which is contradictory to Wall Street values. But it may also go against a short-term, immediate satisfaction mindset, even when Wall Street is not involved. Is this not something characteristic of American culture of the twentieth century? This requires a revision of the priorities we honor, which lead us to the values we espouse. We may be surprised to discover the gap between the espoused values - and the values in action. This is a critical first step.

Old Rule: Be lean and mean
New Rule: Look out, and look in

Jack Welch was a champion of Six Sigma, a set of methods for improving quality and reducing costs, that had been developed by Motorola in the 80s. He implemented it at GE and increased the operating margins from 14.8% to 18.9% in a four year term. With him as an influential role model, many corporations followed his example and tried to implement the method, with mixed and less impacting results. One of the critiques indicates that it is a method to improve what exists, allowing little room for exploring new ideas. In a fast changing environment, it is important to be externally focused and flexible to respond to "sudden, abrupt and uncontrollable change", in the words of GE's new CEO, Jeff Immelt.

Leaders need to develop the habit of identifying the forces of the business context, anticipating scenarios and possibilities. While this may sound like a familiar, well known leadership role, what is new is the responsibility of leaders to foster and develop that vigilant look in their subordinates.

Another characteristic adopted by many organizations following Welch's "lean and mean rule" was ranking the employees as A, B, or C players. Managers had to update the ranking yearly, and dismiss the C players. In addition, a set percentage of employees had to be ranked as C every year, in order to increase the performance levels of the employee force. The message sent was that everybody was expendable and that the net return was the standard to be measured by. As Christopher Bartlett and Sumantra Ghoshal[4] indicate, the major obstacle this created for managing the corporation was increasingly disenfranchised employees. "Individuals don't come to work to be No. 1 or No. 2 or to get 20% net return on assets: they want a sense of purpose. They come to work to get meaning from their lives".

While many corporations adopted the ranking system, others carry more subtle processes that still demotivate employees and make the work meaningless. The increasing demand for team development programs may be a reflection of the effects of an individualistic, operational performance-centered approach, that team sessions seek to repair.

The new leadership challenge is to learn the systemic interconnectedness of processes and people, of decisions and their wider impact. While the statement "people are our most valuable asset" is quoted most frequently, it deserves some closer consideration, what is meant by "asset"? How can individuals become an "asset" for someone else, for an organization, for shareholders? How are the processes and decisions reflecting the respect for the employee? Are the employees considered as whole persons or as working minds/hands? The success of shows like 'The Apprentice' or 'Survivor' offer an interesting mirror of certain decadent values at play when hiring, competing or interacting with others.

Old Rule: Hire a charismatic, mighty CEO
New Rule: Hire a courageous CEO that shows a soul

Pulled by the force of big shareholders, in the 80s boards went after CEOs who could achieve earning targets quarter after quarter and take the stock price unrelentingly higher. According to Morris, the era of the "celebrity CEO" brought us names such as Jacques Nasser, Lou Gerstner, Jack Welch, Ken Lay, Al Dunlap, Sandy Weill. The tactics of this generation of leaders was to minimize costs, use acquisitions to grow, and financial decisions that aimed at short-term solutions. A 2005 survey by Boston Consulting Group of 940 executives indicated that 90% considered organic growth essential to their success. Yet less than 50% of them were satisfied with the return on their R&D spending. This may indicate another gap between the espoused values and those in use, as organic growth is not a solution for quick, spectacular results.

Morris quotes a recent study by the consulting firm Booz Allen, that found that a CEO risks being replaced if the stock price has been behind the S&P 500 by an average of 2% since he took the position. Cisco Systems CEO John Chambers indicated he knows a number of colleagues who "are planning to step down because of the difficulty of balancing the short-term pressures with what is in the long-term best interest of the company". Leaders and directors need to stand up for their values - with courage. This may always have been the case, just that in the past decades the values may have been others, and the public opinion was more passive and silently watchful.

On April 27, 2006 an extraordinary event took place in the New York Stock Exchange. The UN Secretary General, Mr. Kofi A. Annan, launched the signature act of the first Principles for Responsible Investment[5]. Observing the disconnect between corporate responsibility as a broadly stated management imperative, and the actual behavior of financial markets, which all too often are guided primarily by short-term considerations at the expense of longer-term objectives, a year ago he personally invited a group of leaders from the international investment community to develop a set of global best-practice principles for responsible investment. The reason motivating this was the fact that with only rare exceptions, the financial community had not sufficiently recognized or rewarded corporate efforts to respond to environmental, labor or human rights challenges, even though such factors can be directly material to corporate performance.

The Principles provide a framework for achieving better long-term investment returns, and more sustainable markets. They offer a path for integrating environmental, social and governance criteria into investment analysis and ownership practices.

Leaders in the new context need to learn about sustainability, and how the decisions they make daily impact society, the environment and the economy. They need to become environmentally literate, but also discover beyond natural environment, how we are unknowingly all contributing to the effects we are all suffering in the social and global environment. Leadership development needs to center on critical reflection, on discovering our systemic interconnectedness and the influence we all are having, individually and collectively.

Leadership roles, values and purpose have crossed the tipping point. We'd better start to learn what it takes now. Fast.

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[1] Mark Sirower, *The Synergy Trap*, The Free Press, NY, 1997

[2] Kegan, Robert. *In over our heads*. Harvard University Press, Cambridge, 1994

[3] Khurana, Rakesh. *Searching for a Corporate Savior: The Irrational Quest for Charismatic CEOs*. Princeton University Press, NJ. 2002.

[4] Bartlett, C., and Ghoshal, S. Building Competitive Advantage Through People, MIT Sloan Management Review, Winter, 2002.

[5] See: http://www.unpri.org/

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