

# 1

## HOW LEADERS THINK AND OPERATE

The Pressures, What Matters, the Obstacles,  
and the Solutions

### Chapter Outline

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The place to begin our discussion on achieving the status of a trusted strategic advisor is to talk about the world of leaders and about how leaders operate. The environment of leadership; the expectations of leadership; the duties, responsibilities, and perception of leadership and especially of business leaders have changed in many important ways in the last quarter century. Becoming the CEO of a multinational company, a large local utility, a taxi company, or a dairy, or even to become the superintendent of the school district, used to represent the pinnacle of one's lifetime achievement. That, too, has changed. There are many powerful new realities that drive the world of today's CEO, as we will see in

this chapter. Becoming a trusted strategic advisor in this changed and changing environment requires a clear sense of the new realities and of the role CEOs play.

### **Pressures Leaders Are Under**

Let us look at the CEO's world. It is very, very different than most people imagine. All training for CEOs is on the job. There really is no school for becoming a CEO. A chief operating officer, watching from next door, second-guessing her boss, certainly thinks that she could run the place better. Yet the moment she gets the top position, the new incumbent instantly realizes that the job is completely different from anything that she could have possibly imagined. The new CEO also notices that she is alone, there is only one CEO in the organization, and everyone is watching.

Every single day for a CEO is a new learning experience because there is no manual and no one to train him. To his surprise, the CEO discovers just how limited his freedom to act really is. Wait a minute, you say—the CEO is the boss; he can do anything. The reality is very different. Being a twenty-first-century CEO is extraordinarily stressful.

### **Leaders Are Having a Lot Less Fun**

A brief tour of today's executive leadership world will reinforce your understanding that these jobs are extremely difficult, challenging, and frustrating.

Studies by business organizations, executive search firms, and government indicate that the average tenure of corporate leaders is declining, as is the average tenure of their key staff. There are two patterns emerging, one global, one local. As larger organizations globalize, one of the most significant features is the youth of their leadership. For example, in nine global companies in which I have recently worked, each headquartered outside the United States, the oldest CEO is around fifty years of age. The downward trend in

the age of CEOs puts pressure on the average age of managers and leaders in these organizations. In the past, a CEO usually got the job at around the age of fifty-five and held it until age sixty-four or sixty-five. Today, the CEO can be as young as forty-five or so, and may or may not stay beyond age fifty-five. It is a continuing trend that has yet to be clearly explained.

The second pattern is that younger people in general know a lot more than they used to, and at a significantly lower age. The amount of knowledge a thirty-five-year-old can bring to the business in the modern era is perhaps two to three times what it was just twenty-five years ago. These younger managers are indeed capable of leading large business organizations earlier in their careers.

In 2006, more U.S. chief executives changed jobs than in any other year in recent history. One-fourth left to take other CEO positions, one-fourth retired, one-fourth left on their own and went elsewhere, and one-fourth were kicked out. Special note: during 2006 and into 2007, a large number of CEOs resigned their positions due to scandals involving their complicity in option grant backdating.

Fewer than half of involuntarily retired executives regain a comparable position in their lifetime. More and more management literature is being devoted to these individuals and their inability to recover following sudden, unplanned separation from their top jobs.

Nonoperational issues—for example, global impacts, adverse legislation, and anti-corporate activism—are intruding with greater regularity. These interruptions are “soft” and highly emotional, and they require an entirely different attitude—frankly, one that goes beyond those taught by management schools. The Sarbanes-Oxley legislation, enacted by the U.S. Congress in 2002, introduced a distinctly moral focus into daily operations, an approach that continues to antagonize and irritate many business leaders. This legislated moral focus is frustrating for staff functions to discuss, decode, and decipher. Sarbanes-Oxley forced integrity and

compliance concerns forward, basically through threat of criminal prosecution. This legislation has gotten management's attention at every level, but especially at the top, where the greatest risk now rests. These laws now mandate that managers of public companies are responsible for creating an "environment of integrity" within their organizations. These moral mandates are particularly difficult because they go against the grain of current management theory, which treats anything that is emotional, nonscientific, or not readily measurable as irrelevant and distracting.

Another nonoperational issue for large local and national companies, but especially for global companies, is the rise in power and influence of nongovernmental organizations (NGOs). NGOs are sometimes referred to as watchdog organizations. If they see something that offends them, they can go public, get activists to attack, or generate pressure from government. This has introduced a whole new level of stress, strain, and potentially negative visibility for business organizations and their leaders.

In large organizations, globalization increasingly requires staff functions to work together across intellectual, national, and cultural lines, and around the clock. It is definitely becoming more complicated to be a senior staff advisor in large organizations. The demands on the leader have increased significantly. On the one hand, leaders are asked to do more, faster; on the other, they are forced to reduce staff support, as an indicator of their management capability.

With all these distractions in the management and leadership environment, coaching and counseling leaders require important fundamental shifts in the advisor's mind-set. The trusted advisor needs to realize that the CEO, though still captain of the ship, is operating under increasingly complicated and uncharted navigation rules and pressures.

## **The Limits of Leadership**

Deciding on a course of action is one thing, but getting the organization ready, willing, and able to move in that direction

is an entirely different task. Successful leaders and their advisors learn to recognize the limits of CEO effectiveness.

One of the first large companies I worked for retained me to develop a marketing strategy for one of its highly technical product divisions, which was beginning to plateau as more competition entered the field. Another person and I spent significant time developing several unique approaches for the organization to consider. When we made our presentation to senior management, it was enthusiastically received. The senior managers were engaged in conversations; they asked questions and actually remarked at how sensible and important all the ideas we presented seemed to be. It was one of the best presentations I can recall making in all the years I have been a consultant.

We all went to lunch together, and I sat next to the CEO, whose name was also Jim. He seemed quite pleased. So I asked him, "With the reception this morning, how much of what we proposed is likely to be initiated?" Without hesitating, Jim said, "I'd guess about 4 or 5 percent."

I was absolutely stunned. "Jim," I asked, "did I make a mistake? Did I misunderstand what happened this morning?" Jim's answer was again quick and profound. He said, "Look, I'm just the CEO here. This place is run by the seventy-five hundred employees who show up to work every day. What they will want to do and can do will determine the direction we're going. I'm fifty-seven years old; if I stay healthy, I'll probably be chairman here for another seven to eight years. Absent some catastrophe, such as tremendous business loss, stock drop, or takeover, if I can move this organization five to seven degrees in new directions every year, I will have made a substantial contribution during my brief term as leader. We're kind of like an aircraft carrier," he said. "Once we choose a direction, it takes a lot of energy to change that direction. Of course, torpedoes, hurricanes, or collisions can make a big difference if they come along."

Leaders recognize and work to maintain the direction of their organization and what it takes to change, reshape, and perfect

that direction. A leader's aspirations and behaviors often create a response among staff functions that causes people to overestimate the potential in situations and to be overly optimistic about results and about what can be changed. The leader's immediate staff often seem eager simply to move key organizational components or ideas around according to some checklist or set of theoretical ideas, based on what they assume the boss wants. The lesson of Jim's seven degrees is that the greatest successes are often the result of what first appear to be underwhelming decisions or actions. Although much is desired, far less can actually be achieved; yet meaningful progress will still be made. This relentless focus on meaningful but small incremental progress often yields big surprise advantages over the long term.

### **The Loneliness of Leadership**

The concept of leadership loneliness will echo throughout the pages of this book. Several predictable consequences occur as an individual is elevated within an organization. First, the sense of isolation and loneliness tends to increase because fewer people are privy to information at higher levels.

Second, a filtration and sanitizing process occurs as information is passed up to the top. Mitigating this isolation of leadership is one key role for the trusted advisor. Jack Welch, being interviewed on public television shortly after he had retired from his chairmanship at General Electric, was asked by an interviewer, "What was the worst part about being chairman of this huge corporation?" Welch answered without a second's hesitation, "Being the last to know." This circumstance does tend to be a great frustration to those who lead.

Third, the higher the altitude, the thinner the leader's skin and the greater and more personal the criticisms they must endure. With increasing seniority can come decreasing tolerance for questions, questioners, those who push back, and people with negative approaches. This can be a fatal flaw in management leadership.

It is a major cause for isolation at the top and a powerful barrier to the executive's knowing what really is happening at various levels in the organization. This behavior can be perceived as arrogant and intolerant.

Fourth, as managers advance and become senior managers and leaders, the "Yes, sir" mentality that pervades these high-level environments leads to the belief that leaders are good communicators, financially savvy, and aware of their surroundings and the risks they face. They have enough mathematical competence to get along. Absent sensible and meaningful evaluation, what else are they to believe?

In this environment, at this altitude, it is a principal role of the trusted strategic advisor to recognize these four circumstances and constantly, relentlessly, and endlessly help the CEO work against these patterns.

### **What Leaders Do**

The CEO has three powerful assignments in any organization. The first job is to look to the future—that is, go over the horizon to see what is out there and then come back and tell the organization a bit about where it is headed; perhaps what some of the pitfalls might be; and, most important, what some of the deadlines are. The second principal task of the CEO is to find the people power required to achieve the organization's mission. Unlike the manager, whose job is to achieve objectives, complete programs, and work inside the box, the leader must work almost exclusively outside the box in this energizing arena of strategy, future accomplishment, and managing the destiny of the organization. The third assignment is to decide, to make choices. As the leader's career advances, his decisions become larger and the consequences broader. The leader's ongoing jobs are observation, education, course correction, evaluation, and motivation.

Leadership success depends on leader-driven communication. In fact, personal communication, in good times and bad, is the

most powerful tool leaders have. When we examine how to move organizations, successful leader-communicators follow a fairly interesting pattern of mostly verbal communication and participation with their employees, executives, and others. The following is my empirical analysis of top management activity:

*Analysis of Top Management Activity*

Decision making	5%
Articulating the decision	30%
Coaching, teaching, motivating to carry out decisions	30%
Forecasting (guessing) the next decisions	5%
Admiration building	6%
Reputation repair	4%
Repeating, reemphasizing, reinterpreting decisions	<u>20%</u>
<b>Total</b>	100%

As you can tell by this distribution of time, the CEO and senior leadership will be spending significant amounts of time explaining, coaching, interpreting, reiterating, and monitoring the progress of their strategies, plans, and outcomes. This is far different from the notion that these senior people are busy making big decisions every single day about things that can change the company's direction or the company's history. Even during enormously stressful times, such as mergers, acquisitions, takeovers, or divestitures, the actual number of major decisions executives make is extremely small. It is the failure to communicate even these small foundational decisions that is often the root cause of much bigger operational failures.

Recently I was interviewed by a top management team for a very large company that was heading into labor negotiations. The prospects were fairly gloomy. The board was concerned about conflicting approaches that had been suggested, and they wanted to

hear mine. When I finished explaining my concept to them, their first reaction was, “Well, Jim, from what you propose, we’re going to spend a lot of time talking to employees.” My response was, “What else have you got to do that matters?” They laughed as they realized that this was something of crucial importance and that they really had to make the time to get it done.

### **Focus on Tomorrow**

Why is it that when the boss walks into the room, people’s voices drop, everybody looks in his or her direction, and a sense of anticipation tends to build? It is because the only one in the room who knows where we are going—in other words, who knows about tomorrow—is the leader or CEO who just walked in. We all want to know where we will be tomorrow. In fact, whenever a boss or leader enters the room, his or her first obligation is to share some of the latest news that only the boss gets to know or would happen to have. This is, in fact, one of the most powerful reasons why being a trusted strategic advisor is such an interesting position to hold: having that view, before anyone else, of where we are headed, which you can get only when standing next to and being around the person at the head of the line.

Leaders work in a future tense. The CEO is the chief strategist, and strategy is always about tomorrow’s goals. This is because leadership is truly about tomorrow and what lies ahead. Contrast this with much of the staff activity in your own experience. Some people are busy defending yesterday and justifying things that have not yet happened, while still trying to leverage their way forward absent the kind of forward thinking and extraordinary insight leaders tend to expect.

Leaders avoid yesterday thinking because it can be very confusing and unproductive. Besides, yesterday is already owned by everybody else from their own perspectives. The past is owned by others intellectually, sometimes physically, perhaps financially, and certainly emotionally. And everyone’s perception of yesterday

is unique and often largely erroneous. The fascination of leadership and leaders is that most of their work is in territory yet to be owned or occupied by anyone. This is the definition of tomorrow, an intellectual area where people can come together and build their futures collaboratively. In current business language, we would say tomorrow is where it is possible to engineer new solutions and ideas. Tomorrow is where most people want to be in some positive, constructive way.

The trusted strategic advisor can only be a force for tomorrow. The closer you are in tune with tomorrow, the more compatible you are likely to be with the leaders you are advising.

### **Make It Up as They Go**

One of the greatest surprises about leaders is that much of what they do is more or less made up on the spot. I discovered this early in my career, when I had the chance to coach the CEO of a large insurance company in the Midwest. To coach at this level, you have to meet the person you will be coaching ahead of the scheduled session, and there has to be an almost instant chemistry: Can you work together? Do you have the feeling that you are both on the same page?

My “beauty contest” interview with this CEO took place in his wonderful, exotic office on top of a very tall building. The view was amazing. The office had three full window walls; it was awesome. It was also really intimidating.

As we began talking, it was pretty evident that he had a “visitor management approach,” no doubt because visitors asked the same questions about the view every time. The moment I started to speak, he took my arm, led me first to window number one, then around the perimeter answering all the questions about each wall—pointing out landmarks, history, useful detail—at about forty-five to sixty seconds per window. As he began explaining the third window view, my brain was screaming at me: “Say something really important, real soon. Only one wall

left, and that one has the door you came through.” My mental voice commanded, “If you want to get this job, you’d better ask an important question now.”

So I managed to interrupt the CEO with a question: “Tell me something: Do you always know what to do? You run a company of fourteen thousand employees; I have a company of fourteen employees. My people expect me to solve today’s problems and move ahead for tomorrow, following a plan. Do you know what to do every minute?”

He looked at me, smiled, and said, “Don’t you ever tell anybody this, but I think the board actually hired me because I had a good sense of where we would have to go or need to go, and because at least half of my decisions would be carried out by people who really knew what they were doing. They felt that I could estimate, and make the right decisions in the gray areas at least 25 percent of the time. The remaining 25 percent they sort of left to me. They didn’t have the answers for this either. For that particular part of my job, I am on my own.”

“But I’ll tell you something,” he continued, pointing at the door, “every employee in this company thinks I have the answers. They think that I have a plan. I’ve got news for you: there really is no grand plan. We have only partial knowledge of how it is going to go. But if I were going to tell this to the people who work for me, they wouldn’t believe it for a minute.”

What I learned from that encounter, and it has stayed with me ever since, is that CEOs in particular are making it up about 25 percent of the time. They have to create what is next. They are making it up based on their experience or lack of it, on their concerns or their fears, and oftentimes on the perceived opportunities as well. This is an extremely interesting and powerful tool for advisors to have. When I am in meetings, and the meetings are wandering around off the track, once in a while I will turn to the CEO and ask, “Is this the part we know how to do or the part we are making up?” It is amazing how stunningly accurate this question can be.

## Handle Daily Intrusions

There are tasks CEOs face every day that only they can handle, tasks that intrude on their day. These fall into four categories: soft intrusions, hard intrusions, nagging problems, and what I call career-defining moments.

Soft intrusions include negotiations with employees; anti-corporate government action; nagging negative news; personal, professional, or corporate embarrassment—real or potential; managing the moral decision-making elements of leadership; rumors; and unfounded or even founded allegations.

Hard intrusions are more operational in nature: a major stock price drop in a single day or in a single month; job actions and walkouts; major product market loss or product failures; other serious market problems; departure of a giant client or customer; failure to gain crucial government approvals; mergers or takeovers; and preparing for litigation.

Nagging problems are things like aggressive activist attacks, maybe on an individual executive or on board members; disgruntled employee or whistle-blower problems; negative trends in stock and business performance; persistent bad news; and bullying on the Web. These kinds of problems just sort of hang on and gnaw at the CEO every day.

Career-defining moments develop as a result of sudden stock price manipulation; criminal indictments; serious people failures; serious high-profile product failures, recalls, or deaths; and embarrassing, needless, obviously stupid events for which the CEO is held accountable.

It is amazing what takes up the CEO's day; nevertheless, these intrusions generally do fall into these four categories. It is helpful to use this category approach, because among your key functions is to identify, prevent, preempt, and correct these daily problems and issues and to suggest or develop solutions to them.

## Why Leaders Fail

While we are talking about the CEO's main responsibilities, we also ought to talk about why CEOs lose their positions. At the present time, CEOs are losing their jobs faster than ever before. *Fortune* and other business magazines occasionally publish studies of the principal reasons CEOs are fired or asked to resign. Five reasons tend to stand out.

1. **Failure to deliver on what they promised when they got the job.** Boards of directors of businesses and organizations, as well as shareholders, are becoming increasingly impatient with nonperformance. The risks are high, the stakes are high, mistakes are costly, and there is a lot of talent available these days to take on the visions of organizations. One of your key roles as a trusted advisor is to look for signs of nonperformance and bring them to the attention of those you are counseling.
2. **Excessive optimism.** CEOs and those around them tend to be overly optimistic in the way they describe their progress, minimize obstacles, underrate opposition forces, and deny the weaknesses in their organization, structure, strategies, and operations. Eventually, the metrics of performance or the truth from the line managers of a business will reduce and clarify whatever unfounded optimism CEOs and their advisors might provide. Here again, the role of the trusted strategic advisor is to take a sober, pragmatic view of performance and accomplishment to help the CEO deal in reality.
3. **People problems.** The CEO's key job is to find the right people and put them in the right jobs to accomplish the objectives. Failure to achieve this will cause the organizational effort to fragment or simply not to form. Teamwork suffers; people stop trying to pull together. Important talent becomes demotivated and unproductive—or leaves the organization. New talent becomes nearly impossible to recruit.

4. **Distractions.** CEOs sometimes take on too many roles on boards and commissions outside the company, spend too much time giving speeches, or become involved in other outside interests that get in the way of focusing on what needs to be done when they have big decisions to make.
5. **Stuck in the mud.** This is a somewhat mysterious category, but it has obvious symptoms: nothing is happening, there's no progress, and people may be leaving. For some reason, individuals who are extremely talented in one business environment sometimes fail by creating paralysis in another.

These five reasons for CEO firings show clearly what is expected of leaders. They need to deliver on the bold promises they made or on what the board expects, face and clearly define reality, build effective teams, stay focused, and be very good at figuring out what to do next.

### **How Leaders Succeed**

What matters to leaders is success. They will pay attention to you if they think you have a good sense of what they need to achieve that success.

Every CEO and leader assembles her own set of ingredients—intellectual, financial, emotional, and behavioral—to drive her toward the success she seeks. In my observation of leaders and of the various behaviors that lead to success or to failure, I have concluded that there are five crucial ingredients, the absence of any one of which will severely impair a leader's success and perhaps even trigger additional negative behaviors by boards of directors and by constituents (employees, customers, or shareholders). Let's look at these five vital ingredients.

1. **Focus.** Focus is at the heart of what Price Pritchett calls the 95/5 rule. In our everyday lives, 95 percent of what we do probably does not really matter much. Focus means

relentlessly dealing with the 5 percent that is really crucial. I believe this is one of the most powerful disciplines of leadership—and when you consider the daily intrusions I outlined earlier, it is often one of the most difficult to achieve.

2. **Limit the number of objectives to be achieved.** We can accomplish only a limited number of incremental steps every day. If we are honest with ourselves, we recognize that it makes little sense to commit to a whole series of major objectives that we will be unable to manage because of each objective's myriad details. Working on fewer important objectives means taking a manageable number of incremental, achievable steps. Success is more likely.
3. **Build support and create followers.** One of the great downfalls of CEOs is the inability to manage the people dimension. They need to be surrounded with supportive people to make their work successful. People can stay together in support of the CEO if they can communicate constantly. Maintaining followers is a daily process because employees rarely know or care about what the CEO cares about or does. It is up to the CEO to verbally communicate what matters—with great intensity, continuity, and repetition. It is up to the trusted strategic advisor to help design the key decisions, strategies, and messaging to keep the pack moving in the right direction.
4. **Fix what is broken—fast.** Do it now. When things go in the ditch, pull them out now. If it is even likely that something might be cracked, broken, or slipping into the ditch, CEOs act preemptively to fix it now. A related concept is that of changing fast. In other words, if the marketplace is suddenly moving in a new direction, the CEO must move appropriately, move quickly, and, where possible, move ahead of the game once he or she understands where the market is going, or figure out a better direction. Fix it now, challenge it now, change it now, stop it now. Leaders learn that most strategies fail because of timidity, hesitation, and indecision.

5. **Finish what you start.** The number one reason that CEOs lose their jobs is that they do not or cannot deliver on what they promised when they got the job. So the critical skill here is to do less but to achieve more of that smaller number of goals. And for consultants or key advisors in particular, this is a very tough challenge because most of them are idea people. We are the folks who are always thinking up new things to do. For the boss, this is a problem. You walk in bright-eyed and bushy-tailed for your Monday briefing session, and you spend half that time laying out new ideas for the boss to think about. The moment you leave the room, he or she almost explodes.

Not only has the CEO failed to finish the work he or she was expected to complete last week, but now there are four or five new ideas on the desk, which, it would appear, others fully expect the CEO to work with and potentially accomplish. Before a CEO can get to next week, this week and last week have to be finished first.

Ask yourself what you do when you are at the table with the CEO or senior leaders. Do you push your staff function? Or do you help them focus, keep objectives limited, build support, fix what is broken, and finish the work at hand? If you are doing something else, they probably think you are wasting their time.

I am occasionally asked, “Does the trusted advisor need to be smarter than the leader?” The degree of intelligence is somewhat beside the point. The fact is that the vast majority of trusted strategic advisors have little, if any, desire to be leaders. Their sole goal is to be the best number two; the best associate and assistant; the best helper, encourager, and success driver possible. For those advisors who wish to be leaders, they should practice the ideas and concepts recommended here, and those CEOs and leaders whom they have helped will undoubtedly be instrumental in moving these people along.

In my experience, it is far less likely that a consultant will choose to become a leader over time, simply due to the fascinating power, access, and insight that being close to a leader tends to

generate. There are far greater opportunities for trusted advisors than there are leadership positions available. By adjusting their expectations and temperament to achieve in these very influential positions, trusted strategic advisors experience a very interesting, dynamic, meaningful, and important professional life.

### **Study Leadership**

If you are serious about advising people at senior levels, one of your great preoccupations must become the study of leaders, leadership, and leadership activity. It is surprising how few staff people truly study their leaders or leadership, what operating people do every day, and how leaders become and stay leaders. Studying leadership involves a very practical and relentless curiosity about who leaders are, where they come from, what their relationships are, and how they came to be where they are. It also requires understanding what leaders are trying to accomplish; what motivates them; and how they think about various issues, topics, and circumstances.

### **An Important Suggestion for You to Consider**

My suggestion is that you begin by looking at the kinds of literature and sources leaders use to keep themselves informed. The following is a list of publications that CEOs tell me they routinely review:

*Harvard Business Review*

*Forbes*

*Sloan Management Review*

*Fortune*

*Barron's*

*Wall Street Journal* (every day)

Jack Welch's writings and books

Berkshire Hathaway's annual report (any year)

*Directors and Boards*

*BoardRoom*

*Executive Book Summaries* (monthly summaries of new business books)

When I've queried CEOs and other leaders about the most important business writers and thinkers, those they pay attention to, these are the names that crop up every time:

Peter Drucker

John Kotter (professor, Harvard)

Warren Bennis (consultant)

James Collins (consultant)

Tom Peters (business philosopher)

Joseph Rotman (professor, Rotman School of Management, University of Toronto)

Noel Tichy (author, lecturer, human resource executive)

Stephen Covey

Most leaders admire and read about or study other leaders—past and present. Identify those your boss cares about and then learn about them, too. Also read about and learn from other leaders who are of interest to you.

Take your pick. All these kinds of writings are extremely helpful in understanding the mentality, attitudes, behaviors, and aspirations of leaders.

Studying leadership should lead you to discover more interesting ways to be of service, to create more powerful and purposeful ideas and suggestions, and to develop a deeper understanding of how you can help those you advise achieve bigger and better things on a regular basis.

You may well find yourself in some fascinating discussion that explores what past leaders can teach the leader you are now advising. In the next chapter, we will look at what leaders will expect from you in this role.