THE DISCONNECT BETWEEN CEOS AND THEIR COMPANIES

By
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ABSTRACT: With the increasing occurrence of failed and failing businesses and widespread malfeasance across many industries, there is a need to examine why CEOs seem to be so disconnected from their companies. The article examines some of those factors that prevent CEOs, boards and other leaders from understanding how their organizations function with recommendations for closing the gap. Specific companies and industries are discussed

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The evidence is mounting that there is a growing disconnect between CEOs (as well as their boards) and their companies – **as organizations**. In recent years, we have seen a dramatic increase in the number of companies being investigated for fraud and other illegitimate business practices across a wide range of industries. Despite lessons from the past in the financial industry (Milken-Drexel Burnham Lambert; Belfort-Allen Stanford Financial; Stratton-Stratton Oakmont and the collapse of the entire Savings and Loan industry in the 1980's and 90s) - CEOs from today's giant financial firms seem to have not learned their lessons. Among the more conspicuous have been Bernie Madoff who engineered the largest ponzi scheme in history costing investors $65B in losses and the destruction of Madoff Investment Securities. More recently, John Stumpf, former CEO of Wells Fargo, lost his position, bonuses and retirement by not recognizing the fraudulent sales schemes going on inside the bank under the knowing eye of Carrie Tolstedt, head of consumer banking (who was also fired and forced to give back un-vested retirement and bonuses). This was achieved **only** by the Feds pressuring the Wells Fargo board into taking action. Ironically, most of the 5,000 WF employees who were pressured into opening the false accounts and who were later fired when the scandal first broke (and threatened with their jobs if they spoke up) never recovered their jobs. I will talk more about Wells Fargo later in the article.

For some reason, Jamie Dimon, CEO of JP Morgan Chase, escaped punishment for not seeing the "London Whale" scandal that cost shareholders $6B in losses and later nearly a billion more dollars in fines to Federal and state governments. The Chief Investment Office (CIO) that supervised all trading, reported directly to Dimon, but he remained oblivious to what was happening. In 2016, Goldman Sachs agreed to pay $5B in fines for selling faulty mortgage securities during the financial collapse. In 2017, Barclay's Bank came under investigation for attempting to root out and retaliate against an employee who reported (as a whistle blower) fraudulent banking practices. This was just eighteen months after Barclay's was fined by British, European and American banking authorities for its key role in fraudulently manipulating LIBOR rates. Their new CEO, Jes Staley, lost more than a million dollars in pay and was reprimanded by the bank's board for his direct involvement in hunting down the whistle blower. *Institutional Investors Services* urged investors to oppose his re-nomination to the bank's board. In 2009, Seattle based Washington Mutual Bank, once the sixth largest bank in the US was shuttered after a nine day run on the bank costing it $19B in losses. It stock lost 80% of its value in a week due to revelations of securities fraud. At the time, it was the largest bank failure in US history. Shortly thereafter, Countrywide Financial, the largest originator of single family mortgages in the country was closed and sold off to Bank of America (which was later forced to pay out $1B in fines for Countrywide's toxic mortgage loans). Founder and CEO Angelo Mozilo was personally fined $67.5M but retained nearly $400M in personal assets after the bank failure.

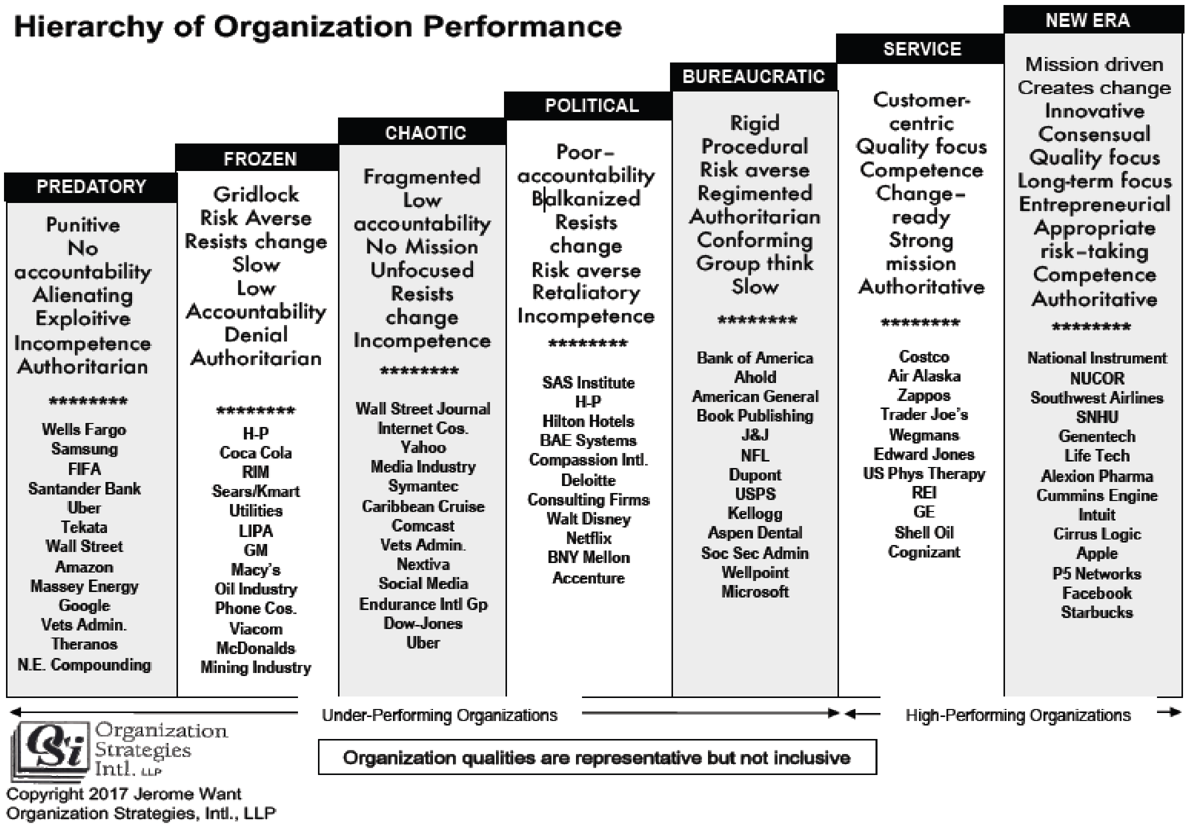
The pharmaceutical industry seems to be competing with Wall Street for its avarice as a host of pharmaceutical companies including Philidor, Turing, Valeant and Mylan have engaged in outrageous business practices forcing dramatic price increases on formerly cheap generics (under the pressure of activist investors). Even once straight laced Johnson and Johnson blinked and obfuscated with misleading PR when confronted with the contamination of several over-the-counter medications that were contaminated with bacteria by their McNeill Healthcare unit in 2016 (contrary to the up front and ethical manner in which J&J handled the 1982 Tylenol contamination crisis). Despite the company's mission statement claiming that it puts patients and professionals first over profits, shareholders sued the board for paying former J&J CEO James Weldon $30M during a period when the company's share price never increased over a seven year period. His successor, Alex Gorsky, is now under pressure for his $21M pay package while not being forthcoming about the contamination at McNeill.

In the international auto industry, hardly any car maker can escape scrutiny for selling faulty products to the public causing injury and death as well as hundreds of millions of dollars in damages and billions of dollars in fines. Nearly all of them waited to be caught before admitting to the long known problems. Atop the list for outright fraudulent conduct was Volkswagen Motors for dumping thousands of diesel vehicles onto the US market with emission devices that were rigged to avoid US clean air emission tests. This cost Martin Winterkorn, CEO and the president of the USA division, Michael Horn, their jobs (Winterkorn claimed ignorance of the problem that was created by his engineers). At the 2016 Detroit Auto Show, new Volkswagen CEO Matthias Mueller proclaimed that "Volkwagen was not a criminal enterprise" (Detroit Free Press, January 12, 2016). In early 2017, Volkswagen agreed to pay $18B in fines to the US Federal Government as well as state governments, while admitting its malfeasance and negligence. VW was later fined in Europe for similar cover ups. In this case, management knew nothing about the engineering team that created the software that would bypass those tests. Similar problems have been found at Toyota, GM and Fiat Chrysler. One of the more egregious cover ups was by Takata Motors for their defective air bags. In June, 2017, they had to file for bankruptcy protection in both the US and Japan after failing to find a buyer or relief for its $9B in debt. To date, fewer than 25% of the millions of autos equipped with Takata's faulty air bags have been recalled and repaired.

Neither can the high tech sector be ignored. Many of the problems in this industry are due to plain immaturity, ignorance and lack of business acumen by a bunch of "techy kids", as I call them, ranging from Marissa Mayer (Yahoo-and nearly half a dozen of her techie CEO predecessors), to Jack Dorsey (Twitter), Marc Pincus (Zynga), Andrew Mason (Groupon) and a host of CEOs of smaller tech companies whose only motive for starting their companies was to cash in. **Syndicated columnist and commentator for the Friday night *PBS New Hour*, Mark Shields made an insightful statement about the industry and its leaders: "They are so enamored with the technology that they fail to engage in prescient decision making."** Never has a more accurate statement been made about "Silicon Valley." Nevertheless, Uber and its founder/CEO Travis Kalanick set a new standard for predatory conduct and incompetence across a wide range of issues. If Uber's management board (fourteen people) feel that making the company less hostile to females will remake the culture, they will be badly disappointed. There is much more to a company's culture **the organization**-than ethical behavior and sexism.

<u>The Hierarchy of Organization Performance</u>

CEOs, senior executives, boards and even middle managers and front line supervisors rarely have full insight into their companies. When seen within the specific context of how their companies perform as organizations, the task can become more clear.



Over the years, I have used the "Hierarchy of Organization Performance" (Want, J., *Managing Radical Change*, Wiley, 1996) to help corporate boards and management teams gain better insight. From a performance perspective, they rank from the bottom left to the top right as: **Predatory, Frozen, Chaotic, Political, Bureaucratic, Service,** and what I call, **New Era** organizations. That also includes from the **bottom line** perspective. In a famous study linking organization performance (culture) to bottom line performance, John Kotter and James Heskett of Harvard (*Corporate Culture and Performance*, Free Press, 1992) found that companies with **high performing organizations** out-performed other companies that did not in four **financial** areas:

▪ Increased revenue average of 682% vs. 166%
▪ Expanded work forces by 282% vs. 36%
▪ Stock price growth by 901% vs. 74%
▪ Net income growth of 756% vs. 1%

In a less well known, but equally revealing study by Spencer and Morrow, "The Economic Value of Competencies: Measuring the ROI", (paper presented at the Third International Conference on Competency-based Tools to Drive Organizational Performance, Chicago, IL, September 1996), the authors found that companies with **high performing organizations** had a market value of $85,000 per employee vs. $35,000 per employee for those that did not. In another study on the performance of sales professionals, those who worked in **high performing organizations** sold an average of $6.7M vs. $3M for those from **underperforming organizations** (Hunter, J. and Frank L. Schmidt, "Individual Differences in Output Variability as a Function of Job Complexity." The Journal of Applied Psychology, Feb, 1990). **An open-ended bench marking study by the author's firm, Organization Strategies Intl, has found that in companies with high performing organizations (cultures) vs. average and underperforming organizations, the high performing organizations averaged 9.3 profitable quarters out of 12 consecutive quarters vs. 5.6 profitable quarters all other companies** (*Saving the Company*, Want, J., Beaufort Books/Midpoint Trade, 2017). Understanding how a company, **as an organization,** performs (or needs to perform) can be an immense help to CEOs and their boards.

<u>Components of a Company's Organization - Its Culture</u>

If CEOs, and other senior officers of an enterprise, are to understand what is really happening inside their companies, they need to understand what they are dealing with-beyond sales projections, quarterly financial reports, allocating resources, implementing mergers (which failed at least 70% of the time according to *Bloomberg Business Week*, September 2011), controlling costs and new strategic plans (which almost never work). CEOs need to understand how their companies **perform** which are best understood around a collection of **organizational** performance metrics. They include:

Mission and strategy (not the same as traditional Strategic planning). The mission declares the company's purpose and assumptions (vision), principal business goals, Corporate identity, Policies of the company, and Values and Standards for conduct for conducting business in the marketplace as well as within the organization. It is a compass for the company as well as a beacon for the marketplace. Unfortunately, too many startups (i.e. their founders) give little thought to these critical issues. A prime example is Uber and its reckless founder (now fired CEO) Travis Kalanack. The strategy should be an on-going and evolving **process**-not a written strategic plan-that includes change issues as well as the company's response to the changing competitive marketplace. Zappos, Apple, Starbucks and Costco had clear, meaningful missions which drove their evolving strategies. Their missions were linked with their strategies which put them in a superior position to their competitors because they **created change.** Both Michael Porter of Harvard (*Competitive Strategy*, Harvard Business Press, 1998) and Henry Mintzberg of McGill (*The Rise and Fall of Strategic Planning*, Free Press, 2013) have correctly criticized the strategic planning process as a futile enterprise in an ever changing marketplace.

Leadership and Management Effectiveness is seen throughout the organization. People just pretend that it does not exist-more often at the top than throughout middle and lower management. "A major responsibility of management at all levels is to continually build and maintain a common, performance-driven culture that all employees can identify with all around the business. That includes measures for competence and accountability. It should also include conducting business on behalf of the company in a manner that represents the highest ethical standards and best professional practices"(*Saving the Company,* Want, J. Beaufort Books/Midpoint Trade, 2017). When gaps exist between different levels of management as to expectations, conduct, and accountability, schisms are created within the company's organizations. This may go on for a prolonged period but eventually, the company starts to fail. We see this in today's hi-tech sector with many upstart companies that have raised astonishing sums of capital through IPOs only to have short life cycles. Silicon Valley's deep pocket investors are no longer as willing to invest in such start-ups and increasingly, those investors are demanding that competent CEOs take charge of the companies-not the founders.

I have found that most CEOs, today, fall into one of three categories:

▪ I don't know
▪ I don't know how, and
▪ I don't care

(Want,J., *Managing Radical Change,* Wiley, 1996). These days, we are seeing too many of the latter. Eddie Lampert, chairman and CEO of Sears Holdings is one such CEO. He is actually a Wall Street money manager who uses the company's coffers to enrich himself while engaging in a reductionist strategy by closing stores to cut costs. That includes selling off some of the company's crown jewels such as it Craftsman Tool line. He also fires store employees who have been with the company for years, because their salaries are becoming a burden. They are then offered their jobs back but at starting minimum wage. That represents a lack of ethics for both Lampert and the Board. Eventually, all Kmart and Sears stores will probably close. Lampert cares little about building and managing a high performing organization. His own investment firm, ESL Investments is the principal owner (and benefactor when the company needs cash). Others have included Dennis Kozlowski, former CEO of TYCO (who siphoned off $150M in fraudulent loans), Bernie Ebbers of now defunct World com (also jailed for massive fraud), Frank Lorenzo, another from Wall Street, who ruined Continental Airlines (and who was later banned from the airline industry) and Don Blankenship of Massey Energy who deliberately ignored and covered up more than 1500 mine safety violations. Blankenship's board claimed ignorance. What all of these CEOs had in common, beyond the fraud that they perpetuated, was that none of them delivered any value to their shareholders much less to their organizations or wider stakeholders.

Accountability for CEOs does not measure up to what is expected of others within the typical business organization. In an article entitled "Are Investors Paid for Performance?" Ric Marshall and Linda-Eling Lee, demonstrated over a ten year period that those companies that awarded their CEOs the largest compensation packages, failed to reap the long term benefits of improved profits and increased shareholder value (paper presented at the *Investors Research Institute*, MSCI, July 2016). Accountability seems to be a very low option for boards as they gladly deliver huge compensation packages and equally large golden parachutes to failed CEOs. Those CEOs who have nurtured **high performing organizations** have delivered benefits to all **stakeholders** for the **long-term,** including shareholders, as well as employees and suppliers. A few have included: former Harley-Davidson CEOs, Richard Teerlink and Jeffrey Bleustein, Tony Hsieh of Zappos, Tim Cook of Apple, Mark Zuckerberg of Facebook, Paul LeBlanc of Southern New Hampshire University, and Craig Jelinek of Costco. The board of Wells Fargo, clearly looked the other way during the bank's fraudulent sales scheme. While all board members were returned to the board, they were severely tested with narrow votes of confidence while the great majority of smaller shareholders voted against the boards return. Their new CEO, Tim Sloan (from the investment banking side of the bank) seems to be little more attuned to his organization than his predecessor, John Stumpf.

Communications and Decision Making is taken for granted in most companies, especially with the immediacy of email. Communicating words, orders, policies and decisions from the top are one thing, but communicating in ways that open up the company to new ideas is another. Bernie Ebbers, former CEO of World com, did everything he could to restrict communications, including taking away tables and chairs from snack rooms so that employees could not communicate with each other. That company's failure, due to his massive fraud, cost the jobs of 30,000 employees-most of them former employees of MCI, a pioneering and high performing telecom company that he bought. Where there is closed communications, one will find closed decision making. Companies that hold decision making at the top without a broad-based, inclusive approach to collecting opinions and new ideas is flying blind. That is why I encourage clients to use "consensus building" wherever possible.

Behaviors, Conduct and Ethics are not hidden from the marketplace as many CEOs would like to believe. Recent past examples of unethical organizations have included Citi Group (and much of Wall Street), Penn State, Solyndra Energy, and of course, Uber Technologies where the company had overlapping **predatory** and **chaotic** cultures.

Other components of a company's culture can include**:**

- **Knowledge and Competence**
- **Innovation and *reasonable* Risk Taking**
- **Performance and Accountability**
- **Business and Organization Interventions (are they effective?),** and
- **Change Readiness**

<u>Why Don't CEOs Get It?</u>

Insulation! CEOs hide from their companies. They do not really know what is going on relying almost exclusively on their direct reports. Two "CEOs" immediately come to mind who fell into this trap: General Eric Shinseki, Secretary of The Veteran's Administration, who famously relied only on his four direct reports, to know what was going on inside the agency and Graham Spanier, former President of Penn State University. Spanier's hubris and lack of curiosity, not only cost him his job and reputation, it also cost him his freedom as he was sentenced to two months in jail and two years of house arrest after jail.

Boards. If the boards do not show any curiosity about what is going on inside their companies, then why should CEOs? That lack of curiosity should have cost every member of the Wells Fargo board their seats as well as at JP Morgan Chase. **Boards should include organization performance and "wellness" as an accountability factor for measuring CEO performance.** This could be accomplished through regular, systematic and competently conducted organization audits (not what 95% of companies are conducting today).

Failed Fads and Fix-its are a major contributor to the failure of companies. Few executives today, remember the colossal failure of the "Business Process Re-engineering" (BPR) hoax of the late 80s and 90s. It ruined many companies and cost millions of workers their jobs without contributing to corporate bottom lines or to the performance of organizations (it almost always made organizations **less** effective). Not to dwell too much on that failed fad, it was borrowed by engineering professor Michael Hammer and his "organizational theorist" colleague James Champy from former Deloitte IT consultant, Thomas Davenport (now a professor at the University of Texas). Davenport helped create BPR as a process for better managing large **IT systems-not organizations.** He was highly critical of its use for reengineering entire organizations and he disavowed any affiliation with the failed process. Hammer and Champy made millions from selling their process to Computer Sciences Corporation as a consulting intervention as well as off their published books. BPR was an example of the lemming effect that infects so many senior executive teams and board rooms.

Other failed fads have included **Mergers** when a company can no longer innovate to grow its bottom line. Xerox is a prime example of this type of company. Under Ursula Burns's urging, Xerox acquired Affiliated Computer Systems (ACS) only for the merger to fail. Xerox then had to divest itself of ACS in 2016 as the company had to break up to satisfy investor demands. The business world is littered with failed mergers, frequently followed by **Divestitures.** Hewlett Packard and Yahoo are two such companies that swallowed more than they could manage over the years, only to have to break up into separate companies to survive.
Those types of "strategic initiatives" made a lot of money for investment bankers and merger consultants while delivering very little value to shareholders and broader stakeholders.

Financial manipulation, the "numbers game," and short term goals have taken on many forms in recent years to satisfy investors and to increase bonus packages for CEOs and other senior executives. Tax avoidance has been a highly popular option as American companies have moved their titular headquarters to tax haven countries, including Burger King (Canada), Tyco International (Bermuda), Santa Fe International (Panama), Transocean (the Cayman Islands), and Medtronic (Ireland). This is called inversion. Eaton Industries CEO Alexander cutler told a gathering of corporate leaders that the best way to eliminate the budget deficit was to close tax loopholes. Eaton is a Cleveland based company that underwent inversion to Ireland to avoid paying higher taxes. I have already discussed how many pharmaceutical companies have "goosed the numbers" on formerly low cost generics. Philidor Rx, a manufacturer controlled mail order pharmacy that was started in 2013 (and which was utilized almost exclusively by Valeant Pharmaceuticals), instructed its employees to change physician prescriptions to increase the cost of drugs for patients and insurance companies to bolster their bottom line (and that of Valeant). All of that combined with a short term need to make money on a quarterly basis have sacrificed the long term future for many companies.

Public Relations and Crisis Management has become a booming industry. A wide range of PR and crisis management firms have grown up in parallel to the growing number of fraudulent business practices. Increasingly, these firms are made up of PR experts and lawyers to polish the image of companies like Valeant, Uber, Walmart, Pfizer, GM and Toyota. A prime example of this "apple shining" was BP after its disastrous oil spill from the Deep Water Horizon in the Gulf of Mexico. Almost immediately, they began airing ads on national TV about their efforts to engage in environmentally safe drilling standards. Those advertisements continue today. Companies with high performing organizations rarely have to resort to crisis management tactics. When they do have a problem, they confront it openly and honestly.

Restructuring and Downsizing may be the most commonly used tool by CEOs and boards when a company has problems-regardless of whether that is the correct solution for the problem. When a company's culture is failing, restructuring and downsizing will do nothing to correct many problems-except making it smaller while making the CEO's false sense of accomplishment larger. According to Arthur D Little and Associates in a 2000 study of 1000 companies that undertook the downsizing and restructuring effort:

▪ Ninety percent expected to reduce expenses, but fewer than half achieved that goal

▪ Seventy-five percent sought productivity improvements, but only twenty-two percent reached their goal.

▪ More than half expected to reduce their bureaucracy but only fifteen percent reported success. As this author has frequently stated, "bureaucracy is a state of mind, not just size and structure."(*Managing Radical Change,* John Wiley and Sons, 1996; *Corporate Culture: Illuminating the Black Hole,* St Martins Press, 2006).

The Urge to Merge has already been discussed. For sure, mergers rarely have a positive impact on the newly combined company. Mergers always harm the performance of the merged organization. This is another tool that gives CEOs the false impression that they are doing something worthwhile and important. When these business combinations fail, as we have frequently seen in such companies as HP, Xerox, Warner with Time and Quaker Oats with Snapple, they end up having to divest their holdings. The most common cause—**failed or incompatible cultures.**

Major Obstacles to the CEOs understanding and leading high performing organizations are many. Some of the more prominent obstacles include:

Lack of Curiosity is a major impediment to CEOs understanding how their organizations function and perform. With the proper tools, CEOs and boards can better understand what the capabilities of their organizations are, especially as it applies to supporting a new strategic intiative.

Lack of Sponsorship on those rare occasions when systematic, empirical and non-biased audits of an organization are undertaken, they are rarely sponsored by the top of the organization. When Richard Teerlink of Harley Davidson wanted to know how the company's organization was functioning, he not only threw his own support behind the audit process, he enlisted the support of his board. That also carried through to the follow up change process. The board's sponsorship only further supports the CEO's sponsorship which gains better results. If the CEO does not personally sponsor the organization performance improvement process, IT WILL FAIL.

"We Have No Time: The Company is in Trouble." Companies that are failing almost always resist dealing with their business cultures which is almost always the underlying contributor to both failing bottom line performance and the failed performance of the organization.

"We Have No Need: the Company is Doing Fine." Companies that are riding the wave of success feel no need to tamper with the status quo as poking around the culture is the last thing that CEOs want to do. This is the best time to take stock of how a company's organization is performing. The best CEOs do not wait for problems to arise before taking the pulse of the organization.

Too Big to Fail (and Too Important) Companies that believe that they are too big to fail, or are too vital for the national interest have repeatedly shown that they were wrong. We saw this with the 2008 mortgage led failure of the stock market which led to the "Great Recession of 2009" (when compared to the depressions of the late 19th century, it would have been considered a depression). While professionals continually refer to the failure of Lehman Brothers as a major debacle, Merrill Lynch, **the largest stock trader** in the world, was a much bigger failure leading to its acquisition by Bank of America (forced on BA by the Federal Government). Bear Stearns, **the largest bond trader** also failed, as did Countrywide Financial, **the largest mortgage company** in the US. We also saw where GM and Fiat Chrysler had to be bailed out by the US government when they were bankrupted along with many suppliers. The defense industry also sees itself as too vital to the national interest to fail. In the ship building sector, in particular, CEOs look the other way after repeated safety violations and small fines as recently seen at VT Halter Marine and Austal Shipbuilding. This too big to fail mentality is directly attributable to **excessive hubris.**

Human Resources has become a major obstacle to understanding and supporting the performance of organizations. Not long ago, human resources was seen as a vital strategic resource for a company- especially large companies. No More. In a Brand Voice/ADP study “The State of Human Resources - A Guide to the HR Galaxy” (*Forbes*, May, 2015), **CEOs reported a clear lack of satisfaction with their HR functions.** A different study may be more illuminating. In a May 20, 2016 article in the *Journal of Entrepreneurship and Organization Management,* Virgil Berry (a former Fortune 500 CEO) revealed some stunning statistics about human resources.

▪ Ninety-four percent (94%) of companies with revenues from $5M to $100M had a female VP/Director of HR.

▪ Eighty-three percent (83%) of CHROs in companies ranging from $101M to $1B, were female. Fifty-eight (58%) of those companies had HR staffs compose almost entirely of females.

▪ In companies over $1B, females made up seventy-four percent (74%) of CHROs. Males seemed to be limited to compensation or HR IT roles. Almost all male CHROs served in industrial companies (usually with unionized work forces),indicating a different bias which is changing.

▪ As best could be determined by calls to many of these companies, **ninety-one percent (91%) of replacements for female CHROs was another female going back two and three hires.** A similar percentage of replacements for male CHROs were female.

This indicates that HR is no longer a center for merit, but is used for political correctness. No wonder that CEOs are not happy with their human resource departments.

A similar trend has occurred in the “organization effectiveness” function which has been subordinated into human resources. Too many leaders of the corporate organization effectiveness and education functions have no qualifications for the role. Several years ago, I was asked by a director of human resources (a female) if I would train her female subordinate who was given the title of Director of Organization Development. Needless to say, I refused. After making contact with the EVP of Consumer Banking at Wells Fargo, earlier in 2017 (a female replacing another female), the author was referred to their senior vice president of learning. I knew immediately what I was in store for. Virtually every media outlet has trumpeted the failings of Wells Fargo’s **CULTURE** as the cause for its sales scam and that person at WF put off talking with me nearly two months. When I asked that SVP (just one day after the bank’s board was narrowly reelected) if that was good, she exclaimed “of course; we’re happy about it” even though the board was asleep at the switch for the fraud and had to be forced by the Securities and Exchange Commission to fire John Stumpf and claw back monies from Stumpf and other senior executives involved. I also asked her what the bank was doing to change it culture. She responded “Oh, we do not have to do anything about our culture…we have to start making change.” **If Wells Fargo is not changing its culture, what is it changing?** Further questioning revealed that she had no undergraduate or graduate degree in education or adult learning. Her counterpart SVP of Organization Effectiveness had no qualifications, experience or graduate education, either. When the EVP of Consumer Banking was written a pro forma follow-up offering assistance for the future, a stiff email was sent by the co-EVP of Human Resources, a female, who questioned the appropriateness of the letter to the line officer. Her co-EVP of HR was also female. They felt it was their prerogative to choose. **It may have been if they were qualified.** If they had had an OE and Learning function **based on merit** at WF (and preferably separated from HR), possibly the sales scandal could have been discovered before 5,000 employees lost their jobs. What was once a discipline that required PhDs and at least graduate degrees, as well as considerable consulting experience, has become another HR sham.

A Short-term focus has increasingly plagued CEOs, encouraged by their boards. Many of those boards are now dominated by “activist” investors (also called vulture investors) who represent their own narrow interests or those of their investment company. Their short term focus leaves little room to rebuild failing companies in a proper manner. A few of the more prominent ones include:

▪ William Ackman (Pershing Square Capital)

▪ Jeff Ubben (Value Act Partners)

▪ Daniel Loeb (Third Point Partners)

▪ Carl Icahn (Icahn Enterprises)

Fear and Mistrust can be a major obstacle to any effort to change a business organization. I will speak more about that in the next section, especially as it applies to CEO responsibilities.

Excluding People from the Change Process Many people are not comfortable in letting go of the status quo. By allowing widespread involvement, fear and mistrust can be significantly reduced.

Lack of Leadership Competence. Nearly thirty years ago, in his ground breaking book, *On Leadership,* Free Press, 1990) John Gardner (a leadership coach to President Eisenhower) lamented the lack of leadership skills in the business world by proclaiming, "In a sea of managers, the business world cries out for leaders." With each passing month, I am more astonished at the failure of so many CEOs and their lack of understanding of what their roles should be.

<u>The CEOs Role as Conservator and Builder of High Performing Organizations</u>

Create Sponsorship at the Top If the CEO wishes to undertake a thorough audit of his organization's performance, he needs to be an active sponsor of the effort. Do not leave it to HR (especially in light of how the HR function has devolved over recent years). I do not agree with Gary Hamel that the process should be a bottoms up process (*Leading the Revolution*, Harvard Business School Press, 2003). Without the most senior sponsorship, it will fail. When I am asked to lead an organization performance audit of any kind, I require the CEO to sign off on the process and remain involved as the ultimate sponsor and client. Without that, I will not move forward.

The CEO should:

1 Ensure strong visioning
2 Become a student of the culture
3 Make the process one of renewal
4 Ensure open and widespread communications
5 Require inclusiveness all around the organization
6 Require trust
7 Demand accountability through specific goals setting

Employ the Proper Processes In my long career in this field, I have yet to find an organization capable of undertaking a proper, systematic, and bias free audit of how the organization performs, much less initiating a lasting organization change process. The term **process** has special and specific meaning to well qualified professionals in this field (when I asked WF executive about their internal "process consulting," she did not understand me). Surveys from the corporate sector, that I see, do not ask the right questions and they are often statistically unsound, yielding misleading and false results. Surveys are just the **quantitative** aspect of such a study. A parallel **qualitative** analysis should also be used because surveying alone (even if done correctly) does not answer the **how** and **why** questions for moving forward (APA standards for measurement of human behavior also require a second measurement process). I utilize a process called Consensus Team Building For Change (Proprietary to OSI) which is based on George Kelly's theory of **Personal Construct Psychology** from the 1950s. It creates a wide "funnel" for gathering ideas and opinions while channeling them into consensus findings that give the client (hopefully the CEO) more valued information. I was given the opportunity to conduct the first organization change management audit of a Bell company after the break-up of AT&T. Bob Blanz, their President, had seen "too many" surveys. When I presented the results of my surveying combined with results of the consensus building that I conducted around the organization, he then became interested and proclaimed, "now that is what I needed to chart our future." I went on to conduct similar studies at most of the other Baby Bells as well as at Contel.

I received a similar response from Contel's CEO, Don Weber.

Recommit to High Standards for Ethical Conduct and Accountability Unfortunately, too many CEOs feel a bit squeamish about this. It should be the first and last thing that a CEO thinks about and talks about with the people of his organization each day. In a June 2015 Gallup poll reflecting trust and confidence in institutions by Americans, The Military ranked highest with 72% of respondents having "a great Deal or Quite a lot of trust." Ranked next to last with just 21% was big business.

Create a Work Environment that is Ready to Change If a company is not able to respond to changing competitive conditions in a timely and effective manner, it is doomed to fail. Many of the fraudulent business practices we see today are as a result of the inability of CEOs, senior executives, and boards to respond to change. Increasingly, it is difficult to avoid scrutiny. "**The best companies create change, giving them a huge competitive advantage.** Companies that build and maintain change ready organizations are constantly focused on the marketplace and where it is going (Want, J., *Saving the Company*, Beaufort Books/Midpoint Trade, NY, 2017).

Encourage Reasonable Risk Taking and Innovation Companies with Service and New Era business cultures are known for promoting reasonable risk taking and innovation. I have listed a few such companies in the "Hierarchy of Organization Performance." Break-through ideas, critical thinking and self-initiative are not the sole domain of upper management.

Creating Widespread Worker Empowerment Within a Democratic and Open Organization

When I apply the word "democratic" to business organizations, people get their back up ranging from front line supervisors to the C suite. People need to be able to express ideas, concerns and hopes without fear of reprisal which did happen at World Com, Barclays Bank and Wells Fargo among many others. For this to happen, managers need to develop a tough hide while ensuring trust. Despite the slow shrinkage of the steel industry (through dumping from China), Nucor has abided by this principal which makes it the industry leader. When this is accomplished, then…

Changing People's Beliefs, Behaviors, Commitments and Values becomes possible which should be a paramount goal for managing change to competitive advantage. Companies that achieve this realize a more committed and high performing work force and organization.

Eliminate Bias Many people, especially at the top, will have strong biases as to any process for changing or improving the performance of a company's organization performance. Consensus Building will help to overcome that. If certain people of influential position, will not modify their long held beliefs, they have to be moved out of the way.

Individualize Around the Company I am continually critical of major consulting firms because they do not know how to individualize around **client needs**. They provide remedies that are right for them and their own bottom line first and foremost. BPR was one prominent example. That is why when I work with an organization, I put the change process into their hands while providing guidance for success.

It's About the Customer The ultimate objective is to meet and exceed the expectations of the marketplace**-the customer.** Companies with Service and New Era organizations – cultures **-** build their strategies around the customer. I have listed some of them in the Hierarchy.

The American corporation sits at a critical juncture. It may continue to enable obsolete business practices that rely on failed business organizations and failed leadership, or it may engage in a true business transformation. **Perpetually high performing businesses rely on high performing organizations. That requires the right leadership.**

CONCLUSIONS

If CEOs and other leaders are to better understand how their organizations perform, they need to take certain initiatives:

1 utilize better audit tools that will give them better insight into their companies

2 recruit better qualified people to audit and maintain high performing organizations

3 understand the barriers to building and maintaining high performing organizations

4 recognize that there are different types of organizations and understand which applies to their own organization

5 become the chief organization officer as well as the chief executive officer.

The author does not discuss client companies without their permission.
