What boards can do about America's corporate leadership crisis

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Boards are lamenting the shrinking tenure of CEOs, which *Fortune* magazine first observed in a 1999 article entitled "Why CEOs Fail." Ironically, they're also complaining of a shortage of leadership talent, at the same time they're firing CEOs left and right. Add to that a depressed stock market and mass layoffs, which are no longer being blamed on September 11, 2001, and the bottom line becomes clear: Something isn't working.

When something isn't working in an organization, it's often a clear sign that leadership skills are lacking. Enron's continuing saga offers a perfect example of the type of leadership that creates massive confusion in today's corporations. The headline in *Fortune* magazine of December 2001 read,

> **Why Enron Went Bust: Start with arrogance. Add greed, deceit and financial chicanery. What do you get? A company that wasn't what it was cracked up to be.**

Behind Enron's all-important numbers were employees who struggled to make the new strategies work. No one asked them if and how it should be done. Worse, according to *Fortune*, Jeff Skilling, former president and CEO of Enron, is credited with creating a system of forced rankings for employees, in which those rated in the bottom 20 percent would be forced to leave the company. Following this model, employees were crushing each other. Leaders like Skilling and Ken Lay, then chairman and former CEO of Enron, forgot that it's the people who make a company work.

Boards need CEOs who, in the words of *Fortune* (1999), are deeply interested in people. "People skills have taken on a new meaning as we've gone from managing people to leading people," says Bill Bonnstetter, CEO of TTI Performance Systems in Scottsdale, Arizona, the world's leader in computerized behavior and attitude assessments. "Years ago, before the term 'leader' was used in business, companies wanted managers with strong theoretical, utilitarian and power drives. Such people were tough-minded and low in social skills. That has changed. Today's successful leaders have people skills and the ability to influence. Leading means communicating a vision people can buy into. Leaders need to be goal-oriented and must share their goals with others; otherwise, there is no way to get there. Personal effectiveness is also essential. When leaders who don't understand the word '*can't*' fail, they get back up and move forward. A person who lacks the ability to get back up without help can't be a leader," says Bonnstetter.

"People skills go back to the Golden Rule of treating people the way you would want to be treated," says Tim Webster, President and CEO of American Italian Pasta Company, in Kansas City, Missouri. "My leadership style has been modeled after a number of people who touched others in a way that motivated and encouraged them to do more and achieve more than in their past. Our company is about bringing dignity to the work, giving people personal involvement and purpose. An independent measure of our employees' commitment levels demonstrated that the personal interest the CEO and other members of the leadership team took in individual lives was the single most motivating factor in inspiring that commitment."

Breaking through the layers

Successful CEOs are accessible and ask for input. While an open-door policy may not be feasible in large organizations, leaders who can't communicate and solve problems with teams they've created are not personally effective.

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"People skills and accessibility are absolutely critical to leadership," says Jack Lowe, CEO of TD Industries, headquartered in Dallas, Texas, a company that provides mechanical and electrical construction, facility management and service. "They are more important than management skills and technical expertise. I'm in an eight-by-eleven cubicle without a door, exactly the same as everyone else's; and, when I'm here, I always answer my own phone. CEOs need to listen to people at many levels to get a good feel of what's going on in the company. They need to be excruciatingly honest and straightforward with employees, have a sense of humor and not be pretentious or act as if they thought they were perfect. Building trust is vital, because without trust you can't move forward," says Lowe.

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Accessibility includes access to information. "Employees need financial and other information," says Webster. "If their scopes of influence and understanding are too narrow, they're not likely to make sound business decisions."

Mergers and acquisitions are creating ever-larger corporations, leaving the CEO far removed from what's going on. At the same time, because there are fewer layers of management, today's leaders affect every aspect of a company more directly than in the past. That makes accessibility and interaction with employees more difficult, yet more important than ever.

Values and vision

Boards must realize that the soft skills they want in a leader are driven by values. True leaders build successful companies on strong values, whereas profit-only CEOs ignore them along with their people. Badgered by Wall Street or investor-conscious boards, managers are wrapped up in what shareholders want now, often at the expense of their companies' long-term interests. Or worse, as in the case of Enron, they're not even concerned with generating profits for shareholders, but only with enriching themselves.

To understand what motivates true leaders, Bette Price, President of The Price Group in Dallas, measured six business values and compared them with the national means. Co-author of *True Leaders: How Exceptional CEOs and Presidents Make a Difference by Building People—and Profits* (Dearborn Trade Press, 2001), she explains:

> We found that these leaders had very balanced values. Averaged out, their number one value was social, meaning they had an inherent love of people and genuinely cared about them. The second value was utilitarian, meaning motivated by a return on investment, results and profit. However, these leaders were not consumed by profit alone. The third value was the individualistic or power value, not power in a negative sense, but from the standpoint of a desire to control one's own destiny and influence the destiny of others. As a balanced value, it's a needed drive. When out of balance, it makes a self-serving leader. In fact, although these leaders were very powerful people, they had very submerged egos. They were humble and didn't abuse the enormous amount of control they had.
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> The fourth value was the traditional value, meaning a strong system for decision-making. These leaders had a grounding that gave them integrity and guided them in making the right decisions. The assessment also showed that true leaders are very resilient. They don't take mistakes and failures personally, but evaluate them and move on. CEOs who do not share true leader values often fail to be accountable for flawed decisions, placing the blame on others within the organization.

Hubris is not a value. Cutthroat, ruthless behavior, while apparently profitable in the short run, will be destructive to companies in the long term. There is nothing wrong with an appreciation for money, but it's only one of several values that must be in balance. Strong CEOs are never ruthless but have the strength of knowing who they are, based on a strong value system.

Values are most useful in combination with strong communication skills. When employees don't see leaders practicing what they're preaching, it won't take them long to bail out mentally and physically. "We have a strong set of values that the whole organization has agreed to, along with a strong, noble vision that inspires people," says Lowe. "Our values include a belief in the importance of individual humans; valuing differences, honesty, trust and ethical behavior."

American Italian Pasta Company has a formal Code of Team Behavior that includes giving feedback to anyone found deviating. Webster explains, "The code states that we will work diligently in the constant pursuit of excellence with a sense of urgency, treat people with dignity and respect, talk only positively about others and focus our emotions on issues, not individuals. At the heart of that is the principle that if you have a problem with someone, you need to talk only to that person about it. We also emphasize basic values such as integrity, consistency and honesty. We founded this company on the principle of doing the right thing, and that's one of our core values."

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Leaders are generalists

When boards hire CEOs or promote them from within, they primarily look for the necessary hard skills. Does the candidate know how to read financial reports, how to forecast? But hard skills that make people fit into a job box don't necessarily translate into advantages for leading a company. A more important question to ask is whether the candidate is sufficiently a generalist. "The higher the leadership position, the greater the need for generalist knowledge along with the critical people skills," says Price. "Leaders must be able to see the big picture, understand what process needs to be implemented and have the right people to delegate it to."

When Italian Pasta's Webster became president and CEO in 1991, after serving as CFO and later COO, he acquired some of his additional skill sets by necessity. "We didn't have enough customers or business, so I learned to sell by needing it to survive," he recalls. "I love learning about our operations and I've become a pretty good thinker about facility layout design, optimization and utilization. I'm a very hands-on manager, and I like to be able to have detailed discussions with leaders of various functions with at least a good basic understanding of the drivers that influence that function's performance."

Jack Lowe also stresses that leaders should be generalists to a great extent. "They need a good grasp or appreciation of the different dimensions of the organization," he says. Before becoming CEO 21 years ago, Lowe spent 16 years working in the different divisions of his business—construction, distribution and service. He also calls himself a student of organizational leadership and management.

Bill Bonnstetter goes even further. "I believe a leader needs to be a super-generalist with knowledge in many areas, even though that knowledge might be superficial. Leaders have to understand, at a minimum, marketing, international business, technology and finance. They have to be able to read profit and loss statements from more than just a numbers standpoint. When it comes to dealing with people, they have to be experts. One of the most important things a leader has to be able to do is get out of his/her chair and sit in the chair of the employee and the customer to see things from their perspectives. Many CEOs fail because their biases get them in trouble," says Bonnstetter.

The job of the board

If boards are firing CEOs for poor performance, they must be making the wrong hiring decisions. Plenty of assessments are available to help with the selection of candidates, to elicit information on competencies, values and behavior. Objective assessments take the guesswork out of reading or sensing what people are about. The assessments at TTI Performance Systems, for example, are used by many companies to select leaders and other employees. TTI's Bonnstetter explains, "We look at people and jobs in the areas of behavior, attitude–passion (the connection between a person's passion and the job) and skills. One size no longer fits all. If the job could talk, it would clearly define the behavior, attitude, key accountabilities and hard skills it requires. Because the job can't talk, assessments help determine what it wants."

Many companies have established their own leadership profiles. Webster reports: "Our leadership profile incorporates the four E's of General Electric's former CEO, Jack Welch: *energy*; the ability to *energize* others; the *edge*, which is basically the guts, experience and self-confidence to make decisions; and *execution*, the ability to deliver results. We've added two other dimensions: the ability to be forward looking rather than working reactively and to be an organization builder, which means a leader who builds successful people and organizations around them."

Along with rethinking the role and personality of the CEO, directors need to rethink their own values. While hard skills, particularly in the financial arena, are beneficial, what really sets a good board member apart are the core values that drive behavior, especially with respect to people. As monitors of management of the company, directors are responsible for performance. Regardless of background,

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they should have the ability to mentor the CEO in making decisions and achieving personal and professional growth, as well as guiding the CEO in helping other employees grow. To win in an era of talent shortage, boards need to oversee creation of an environment that sends the message that the company is a good one to work for.

"The reason we're in business," explains TD Industries' Lowe, "is to be a great place for people to work. We can't do that unless we do a great job taking care of our customers, which means always getting better at what we do. For the four years that *Fortune* has published the list of the 100 best companies to work for, we've been in the top half dozen. That's who we are, and it's more important than what we do."

"Values are critical for a board of directors that is looking for long-term, sustained success rather than spiked, potentially short-term profits," says Bette Price. "That requires a CEO who has very balanced values. Enron is a perfect example of what happens when that requirement is not met. Board members themselves must have values that are aligned with the company's philosophy. If they don't, it gives the CEO a mixed message."

Rethinking the business model

It's not unlikely that financial institutions and regulators will decide to take a new look at reporting standards as a result of Enron's allegedly "cooking its books." This means that boards of directors have an even more serious challenge than finding and retaining CEOs. They need CEOs who don't destroy their companies, leaders who are ethical, people-oriented generalists with values grounded in a system. And since the buck doesn't stop with the CEO, board members must rethink their own business models and recognize their role as monitors and mentors for the company. Once they start acting like responsible boards, asking tough, significant questions, the CEOs they hire probably won't need to be fired. D

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