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Leading Witnesses

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LEADING WITNESSES

Conversations with scholars and practitioners on the new challenges of life at the top.

Illustrations by Michael Klein

Michael Critelli

The Empathetic Leader

Being a CEO requires mental and emotional toughness and the ability to empathize with frontline employees.

These elements are much, much more important now than they were eight years ago, when I took my job. CEOs have to match the expectations of shareholders, customers, and employees. Customers expect that prices will stay the same or go down. Employees want to be paid more. Investors want growth. There is a mismatch between their expectations and what we can do realistically. CEOs are expected to pull all this together. So I don't hide in my office — I have a dialogue with employees.

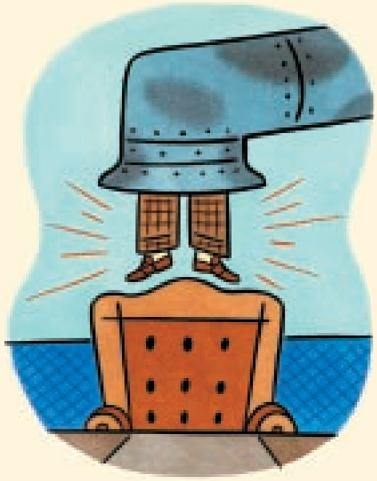
Every CEO will hit a wall. Then, it's a question of how you react. +

Michael Critelli is chairman and CEO of Pitney Bowes. He joined the company in 1979 and became CEO in 1996. Founded in 1920, Pitney Bowes now has more than 33,000 people worldwide, operations in more than 130 countries, a turnover in excess of $4 billion, 2 million customers, and more than 3,500 active patents.

Noel M. Tichy
Building Leadership Pipelines

We have a terrible track record of building leadership pipelines. Companies have to go outside to find their CEOs all the time — look at Hewlett-Packard with Carly Fiorina, 3M with James McNerney. Both of them had broken pipelines. They weren't developing the leaders necessary. And that is the biggest problem in any organization — not developing leaders.

Jack Welch's greatest contribution at General Electric (GE) was to create the biggest leadership pool ever. He said back in 1985 that the way he got to be CEO wasn't going to be the way the next CEO would get there, and he vowed then to look into the values and business issues surrounding his succession. He appreciated that the way a 22-year-old mechanical engineer learns about the company's values



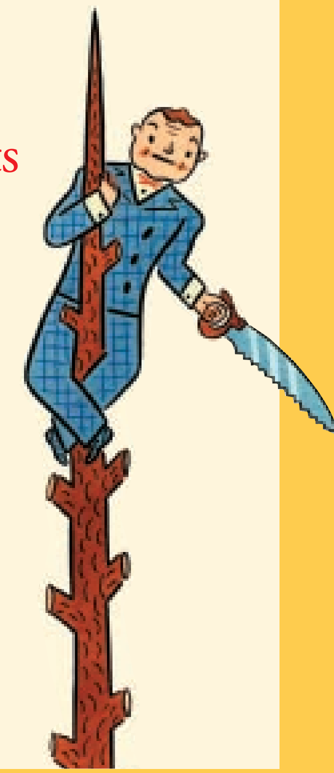
is very different from the way a senior manager with 20 years of experience, responsible for 20,000 people, understands those values. So at GE's Crotonville Center, we built a curriculum of leadership development. GE was spending $1 billion on development every year, with the goal of building a leadership pipeline. The result was that there were at least seven candidates for the CEO's job.

Although a small number of companies do take this task seriously — Jorma Ollila at Nokia, for example, has been working on his succession for the last 10 years — show me any other company on the planet that has that good a bench. ✚

Noel M. Tichy is professor of organizational behavior and human resource management at the University of Michigan Business School and director of the school's Global Leadership Program. The former head of GE's Leadership Institute at Crotonville, in Ossining, N.Y., he is the author, coauthor, or editor of numerous books. His latest book is *The Ethical Challenge* (John Wiley & Sons, 2003).

Sydney Finkelstein
The Growth Challenge

The intense pressure to generate quick results has led to an overwhelming concentration on cost cutting, which is much easier than increasing revenues. What is needed in the longer term is much more than cost cutting. Innovation and growth are central to the sustenance of high-performing companies.



Sydney Finkelstein is Steven Roth Professor of Management at the Tuck School at Dartmouth College. His latest book is *Why Smart Executives Fail* (Portfolio, 2003).

John P. Kotter
Cascading Leadership

Because of the lack of people in organizations who can provide leadership, the CEO's job is increasingly impossible. The notion of having only one or two leaders in a large organization is ridiculous. The trouble is that people have convinced themselves that leadership isn't their job. I even meet executive vice presidents who don't see leadership as their job. When a company that employs 20,000 people puts on a training program for leaders and sends 50 people through it, the message is clear.

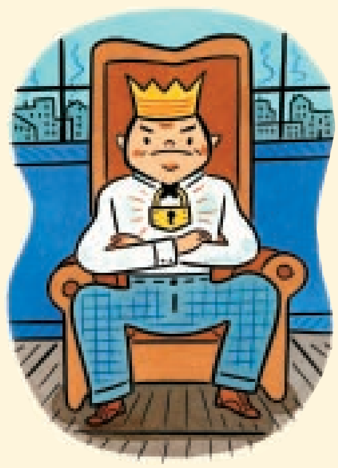
The notion of leadership has huge elitist connotations, but we need a populist connotation. My vision is to create 100 million new leaders. That's not 100 million CEOs, nor is it something that can be achieved next year. But it is a question of enabling many, many more people to provide leadership in their jobs — no matter what their jobs are. ✚

John P. Kotter, retired Konosuke Matsushita Professor of Leadership at Harvard Business School, is an expert on leadership and change. He is the author or coauthor of a half-dozen best-selling books, including *The Heart of Change* (Harvard Business School Press, 2002) and *Leading Change* (Harvard Business School Press, 1996).

Jeffrey Sonnenfeld
Success Through Succession

A lot of CEOs conventionally wanted to avoid the succession discussion for fear of being labeled lame ducks. But that's an irrational fear. Nobody thought that Jack Welch was a lame duck after he announced Jeff Immelt's position as CEO of GE. When Andy Grove decided on Craig Barrett as his successor at Intel, nobody there thought that Grove's influence had diminished, or that he should not be taken seriously.

Another thing is that CEOs and boards tend to believe that they can just pick one person as a fallback plan in case of a disaster or crisis. The board pushes to identify candidates should some cruel fate befall the incumbent CEO. That's not a succession plan. The individual has to be tested with various trial assignments. Every single member of the board has to be very comfortable with the individual. That individual needs exposure to key external constituencies and must be seen in the organization as a legitimate leader. He or she can't be just a handpicked protégé or a



secret candidate. The company and its constituencies have to be prepared.

A succession must include lots of reference points to calibrate the firm's needs, and those needs have to be reviewed continually as they change. Just as the CEO must be assessed on a yearly basis, you have to assess the CEO's potential replacements on a yearly basis, because different skills and attributes are required at different times, at different life stages of the business.

Finally, there is the issue of identifying people in the pipeline. CEO succession is the catalyst for leadership development throughout the whole firm. It must match the changing strategy, and that has to drive the way leaders are identified and groomed throughout the whole firm. CEO succession is just part of a larger leadership development process. ✚

Jeffrey Sonnenfeld is associate dean of executive programs as well as adjunct professor of management at the Yale School of Management. He is founder and president of The Chief Executive Leadership Institute, a nonprofit educational and research organization focused on CEO leadership and corporate governance. Professor Sonnenfeld is the author of a number of books, including *The Hero's Farewell* (Oxford University Press, 1988).

Manfred Kets de Vries

Merchants of Hope

CEOs are merchants of hope. They must speak to the collective imagination of their people.

Manfred Kets de Vries is the author, coauthor, or editor of 20 books. His recent books include *Struggling with the Demon* (Psychosocial Press, 2001); *The Leadership Mystique* (Financial Times Prentice Hall, 2001); and *Are Leaders Born or Are They Made: The Case of Alexander the Great* (Karnac Books, 2004).

Jim Collins

Sustaining Transformation

Companies that create a great transformation aren't thinking about transformation. They are much more evolutionary and organic and disciplined and cumulative in their process. Over time, that approach produces outstanding results. One quote from our research stands out: "In retrospect, it was obvious we were going through a period of total transformation. But I don't think anyone on the management team was aware of it at the time."

It's like the Roman revolution. If you dropped into the world in 30 B.C. and asked, "So how's the Roman revolution going?" the Romans would have responded, "What revolution?" Such things build, build, build — and then at some point they stick, like Malcolm Gladwell's idea of the tipping point.

What we found was that unsustained transformations resulted from a company's trying to make big, dramatic, flashy, quick revolutionary changes. A second factor was that instead of building a culture of discipline to make the company stronger, its CEO personally tended to be a disciplinarian. CEOs like this were such a force of nature themselves that they produced an unsustainable shift, so that when they stepped away, the company would decline because it was so much about them.

In the sustained cases we found less charismatic leaders. I want to be clear that you can be a charismatic leader and end up producing great, long-term results. Sam Walton is a terrific example. But the bias is very much against charismatic leaders. +

Jim Collins has spent more than a decade researching enduring great companies, and has authored or coauthored four books on the subject, including, most recently, the best-selling *Good to Great: Why Some Companies Make the Leap ... and Others Don't* (HarperCollins, 2001).

Klaus-Peter Gushurst

For Appearance' Sake

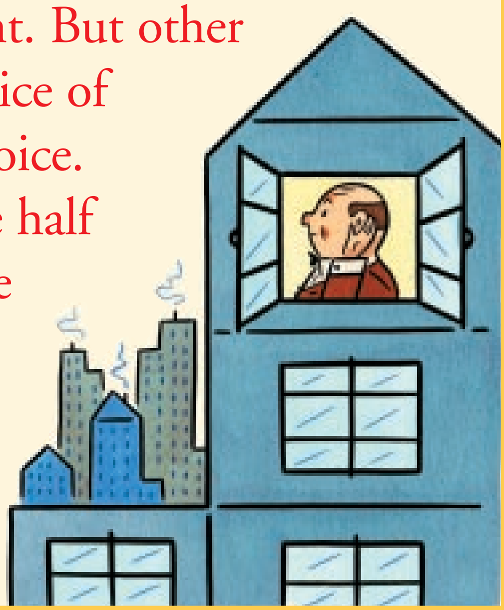
In searching for a new CEO, a company should look for someone with full knowledge of the industry and the issues the firm is facing — as well as a clear vision. The firm should place a lot of emphasis on his or her values. And there's a new criterion: a good public appearance. It's expected now that CEOs come off well on TV and in public forums.

Klaus-Peter Gushurst, who is based in Munich, is a vice president and the managing partner of Booz Allen Hamilton in Germany, Switzerland, and Austria. Dr. Gushurst specializes in strategy, restructuring, and corporate management, primarily in the financial-services and automotive industries.

Henry Mintzberg

CEOs and Stakeholders

Companies are the instruments of society. They exist for us; we do not exist for them. So voices other than the shareholders' have to be heard. That doesn't mean the shareholder isn't important. But other voices are equally important: the voice of employees, the local community's voice. I'm not arguing that they constitute half the board, as in Germany. But those voices need to be heard.



Henry Mintzberg is John Cleghorn Professor of Management Studies at McGill University and the author of 10 management books. He has contributed to *Harvard Business Review*, *California Management Review*, *Academy of Management Review*, and other major management journals.

Andrew Kakabadse

The Tenure Track

Consulting experience and research do not emerge with a clear view on CEO tenure. At one end, the average learning curve for most senior directors, which includes CEOs, chairmen, executive directors, and nonexecutive directors, is 30 to 35 months. At the other end, evidence emerges that after a leader has spent 9 to 11 years in the role, the level of the drive necessary to constantly introduce change wanes.

As you can see, there is a large gap here. Thus, the critical question is not how long should a CEO remain in the job, but what is required of the CEO in leading this particular organization.

Dramatic restructuring and cost cutting may incur such adverse comment that any CEO should wisely move on after 24 to 30 months. But when longer-term issues need to be addressed, such as improving the reputation of the corporation, enhancing corporate image and corporate brand, acquiring and integrating new business entrants into the corporation's portfolio, building up a research-based culture, or similar longer-term strategic initiatives, it is critical to establish a cohesive and acceptable corporate culture. Culture is, in effect, the glue of the organization; building a positive environment when faced with such changes is unlikely to take place in less than a three-year period. ✚

Andrew Kakabadse is professor of international management development and community director of Leadership and Organization at Cranfield University School of Management in the U.K. His current areas of interest focus on improving the performance of top executives and top executive teams.

Warren Bennis
The Need for Risk

There is a public cynicism in the air toward CEO leadership. The smell from the corporate scandals probably will affect the pool of people who go into corporate leadership worldwide and who want to do the job of CEO. Boards may also look for CEOs who are more cautious and circumspect rather than daring and bold. And that could lead to very dull and dreary organizations. An unintended consequence of the Sarbanes-Oxley Act of 2002 will be to make CEOs much more risk averse. That in turn may cut down on innovation. ✚

Warren Bennis is university professor and distinguished professor of business administration at the University of Southern California's Marshall School of Business and founding chairman of the Leadership Institute at USC. He also serves as chairman of the advisory board of the Center for Public Leadership at Harvard University's Kennedy School of Government and is Thomas S. Murphy Distinguished Research Fellow at Harvard Business School. He has written 27 books on leadership, change, and creative collaboration.

Paul Anderson
The Buck Stops at the Boardroom

In many cases, those who have been most at fault for the failures observed around the world are the directors. They are the people who are supposed to be representing the interests of the owners, or more broadly, the stakeholders. Too many boards have been totally derelict in the discharge of their responsibilities.

Executive compensation is a case in point. Boards have let people get away with obscene compensation packages. That's one of their principal duties: approving the CEO's pay package. When serious problems are manifested, the CEO often gets "shot" (aka fired). But equally appropriately, the directors should be shot at the same time, or maybe even first. Could the board of Enron have known about what Andrew Fastow was doing? Maybe, maybe not; a clever executive can hide accounting gimmicks from a board. But executive compensation? That you cannot hide. In this area, the board is clearly responsible.

If boards shape up, you'll see CEOs shaping up. As long as the board does not reform its attitude and approach, there's no reason for the CEO to. ✚

Paul Anderson is a senior vice president of Booz Allen Hamilton in Chicago.

Rakesh Khurana
Institutional Leadership

Most successful chief executives are institutional leaders, not individual leaders. Institutional leaders are able to imbue the organization with a meaning and purpose that goes beyond the economic logic of the firm. Institutional leaders are able to lead from behind. They compare themselves less to Michael Jordan or Tom Cruise and more to coaches who create conditions that allow other people to be effective. Institutional leaders can be measured not only by the success of the organization during their tenure, but also by the success of their successors. ✚

Rakesh Khurana is assistant professor of business administration at Harvard Business School, where he teaches leadership and organizational behavior in the MBA program. Professor Khurana's current research focuses on the CEO labor market. He is the author of *Searching for a Corporate Savior: The Irrational Quest for Charismatic CEOs* (Princeton University Press, 2002).

Lynda Gratton

Wealth Through Liberation

Creating shareholder wealth is absolutely crucial to organizations, but the way that is done is by establishing organizational structures and working practices that enable every employee to be the very best he or she can be.

To accomplish that, CEOs have to do three things extremely well. First, they have to continuously reduce the level of bureaucracy and control in organizations so that individuals have more capacity to act in an independent way. With the rise of technology in particular and of Generations X and Y in general, there's going to be a huge push on CEOs to liberate the internal workings of the organization.

Second, CEOs really have to look with fresh eyes at the "contract" between the individual and the company. Over the next decade, we should strive to make work — which for most of us is the major institution of our lives and what we spend most of our time doing — more pleasurable, and more fitting to the individual's aspirations. We need to bring more choice to it.

The third part of the CEO's role, and probably the most important one, is to communicate to every single employee in the organization a sense of purpose — a sense of what the organization is there to achieve. The "empowerment movement" of the 1980s failed primarily because people were given a lot of liberty but no clear sense of what they were supposed to be achieving.

When Royal Bank of Scotland (RBS) took over NatWest, CEO Fred Goodwin began a process of communication, primarily through satellite links into the branches, to exchange information with people on a very frequent basis. He talked about what the purpose of RBS was — to be the best bank in the world for shareholders, employees, and customers — and what their role was. By conveying that aspiration often, Goodwin played an enormously important role in the transformation of that organization. I see that as very much part of what I call a democratic enterprise. ✚

Lynda Gratton is associate professor of organizational behavior at London Business School, where she directs its executive program, Human Resource Strategy in Transforming Organisations. Over the last decade, she has led the Leading Edge Research Consortium (www.london.edu/lerc), a major research initiative involving companies such as Hewlett-Packard and Citibank. Professor Gratton's latest book is *The Democratic Enterprise* (Pearson, 2003).

Eric Abrahamson

The Zen of Change Management

When a firm fails to adjust to its changing markets, big, dramatic, and revolutionary transformations may be the only way to turn it around. These transformations, however, are extremely risky and costly, both in financial and human terms. One challenge is managing change in a much less painful fashion, through a sustainable series of smaller changes that won't require such major dramatic evolution. That requires "pacing" — balancing and alternating stability and change, to exploit the long- and short-term advantages of each, and counteracting the disadvantages of both.

Eric Abrahamson is professor of management at Columbia Business School. He is the author of *Change Without Pain: How Managers Can Overcome Initiative Overload, Organizational Chaos, and Employee Burnout* (Harvard Business School Press, 2003).

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