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Say *No* to Yes Men

Otherwise, expect the worst.

by Michael G. Winston

IN HEALTHY ORGANIZAtions, you hear the creative clash of conflicting ideas—the fire, spark, energy, and emotions that erupt when people *care passionately about doing the right thing* (for customers, stakeholders, employees, and society) *but disagree on how to get it done*. You witness creative synergy for transformative learning, idea generation, and problem-solving.

In contrast, in companies that helped cause the global recession, the silence was deafening. A CEO or executive proposes a course of action that many direct reports feel and know to be patently wrong. But they are mute. Their minds are racing . . . *who am I to challenge the CEO? After all, he's been right many times before. His rags-to-riches story is the realization of the American dream*. After much deliberation and angst, the would-be challenger keeps his thoughts to himself.

Many of these companies were once dominant. But *quiet acquiescence* and *groupthink* prompted a free-fall. Leadership practices were driven more by *arrogance*, *ignorance*, and *greed* than a clear, noble and compelling vision. When the dust settled, the global economy was in shambles. Little was left but *broken trust* and *shattered lives*.

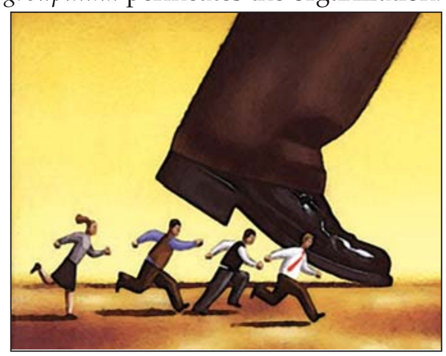
In her book *Extraordinary Circumstances* about the demise of WorldCom, author Cynthia Cooper notes: "In trying to forestall and conceal the impending demise, some executives lost their way and led others astray as well. Once they had begun to deceive, they did not regain their footing. Whatever rationalization was applied to the deceit, it brought nothing but ruin."

And in his book *The Foreclosure of America*, former Countrywide Financial SVP Adam Michaelson writes of the *marketing of a mirage* and *bad business decisions that brought the nation to the brink*. He describes *the excitement, groupthink, momentum and fear that squelch resistance*, and *the systemic power of the mighty current pushing the fish along*.

Michael Landon Jr., son of the famed movie star, stated: "It's amazing how expedient people become *when it suits them*, and *when they make up their own definitions of what constitutes moral behavior*.

Alas, it is an oft-told tale: the confluence of arrogance, ignorance, and hubris results in a mindset of invincibility. The feeling, even *certainty*, that market forces would not hurt them—that they alone would endure, *even dominate*—permeates the culture, despite evidence of markets panicking, shares plummeting, confidence crumbling.

In turbulent times, people often huddle together seeking leadership and migrating to conformity. A person voicing a dissenting opinion, negative comment, or cautious appraisal is often ostracized from the group. Non-conformity carries great risk. In stressful times, leaders rarely get objective feedback because *the messenger who delivers the unvarnished truth can get killed*. Thus, *groupthink* permeates the organization.



This dilemma worsens when Chairmen are also CEOs (*an inherent conflict of interest*). The Chairman is responsible for leading an independent Board. The board's responsibility is to shareholders (owners). The Board is entrusted with hiring, overseeing, compensating, and if necessary, firing the CEO. The result is often excessive compensation, job security, and limitless power. Who would dare challenge such a person?

When the need for leadership, analysis, transparency and macro-management is greatest, we find empire-building, adherence to flawed strategies, a lack of healthy debate and destruction of shareholder value. As employees tend to model the behavior at the top, these destructive practices cascade through the enterprise.

A healthy culture encourages dissenting viewpoints and differing perspectives. Ideas are evaluated based on *the quality of the idea*, not *the level of the idea generator*. Such a culture might have prevented the dangerous and embarrassing actions of Toyota and BP.

Power and money change people; they tend to rationalize, yield to fear, and cave under pressure and intimidation from superiors. But without a *minority opinion*, who can save the company? *The inability to accept or deliver the truth is about character, choices and courage*.

Here are ***seven suggestions*** to foster creative conflict and better decisions:

1. Create and adhere to a clear, compelling vision, values, and culture. A well-formulated *code of values and principles* provides a clear set of standards for conduct. It presents an *ethical and behavioral framework* to guide responses to challenging choices. Each person is responsible to respond to situations in a manner that reflects values in action.

2. Encourage the minority opinion. A strong culture nourishes *healthy debate* and *differences of opinion*. In meetings, ask your staff to express their opinions before you share yours, to *feel free to disagree* or surface an idea that is different from that of others.

3. Encourage and reward true diversity—the kind that provides a different perspective and makes a unique contribution. Select members based on *diverse styles*, *strengths*, *skills*, and *backgrounds.*

4. Appoint a devil's advocate when discussing agenda items. Rotate this role to each team member. Encourage healthy debate about ideas and alternatives, but disallow personal attacks.

5. Hold a "second chance" meeting. Often groups rush for closure. After working an issue long and hard, they want resolution. If you *feel too good about feeling good*, revisit the issue again in a week or two. This *second look* will enhance the quality of decisions.

6. Create multiple anonymous feedback channels. Enable people to state their views freely, *without fear of reprisal*. You might have a *suggestion box* and bring up items from the box at weekly meetings (or in e-mail dialogues, surveys, and focus groups), and use them to stimulate discussion.

7. Lead by example. Walk your talk. Model candor, openness, transparency, and authenticity. In high-performing, healthy companies, you are expected to challenge the status quo; and doing so is viewed as an act of extreme loyalty. Avoid groupthink to tap individual and collective creativity and ingenuity. Surround yourself with people who tell you what you *need* to hear, even if it is not what you *want* to hear. *You then provide an example of excellence in action.* **LE**

Michael G. Winston has served as Global Head and Chief Organization and Leadership Officer in five Fortune 100 corporations. He helps craft strategy, structure, and culture, and develop leaders. Visit www.businessthoughtleader.com.

ACTION: Encourage dissenting viewpoints.

Take Caution

Objects in mirror are much closer than they appear.

by Michael G. Winston

ON THE REAR-VIEW mirror of a car are inscribed the words: *Caution: objects in mirror are closer than they appear*. Why do objects appear farther in the mirror than they are? It is a matter of perspective. Passenger side mirrors must be convex to have a useful field of view. This makes objects smaller than they would appear if the driver viewed them in a flat mirror, or turned and looked at them directly. Since smaller objects appear farther away, the objects seen in the mirror look further away than they actually are. If the driver does not consider this, they might make a maneuver (such as a lane change) assuming another vehicle is a safe distance behind, when in fact, it's closer.

Perspective relates to business as well. History is filled with the skeletons of once glory-day companies (and their CEO's) that have deteriorated. They overestimated their strengths and underestimated those of the competition or failed to recognize non-traditional competitors.

This is often a fatal mistake. Hyper-competition has eroded many sources of competitive advantage. No one is untouchable. Technology can be copied or appropriated quickly, economies of scale and scope are less important in a rapidly changing marketplace and a global business environment makes it more difficult to control access to resources or distribution channels. Competition can emerge quickly from anywhere. A company can move into an adjacent market that plays to one of its distinctive competencies.

Success depends on customer focus, adaptability, and speed. The ability to move decisively in and out of markets, quickly change product features or enhance service and add new value overnight are table stakes in the marketplace—the price of simply entering the game. Staying ahead means constant, unrelenting change.

Many companies become complacent. Praised and praise-worthy companies can fall into decline. They celebrate their victory, admire their own business model, and exploit their advantages for shareholder gain. They begin to rest on their laurels. And as they bask in the warm glow of admiration, they fail to see that the world is changing at an unprecedented rate. What worked before may not work now. They focus on holding on to their success, rather than building on to their success. Playing defense is very different than playing offense.

Every leader is trying to beat the competition. The trouble is the competition is making similar changes to the business model, structure and culture. Many companies are attempting large-scale change. While some succeed in building a more competitive, vital and dynamic organization, the world is filled with the skeletons of companies who have tried and failed.

True, *you can stand still and get buried by the avalanche—or learn to ski*. However, developing the mindset and ability to embrace change is a challenge. Top competitors know that their ability to learn and change fast is a source of competitive advantage. The structure,

communications, processes, and rewards are riveted to support the new direction. Some get it, others don't.

For example, in 1992, Nokia, a Finnish multi-national known for making snow tires, bicycle tires and rubber boots, entered a cellphone market dominated by Motorola, Ericsson, Samsung and Lucky Goldstar (LG). Nokia was too small for the big players to see, but within a decade, Nokia had toppled Motorola. The Nokia brand is now valued at $40 billion, the fifth most valuable global brand and one of the most admired companies worldwide. Why did Nokia win? The answer has a lot to do with focus and ability to change.

External Focus

Today's business landscape has been profoundly altered. Every organization is seeking new ways to build and sustain a competitive edge. *High performers* notice these changes in the business landscape and look for a series of short-term advantages over time instead of trying to do the impossible and plotting a far-sighted course. Focus on a sole source of competitive advantage—such as cost, technology and differentiation—is now inadequate because competitors are too quick to replicate advantages. Best performers seek multiple sources of competitive advantage. Also, they are more deliberate in adopting new technologies and entering new markets, but faster in getting to market with products that better meet customer needs.

Competitive strategy is key as *global competition grows fiercer*. Customers expect higher quality, customization, convenience, and timeliness. The best companies consistently focus on markets, customers, and competition. They raise the bar on the 3 Cs: Are you strong enough to meet and beat your *competition*? (*Current, emerging, possible*) Are you strong enough to delight your *customers*? Are you as strong as your *company* needs you to be? They improve their products, services, and systems. They infuse fresh ideas by bringing in new people (from competitors, even outside the industry). Benchmarking is not just a *nice-to-do* activity for them, but is a *need to do* activity.

Internal Focus

Beyond strategy, exemplary players balance benchmarking with striving for "personal best" performance.

Obsession with competitive strategy can mean trouble. If you watch your competitors too closely, you'll likely lose your stride. So, run your own race! Learn what your customers are all about and do what you must to provide them with what they need and want.

Your future depends on your leadership. Balance external focus (non-traditional competitors who can sneak up on you) with internal best practices. Some companies—Intel, Microsoft, Apple, Dell, Google—grew from zero to hero on new technologies; others, like Starbucks, capitalize on new trends.

Knowing that objects in the mirror *are* closer than they appear, the best players adopt five practices: 1) *Look in*—learn about your practices; 2) *Look out*—learn about the best practices of others; 3) *Look ahead*—generate ideas to plan improvements; 4) *Look down*—see how far you have come; and 5) *Look up*—see how far you can go. LE

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ACTION: Strengthen your competitive strategy.

Antitrust Suits

They kill enterprises.

by Michael G. Winston

THERE HE IS, THE CEO—expensive suit, commanding smile, persuasive communicator, compelling story—standing up front, imploring our continued support. The media is wrong, we are told. We will rise again. In fact, we will be bigger and more profitable than before. We will be the "last firm standing." We are asked to wear tokens and symbols of our undying loyalty to the cause.

We see him again on TV, being interviewed, and his response is the same: The industry is facing huge headwinds, but our company will be fine. Yes, we have borrowed to the limits of our credit. However, our incomparable leadership, unmatched business model, and "valued-employees" will save the day. We have come through tougher challenges.

But we know the truth. We listen to the rhetoric, but the reality is far different. Something inside us has died. This distortion proves what we have long known—employees are not valued at all. We are pawns in a larger game. The motivations at the top are not as stated, not meant to benefit our various constituents—shareholders, employees, and communities. They are selfish and driven by greed. Our belief system has been shattered by The Antitrust Suit.

There was a time when people would have walked through the gates of hell for this individual. But the veil of this Wizard has been pierced. Walk behind the curtain. There isn't much there—all smoke, mirrors, and a litany of "trust me" and "it will be fine."

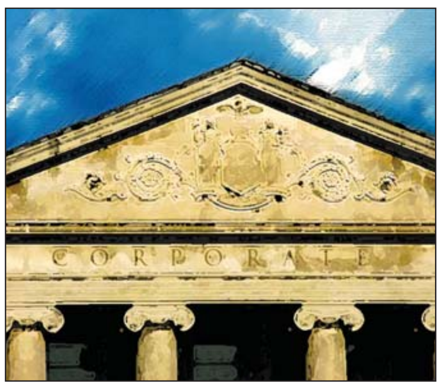
We're told by the Antitrust Suit to stick with him, and we'll make millions. We're told that those who have done so before are wealthy now. Few people still believe him. Over time, all realize the truth. It is over. It is done.

Credibility Lost

If I were to pick the *one* characteristic essential to leadership it would be credibility—meaning that the leader says what he is going to do, and does it. The leader keeps his promises.

Credibility is the soul of leadership. Credibility determines one's perceived and actual ability to lead. Credibility comes from the integrity that causes others to place their trust in the leader. Integrity involves a reliability that enables followers to know that the leader will, within reasonable boundaries, be predictable. A leader who is unpredictable will soon lose followers.

Many executives, managers, and supervisors fail in their leadership responsibilities because they lose credibility, either in a dramatic event or in a series of damaging actions, by putting their interests above the interests of their constituents. One executive put it well: "People don't give you their trust; they only lend it to you."



An Oft-Told Tale

I wish this tale were but of one lone institution. Alas, it's a tale about many.

Seven years ago, we were shocked when award-winning Enron turned out to be little more than a cash-shredding pyramid scheme. The crucial failing for investors was Enron's use of opaque, "mark-to-market" accounting. The problem surfaces when the market is uncertain or difficult to assess, and so assets are marked to a *model*, often based on generous assumptions.

In the end, we learned that Enron's accounting was mark-to-fairy-tale, with the company booking enormous gains from assumed future profits on schemes that sounded great, but had little chance of producing anything besides headlines. The misbehavior of Enron's Ken Lay and WorldCom's Bernie Ebbers, gave us our many sweeping reforms.

Why didn't we learn our lessons about fantasy accounting after Enron? That scandal supposedly ushered in an era of corporate responsibility and accountability. We all thought that it would happen, but it didn't. In fact, things actually got *worse*. Last year's version, the implosion of real estate, got downright ugly. Alas, this dream's "income" wasn't actually matched by real cash flows, just bank loans—this Enron-like "income" was all hot air.

Many stocks have been decimated. The losses at those companies most directly victimized by their own housing-bubble ineptitude—such as Bear Stearns and Fannie Mae—are easy to understand. But, the losses extend far beyond that. These tales represent corporate culture (at its worst). And leave us with chills down our spines at the horror of the deceit and arrogance.

Indeed, we've discovered many companies built on the sands of deceit, fraud, power, and greed.

Dick Thornburgh, examiner in the WorldCom bankruptcy proceedings, says companies aren't doing enough to promote accountability, transparency, and compliance—responsibilities that usually fall on corporate directors, in-house and outside counsel, and internal and external auditors. "Had gatekeepers of Enron, and WorldCom been more effective, shareholders would not have suffered the huge losses."

After such scandals as Enron and WorldCom, Congress hastily passed the Sarbanes-Oxley Act (SOX) to protect U.S. capital markets and shareholders. "While SOX may have increased investor confidence in the short-term, ongoing compliance with its requirements, as well as the heavy fines imposed by the SEC, have proved extremely expensive for some companies," said Michael Missal, lead counsel to Thornburgh in the WorldCom case.

The past is often prologue. Confidence in the disciplines in our economy is at historic lows. Clearly, we still lack disciplined governance on accountability, transparency, and compliance. Other examples abound:

- May 2008 marked the end for the 85-year-old financial powerhouse Bear Stearns. Problems appeared in July 2007 after two of the company's hedge funds imploded. After months of heavy write-downs due to the subprime mortgage crisis, rumors swirled. In March 2008, JP Morgan offered $2/share for the company and in late May the fifth-largest investment bank was no more.
- Arthur Andersen's (1913 to 2002) downfall was its role as Enron's auditor. In 2002, the firm surrendered its licenses to practice as CPAs after being found guilty of criminal charges, resulting in the loss of 85,000 jobs.

• Remember E.F. Hutton? “When E.F. Hutton talks, people listen,” chimed its slogan. Well, people stopped listening when E.F. Hutton & Co. was caught check-kiting and money-laundering.

• AIG and Lehman Brothers debacles still have people shaking their heads.

Malfeasant practices continue to choke our economic system. We deserve better—and we should demand it of ourselves, and of those in whom we place great trust and power.

Two decades ago, James Kouzes and Barry Posner reported that the most essential element in successful leadership was “honesty.” Also in the top ten traits were “straightforward” and “fair-minded.” Clearly, some CEOs did not get the memo.

What can we do to repair the eroding standards of leadership? We must turn up the heat on our leaders—and hold ourselves to the highest standards—out of faith that it’s the right thing to do, not out of fear of legal consequences. Let us model leadership that exudes these qualities:

• ***The vision*** to spell out what we will do for those who depend upon us.

• ***The drive*** to share that vision with those who share a stake in our success.

• ***The courage*** to challenge the status quo, stimulate change, and make decisions that move us forward.

• ***The ability*** to inspire individuals and teams to action to achieve goals.

• ***The foresight*** to empower people to learn new skills and stretch capabilities.

• ***The wisdom*** to translate knowledge into value-added performance.

• ***The willingness*** to recognize accomplishments and celebrate successes.

• ***The integrity*** to serve as examples in actions that reinforce basic values.

Implementing new strategy requires leaders who can energize operations; inspire people; personify the purpose, values, culture, and character; inspire commitment to the strategy and goals; and secure the allegiances required to make any bold purpose succeed. The best leaders evoke trust. They match their words with their deeds and keep their promises. They pass the true test of leadership—translating their promises and commitments into consistent, purposeful action. Without character and integrity, an organization is “built to fail.” As Edward R. Murrow said: “*To be persuasive, we must be believable; to be believable, we must be credible; to be credible, we must be truthful.*” LE

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ACTION: Stand up to the antitrust suits.

Counterfeit LD

Go for the gold standard.

by Michael G. Winston

SIXTEEN YEARS AGO, THE editor of *Leadership Excellence,* Ken Shelton, wrote in his book *Counterfeit Leadership* about the dearth of authentic leaders. He emphasized the need for *substance over style*, *fact over fallacy*, and *timeless wisdom over faddish notions*. This theme is relevant to efforts to develop leaders.

Growth imperatives, global complexities, and strong competition demand that we foster leadership development (LD) at all levels—finding, nurturing and developing leaders who champion change, innovation, and continuous improvement; leveraging leadership capability across business groups; fostering cross-functional learning; and building unity, alignment, and capacity for execution. These activities build sustainable competitive advantage.

Gold Standard in LD

Here are ***nine best practices*** that enable leading companies to develop exemplary leaders. They constitute the “gold standard” in LD. I also list some practices, which if not thwarted, lead to “counterfeit development” characterized by style-over-substance:

1. Require leaders to develop leaders. You can’t have a great company without having great leaders. Great leaders regard building leadership talent as a duty and privilege. They identify, attract, and retain the most talented, diverse group of high performers. They know the competencies and skills required to meet goals and attract a highly capable staff. These leaders reward excellence, act as role models, and spur growth. They push decision-making down and develop people’s confidence in their ability to lead, manage, and achieve goals. They allocate sufficient authority and resources to subordinates to enable them to make decisions and act independently within their responsibility.

2. Secure top management support. Senior executives must clearly communicate the mission, strategy, objectives and expectations for participants, executive presence, and participation in the programs and tools to assess improvement realized and reinforce leadership accountability for results.

3. Align LD efforts with strategy. Link the development of new skills, mind-sets, and perspectives with achieving business objectives. The role of all LD efforts should be to speed up the realization of business results prompted by the strategy and to increase competitive advantage.

4. Determine required skill-sets. Best-practice companies define key leadership requirements and develop a plan to improve skills and competencies required to implement the strategy. They review current and prospective markets, competitors, customers, channels and determine critical success factors. They focus discussion on whether current strengths will continue to be a source of competitive advantage. Further, they review the skills and capabilities that would make the company unique in the future and from which margins would be derived.

5. Embed four characteristics of world-class LD programs. First, craft an *integrated* and *focused* set of initiatives that reflect the strategic agenda, address challenges and opportunities, and strengthen leadership capability. Use a combination of company presenters, external subject matter experts, e-learning technologies, and post-program project work. Compare your “state-of-the-practice” with the “state-of-the-art” and address relevant gaps. Second, promote team-building and interaction by providing experiences that strengthen identification and engagement, and reinforce teamwork and networking. Third, leverage a robust 360 leadership feedback process—one that leads to insight, direction, focused action, and measurable improvement. Ensure each participant reviews leadership skill levels and seeks to leverage strengths and improve weaknesses. Provide participants with the support they need. Fourth, encourage skill *application* to real-world issues. Cross-functional teams work on enterprise-wide challenges, using their new skills, in teams that interface with management. Leaders identify, define and frame issues for participants, enabling them to focus on common challenges, create a unified perspective, and enhance its competitive advantage.

6. Launch a tiered talent identification, assessment and succession process. Succession management must identify, develop, and retain those people who can deliver superior performance, both individually and as part of a team. Done well, this aligns top performers to most critical jobs and identifies gaps; identifies successor candidates for key roles; assesses strengths across key competencies; and identifies and develops high potentials. Implement regular interviews, discussions and rigorous assessment and analysis. Emphasize candid and realistic evaluations of *performance* and *potential* of current and next generation's leaders as well as the skill set requirements to meet *current and projected* challenges. Evaluate leadership depth and succession capability against a broad variety of scenarios. Use group talent reviews to exchange information on high potentials, gather input on their performance, and promote rotation and communication.

7. Develop a broader perspective. Use job rotation to broaden the executive, promote information-sharing, reduce functional myopia, and promote sharing of management talent across functional, business, geographic boundaries.

8. Install systems and metrics to hold line managers accountable for building leadership. LD and succession should be a "gate" for promotion and affect compensation. Succession systems must match executives to needed development experiences, balance the short-term risks of stretch assignments with long-term benefits, and enable the enterprise-wide mobility of talent. Key executives are evaluated and compensated, in part, based upon the extent to which their direct reports reach excellent rankings in "job fit," meeting or exceeding targeted goals, generating effective survey results and success in "successor quality and readiness" and "hi-po" identification. This takes into account the percentages of: key incumbents and successors whose development activities occur; vacancies filled via the plan; key positions designated with at least one validated "ready now" backup; key positions designated with at least one validated, planned backup.

9. Institutionalize the process. Carefully note and celebrate LD wins. Executives focus on aligning skill-sets with key positions and identifying and developing high potentials. Panel talent reviews increase the quality and quantity of input, and prepare executives for the next succession cycles. Key managers get briefings and updates on key initiatives.

Avoid Counterfeit LD

Beyond these practices, you must also avoid these seven worst practices:

1. Failure to engage top leadership and secure their commitment. Secure the commitment of senior leaders and managers. Before moving fast toward enterprise initiatives, create understanding, support and commitment.

2. LD not linked to tomorrow's skill requirements. Counterfeit LD focuses on today's skills without assessing future relevance. LD is geared to the *program du jour,* teaching trendy discipline and failing to link all content to strategy.

3. Faulty metrics. Impact measures are often relegated to how many people, in how many programs, for how many hours. These companies *measure well what should not be measured at all*.

4. Feedback processes not fully utilized. When there's disagreement on critical success factors, people dismiss the feedback. Identify and measure the core values and leadership practices. Encourage each function to add items that predict success in their cultures.

5. Failure to coach. You foster counterfeit LD when you provide feedback without coaching. Coaching sessions provide participants with the support they need to make fast, measurable improvement in their leadership.

6. Succession planning is done to satisfy compliance, not drive superior performance. Hence, it is fraught with five common pitfalls: 1) managers move up vertically—building upon similar experiences, without gaining perspective; 2) bright, talented people are moved too quickly; 3) people are often promoted based on good performance to jobs they aren't prepared for; 4) promotions are often based on style, loyalty, or relationships, not performance and competence; and 5) the succession process fails to anticipate skills needed in the future and passes up qualified people.

7. No long-term strategy. You need to craft a *sustained development strategy*. Don't gobble up the latest *management theories* only to abandon them quickly when hoped-for improvements do not occur overnight. There's no *magic elixir*. You build a culture of authentic leadership with patience and hard work. **LE**

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ACTION: Go for the gold standard in LD.

Cut It Out

Start investing in your future.

by Michael G. Winston

IN A WORLD WHERE diets and diet metaphors abound, companies have been obsessed for the past several years with trimming away the fat, getting lean and mean, and shedding weight in order to survive the recession and compete in the new global economy. This has been exacerbated significantly by the global recession prompted by the sub-prime meltdown, credit crunch and consumer uncertainty. However, as we have seen with every recession, many companies and entire industries are evidencing an overreaction that ultimately diminishes the very competitiveness they are seeking to preserve.

In their obsession to cut costs—and people—some companies have cut too close to the bone, leaving themselves with insufficient human resources to serve existing customers—or to generate new customers and new revenue. In short, they suffer from a form of corporate anorexia.

Surely, some companies needed to reduce staff and cut costs, but much of the downsizing has been driven by a short-sighted, bean-counting mentality rather than the strategic, long-term vision required to reshape a company into a smaller, but healthier organization that is fleeter afoot, focused, and anticipatory. In fact, many companies follow the downsizing path with no plan beyond cutting headcount and eliminating functions. When workforce reductions fail to deliver the desired boost to the bottom line, the next recourse is to cut some more.

Most downsizing companies during the past two decades have gone back for two or more rounds of workforce reductions, and only 40 percent of them realized any increase in operating profits within a year—and only 46 percent reported increased profits after more than one year.

A whole generation of managers has focused on continuous improvement, quality control, making companies smaller and more efficient. The problem is they have riveted their thinking and energy on ways of gaining efficiencies in existing businesses while obscuring their vision of new possibilities for future growth.

Another unintended and counterproductive effect of downsizing is that a lean staff is not necessarily more entrepreneurial; cutting workers does not reduce bureaucracy or open up the lines of communication. In fact, the opposite often occurs. Downsizing erects more barriers than it eliminates, and companies are cutting the very initiatives in research and development of technologies, brand and human capital that are essential for growth. Heads down, focused more on keeping their jobs than doing their jobs, suffering resentment if let go and guilt and overwork if kept on, people are rarely engaged in breakthrough, innovative thinking.

While recognizing that the pie is shrinking, we must keep trying to grow the pie. Expansion-contraction cycles have happened before, and they will happen again. Every bull market is followed by a bear market; and every bear market is followed by a bull market. Surf will again be up.

With seemingly never-ending downsizing and perceived focus on cost reduction rather than growth, disillusionment permeates the organization. People grow weary about developing goal packages predicated upon adequate resources, only to have the resources pulled away, but be held accountable for accomplishing the same goals. Staff members have become expert at accomplishing restructuring, and a certain "bunker mentality" dominates their thinking. This mentality enables needed changes in the function's cost structure, but it also creates a climate where new initiatives and opportunities are not pursued. A major shift in this climate is now required. The old axiom is still true: "You can't save your way out of a recession; you can only invest your way out." Smart bets, new focus, lean structures and systems and flawless execution are the answer, not just cost reduction and a "bunker" mentality.

Recently, Ram Charan noted that even in a recession, organizations must keep building, communicate intensively, prune their product and customer portfolio and reject across-the-board cuts. Warren Buffet opines: "Be fearful when others are greedy and to be greedy only when others are fearful."

Yes, the business climate will likely experience continued turbulence. New regulatory challenges and lingering uncertainty pose big challenges. Consequently, success will depend on speed and competitiveness to capitalize on fast-moving changes in markets, technologies, and the general business landscape.

The companies that win will anticipate, drive and capitalize on change in the quest for ever-higher levels of excellence in anticipating and exceeding customer needs, reducing cycle time, creating flawless product and service integrity and reliability, creating cost-competitive advantage, and developing best-in-class partnerships with employees, suppliers and customers. By all means, be ruthless at pruning underperforming people, customers, processes, product lines,

but always remember to leverage your strengths.

Competitive advantage will go to the companies that build on their strengths . . . championing change, generating innovative solutions, reinventing their business model, and competing successfully in an ever-demanding global environment. It will not go to the company that hides, reacts, bounces from crisis to crisis or does not hold true to its vision. High-performing companies invest in critical areas in bad times as well as good. These are the companies that will be ready to shoot to the head of the pack when the recovery comes.

Instead of dictating across-the-board cuts, ensure that the team focuses on work that really matters. Rather than reduce R&D, cut marketing, and shrink human capital initiatives, work aggressively to overthrow existing systems and structures that do not support their business vision. Reduce excessive paperwork, redundant or inhibiting support functions, excessive reports, presentations and meetings. Wage war on bureaucracy, realizing that complex systems and procedures thwart the real work of innovating, servicing, and producing with quality. With less overlap, duplication and non-value-added work minimized, you can ramp up your investment in R&D, brand building, marketing and talent development. ***These are sources of sustainable competitive advantage***.

Less Admired Companies change strategies and structures more often than *Most Admired*. For example, we see Detroit automakers seeking strategies for survival at a time when they should focus on customer satisfaction.

During times of economic stress, the best companies stay focused on brand, marketing, and human capital. Coca-Cola CEO Muhmar Kent speaks of ensuring that the company maintains its focus on these areas so that they "exit this tunnel with more market share and skilled leaders than when they went in". Johnson & Johnson CEO Bill Weldon says a top priority is "helping employees recognize that we'll continue to invest in them and their development." Southwest CEO Gary Kelly notes "If you have layoffs every five years, or make a promise that you do not fulfill, it's hard to hold out that your employees are the most valued part in the company." And, Paul Otellini, CEO of chip-maker Intel, announced a $7B investment in the next generation of manufacturing during this terrible recessionary time. ***This clearly indicates the long-term view***.

A business slump is a chance to improve strategy, management, and discipline. Winning companies will take charge and compete. They will create and hold to a clear vision for the future direction of the business and ensure that activities and efforts are focused and consistent, and driven by the vision. They will follow a plan rather than jumping from crisis to crisis. By eliminating non-value-added activities in the organization they free up resources to grow and innovate.

The next time you're tempted to react with across-the-board cuts in the life-blood of the business, rather than let the "powers that be" mortgage the future to pay for the present, raise your voice and say "Cut it out." **LE**

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ACTION: Invest wisely in your future success.

Competitive Edge

Adopt these six shared beliefs.

by Michael G. Winston

THERE ARE SIX LESSONS to be learned from the *Stars and Stripes* victory that are relevant to leaders:

1. Meeting world-class competition. The pace of competition has never been so grueling; the stakes never so high. The global business environment is tougher, more aggressive, and more competitive, testing strengths.

Against the prevailing winds of global competition, corporate captains are jostling for position looking for a competitive edge. The waves of globalization, takeovers, competition, and technology transformation sweeping across the landscape, have changed the way business is done. So equip your managers to set sail and weather the storms to meet the competition.

World-class competition brings together exquisitely prepared men and women in a pressure-cooker atmosphere—each of them vying for victory. The line between success and failure is often thin—no more than a hundredth of a second or a few millimeters. The winners prepare both physically and mentally and give the extra effort.

2. Communicating vision and direction. Deciding on the direction is like setting a strategic compass to guide you. There may be different routes to take, but the destination must remain clear. High-performing captains create and communicate a compelling vision. They attract and energize their crew by stating the vision, and demonstrating the will to achieve it.

The vision is *the concise expression of what the organization seeks to achieve*. It provides direction and definition, focus for structure and consistency, communicates the need for change, and instills enthusiasm, commitment, and pride. The vision should create the impetus for all activity, sharpening the focus so that allocation of time, talent and money, day-to-day decisions, and direction are easily understood.

The vision defines which opportunities will ***not*** be pursued. No organization can pursue all opportunities. If it does, resources become dissipated, as do the energy and creativity of people. Focus is lost, and with it goes the discipline to achieve the vision. Once you decide to sail to a chosen port, you can expect to encounter storms, lulls, and crew members who hinder more than help. World-class competition requires years of training to qualify for an event that can be over in seconds. One false move, one lapse in concentration can stand between quiet anonymity and a place in the record books.

3. Anticipating change. Anticipating change creates competitive advantage. While skippers plan and communicate their strategy before competition, once into the race, they need to make split-second decisions to redirect efforts.

If you do not notice the shifts in the wind and adjust quickly, you may lose your strategic options. Opportunities come and go rapidly in a competitive business climate; you can become a victim of changing currents.

Every leader faces a future in which the only certainty is change: intense competition, new technologies, unpredictable customer tastes, changing values and skills, and increasing complexity in international markets.

Companies with high-performance cultures *anticipate* rather than *react*. They know that gaining and maintaining a competitive advantage is a moving target. The best competitors adapt quickly to meet market changes, and stay on the leading edge. To win, leaders must not only *anticipate* change, but also *shape* it.

World-class competition provides us with rare opportunities to exhibit extreme physical, emotional, intellectual, and psychological courage.

4. Leadership training. Countless hours of training are necessary for even minor improvements. Months or years of practice, faithfully pursued, serve little purpose if you are not in peak form on the day of competition. World-class athletes do not slacken their training once they become champions. They train even harder.

The uncharted waters of today's economy require increasingly high performance. Leaders must make difficult decisions regarding strategy, tactics, resources, facilities—balancing short-term needs and long-term objectives. Innovative leadership is the touchstone and fulcrum that catapults an organization into sustained leadership strength and competitive vigor.

Emerging leaders need frequent chances to exercise their leadership talents, update professional skills, and exchange knowledge and vision with colleagues. High-performers provide ample opportunity for development, designed to grow high-performance leaders at all levels. These programs enable *sustained performance excellence* by building a leadership team *across boundaries* of geography, business, and function with a common vision and strategy.

5. Team building. Competitive racing is not a spectator sport. Every person on board has a vital role to play. All share in the work and in the rewards. Sailing requires a strong, cohesive, well-oiled team. Tactician, navigator, sail trimmer, and skipper have their respective roles and responsibilities: one concentrates on how wind shifts affect the boat; another supplies information about where they are in relation to the next mark; one watches for signs of wind and identifies its strength and direction; and the skipper serves as integrator, coach, champion, and motivator.

Successful captains tap, orchestrate and utilize the talents of each crew member. Charters are clear. Roles do not overlap. Crew-members know what's expected of them and of their teammates. They promote a stronger, more cohesive and synergistic team, marked by shared responsibility, alignment of purpose, effective communication, rapid response, and spirited performance.

6. New standards and strategies. To survive and succeed in the new environment, companies are setting new standards for productivity, quality, and service. Strategies are changing as leaders are revamping their cultures to reflect the new values, management styles, and ways of doing business.

World-class companies develop leaders who think strategically and globally, advocate needed change, support teamwork and employee growth, and cope constructively with ambiguity and complexity. They create the most energizing vision, soundest strategies, strongest teams, and most empowering culture. They offer smart tools and guidance to enable people to profit by changes.

In the end, *it's all about the competitive edge*—the commitment, the pursuit, the achievement. It's one thing to try when there's no risk of failure. It's another to put it all on the line—jumping the hurdles, sailing in choppy waters, or competing in the unforgiving world of business—and *challenge the impossible*. **LE**

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ACTION: Gain a competitive edge.