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HANSAR Executive News

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EDITORIAL

Much of international media attention has focused recently on misdoings in the top management suites of the corporate world. The scale of accounting fraud, personal aggrandisement, golden handshakes and summary sackings reflects the size, power and in some cases hubris of chief executives. The headlines have focused on US businesses in particular, but they also mirror a general 'go-for-it' mentality: Europe and Asia have their own leadership issues on the boil.

As a management style, charisma or 'the art of leading heroically from the front' is falling out of fashion in the business world, though not necessarily with the people who are being led. Charm and persuasiveness, allied with a winning streak, are still a powerful potion…

But charisma on its own is not enough, if we are to believe Rakesh Khurana of the Harvard Business School. His thesis is that, rather than a set of personal characteristics, leadership is essentially circumstantial. Certain leaders will do well under certain conditions. We touch upon this in our lead article.

Many of the excesses reported in the US can be attributed to a set of unique circumstances that have developed in an incremental way and have recently burst into full bloom. These include: too much emphasis by Wall Street and institutional investors on the need for CEOs to 'deliver the goods' every quarter; too much latitude for corporate leaders; too cosy a relationship between the CEO suite and the auditors; too little control by the shareholder; and too slack corporate governance.

Does this leave the door open to charismatic leadership and the abuse of the top management function? Would better control lead to a thoughtful and evolving management style with a longer time perspective? And how does a consultative and empowering approach come into this dimension? Interesting studies are being done into these perspectives, and we will come back on them in future issues.

Authenticity in, charisma out

Looking back on recent events, we have to concede that fashion rules as much in management as it does in other walks of life. Charisma, more than any other feature of the business world with the exception of *change!*, has been the leitmotif of the last ten years (other challengers have been *vision* and *creativity*). Change, which is a lasting feature of the environment, is still with us but charisma, rated the most valuable attribute in enabling business leaders to respond effectively to that environment, is now very definitely out of fashion. Goodbye charismatic CEO, welcome back Organisation Man?

This paradigm shift in public attitudes is as facile as the belief in charisma itself. After all, nothing could be more subjective than an almost indefinable personal quality like charisma, and nothing succeeds like (apparent) success. This was always a case-by-case issue anyway and the bellying-up of a number of much lauded corporations with apparently charismatic leaders has only added to the general schadenfreude. Much of the blame can also be laid at the door of the management media, even at some of the business schools, and even at the corporate whizzkids themselves and their PR advisers.

A recent article in the *Harvard Business Review** made the point that charismatic leaders have often been hired in times of corporate distress. Precisely

LEADERSHIP 1

Every company needs a scapegoat – sometimes he's the last person to get fired.

LEADERSHIP 2

"His men would follow him anywhere, but only out of morbid curiosity."

LEADERSHIP 3

"I think today's generation reaches its level of incompetence much more quickly than ours ever did."

EXECUTIVE PAY

It looks as if we paid a lot of people for riding the rising tide.

(dfa;jlk)

because there was an apparent need to make fundamental changes in the organisation, these leaders were often recruited from outside: insiders would be too attached to their old ways and too loyal to their colleagues. The article also suggested that charisma "is much more a social product than an individual trait", i.e. conferred by the milieu (including admiring underlings in a process that sociologists call 'fundamental attribution error') and reinforced by the trappings of office.

Exaggerated potential...

The author of the article, Rakesh Khurana who is a professor at the Harvard Business School, went on to make an even more important point: the search for a Mr Fix-It had exaggerated the potential for a single man to change the fortunes of an entire organisation. In his words, "most estimates, for example, attribute anywhere from 30% to 45% of [a company's] performance to industry effects and 10% to 20% to year-to-year economic changes." Add the contribution from a corporation's rank and file, and that doesn't leave that much room for the CEO.

"I'm not sure it can really can be demonstrated that performance in an underlying business can easily be attributed to the actions of a single person," comments David Newkirk, senior vice-president of consultants Booz Allen Hamilton. And Rakesh Khurana concludes that "the truth remains that the factors affecting corporate performance are varied, highly nuanced, almost frighteningly complex, and certainly beyond the power of even the most charismatic leader to influence single-handedly."

Perhaps the most exciting of Khurana's theses is that ***leadership is circumstantial*** and not just the result of a set of personal characteristics. This could explain why so many new star CEOs recruited from the outside go flat in their new environment.

This does not mean that personal charisma has no role to play in the leadership process. It certainly helped people like Alexander the Great (who, as it happens, was exceedingly small), Charlemagne, Patton and Montgomery. But, if people are right in thinking that charisma has been overrated (and moreover, in Khurana's view, can be potentially dangerous), then what are the other less openly lauded leadership qualities that really matter?

Assuming that the CEO is intelligent and enthusiastic, knows his or her business and has a certain level of relational skills, then our vote would go to *authenticity* or *personal integrity*. This is more than just a question of 'walking the talk'. Even the simpler-minded have highly developed antennae for sensing that someone is acting out of character. As Abraham Lincoln said, "you can fool some of the people all of the time, and all of the people some of the time, but you cannot fool all of the people all of the time." The CEO who is untrue to him or herself will also, sooner or later, look untrue to others.

In a survey of 6,500 hotel employees Tony Simons, a Cornell professor, found that those organisations with employees who rated managers highly on *trustworthiness* were consistently more profitable than those who saw a gap between the words and actions of their managers. "Credibility is slow to build and quick to dissipate," he comments. Closely related to this is *consistency* in one's thoughts and actions. Of course trustworthiness, credibility and consistency extend well beyond the narrow confines of authenticity, but authenticity is the quality that underpins them all…

Authenticity also enhances the power of a second key management trait: *recognition*, the facility for giving people credit where it is due. This can be one of the most fulfilling rewards for committed employees and its value is related exponentially to the regard in which the source of the recognition is held. "Most people, whether they're engineers, business managers, or machine operators, want to be creative," says Paul Cook, founder of the Raychem Corporation. "They want to identify with the success of their profession and their organization. And their greatest reward is receiving acknowledgment that they did contribute to making something meaningful happen."

Emotions are contagious

Closely linked to this facility is the quality of *emotional intelligence*, much talked about these days, but hopefully not another 'flavour of the month'. Without being charismatic, a CEO can still learn to use his heart as well as his head. "Emotions are contagious," says business writer Daniel Goleman. "Research shows that they determine 50% to 70% of the workplace climate. That climate, in turn, determines 20% to 30% of a company's performance." Add the latter to the 'environmental' influences on company performance mentioned earlier in this article, and we're getting close to 100%!

Emotional intelligence works two ways, in communicating feelings and in restraining them. In many of those cases where new leaders have been picked for their charisma, a key factor has been *self-confidence*, the ability to keep cool in times of crisis, to stare down the barrel of a gun without blinking. This again inevitably commands employees' respect, so these qualities are mutually self-reinforcing.

The relational skills demanded of a successful CEO of course extend beyond the need to mobilise one's powers of emotional intelligence. Human communication has many dimensions, most importantly the a*bility to talk to people in a language that they understand* and *the ability to listen*. It sounds like we're talking about 'Renaissance Man' and 'Renaissance Woman', but these are all essential qualities in the business world of the 21st Century.

Of course, ultimately, the most crucial quality in a leader is *the ability to learn from one's own mistakes*. Not everyone has the humility and the honesty to take lessons from the school of harsh experience. It requires courage to pick yourself up off the floor, make the conscious and often painful effort to understand what went wrong, and then throw yourself back into the fray. And that is the Achilles' heel of many 'charismatic' leaders: they develop narcissistic traits, are convinced they are infallible… and, suddenly, find they are not!

* **'The Curse of the Superstar CEO' by Rakesh Kurana, Harvard Business Review, September 2002.**

The turnover in bosses

Recent events have certainly given a fresh boost to the CEO turnover rate. If you don't believe what you read in the newspapers, then consider what the market specialists tell us.

The Challenger, Gray & Christmas (CGC) research company reported that, between August 2000 and February 2001, CEO departures in the US averaged well over 100 per month, the highest level ever recorded. Booz Allen Hamilton found, in a study of 2,500 CEOs around the world, that average tenure has declined from 9.5 years in 1995 to 7.3 years in 2001. And Drake Beam Morin, in a smaller sample, concluded that only a quarter of CEOs had been in their posts for more than five years (see table, page 1).

Clearly such rapid rates of CEO turnover are not good for business, even if many of these cases involved outsiders who were hired in response to a glitch in company performance. A brisk turnover in bosses can disorient employees and, other things being equal, management continuity is a powerful recipe for prosperity. A recent study by McKinsey into the effect of changes in CEOs in the consumer goods industry found that results were always worse after a new appointment. The leadership team surrounding a CEO, if well established, will have a fuller appreciation of, and broader reach into, the organisation than he or she can ever achieve alone.

In fact, the evidence suggests that CEO turnover had already topped before the latest spate of dramatic departures, and two caveats are necessary. First, many of the departures recorded by CGC were in the fated dotcom industry and related IT fields. Secondly, most CEOs are recruited from inside the corporation (in 86% of cases) and, of these, 29% were previously COOs and 13% were Presidents. The fact is that, in the US, 51% of CEOs appointed from within had been with the company 20 years or more.

So this is probably less about outside stars coming in and trying to change the culture, and perhaps more about the Peter Principle. It might therefore also be a support for Rakesh Khurana's thesis that "leadership is circumstantial" (see our lead article).

WISE MAN, HE SAY 1

"Markets can remain irrational longer than you can remain solvent."

John Maynard Keynes

WISE MAN, HE SAY 2

"The only function of economic forecasting is to make astrology look respectable."

J.K. Galbraith

WISE MAN, HE SAY 3

"People who say that money can't bring happiness are usually rich."

Lembit Opik

Hansar explained

Hansar is a principal supplier of international executive search services to selected, multi-divisional organisations and smaller, entrepreneurial businesses expanding into international markets. Our strategy is to work with one or two companies in each industry segment. In this way we are able to maintain a close working relationship with clients, sharing in their success and guaranteeing a high level of enthusiasm and pride in the partnership.

Our clients come from diverse sectors in terms of products, services and geography. We are able to transfer our sector knowledge and apply it where there is synergy, giving new blood and creative thinking where appropriate. We focus on general management and senior positions within corporate structures.

We have built up a clientele of some of the world's best-known and most prestigious corporations on both sides of the Atlantic, and we have won some of the most important assignments ever awarded in Europe.

Hansar has always been involved in trans-national executive search assignments, be it global or pan-European. Our strategy has been driven by the obvious need to maintain direct control of all searches, regardless of linguistic and cultural borders. Consequently, we have put together a highly talented core staff who can operate around the world and deliver a consistently high-quality search service.

A member of AESC, Hansar abides by that organisation's ethical standards and practice guidelines. We take an active part in AESC's effort to develop the executive search profession.

The company, which is headquartered in Brussels, operates trans-nationally across all markets. Hansar is a member of the Penrhyn Group with offices on five continents, and is additionally supported by a network of research facilities covering the major centres of the world

HANSAR

Hansar International
Member of Penrhyn International
Rue Belliard 205
B-1040 Brussels
Belgium

Tel: + 32 2 231 06 35
Fax: + 32 2 231 09 68

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What price CEO performance?

Apart from the problem of determining the personal contribution of a CEO to a company's success or failure in the context of other 'environmental' factors (see lead article), opinions vary on the scale of remuneration that is socially fair. Only trade unionists would agree with Plato who said, a long time ago, that the income of the highest should be no more than five times that of the lowest in a society.

According to a recent article in *The Financial Times*[*], chief executive pay in the US is now over 530 times the pay of the average worker. Whether or not you think this kind of differential is 'fair' you may feel that, in the light of the corporate skulduggery uncovered in the last few months, such incentives are counter-productive, only encouraging greed.

Confronted with market pressures to find CEO material that, come hell and high water, will deliver the goods, it is not altogether surprising that company boards and remuneration committees tend to play safe and 'up the ante'. This factor comes fully into play when corporations go out onto the market to find suitable candidates. Outsiders, moreover, feel entitled to raise their demands because of the ***perceived risk of changing jobs*** and moving into what may well be a tricky turnaround situation.

In terms of executive remuneration whistles are blowing in Europe: witness ABB and Vodaphone. But the most publicly aired efforts by boards to claw back the goodies granted to errant CEOs are in the US: more names are likely to be added to a roster that already includes Adelphia, Tyco, Warnaco and Worldcom

In support of salaries, executive perks practised in the US include lavish pension plans, low-interest company loans which have a habit of not being repaid, and heavily discounted use of company facilities, including the corporate jet. Even stock options are being criticised. But hold on a minute – this is a pretty powerful tool!

A valuable business instrument

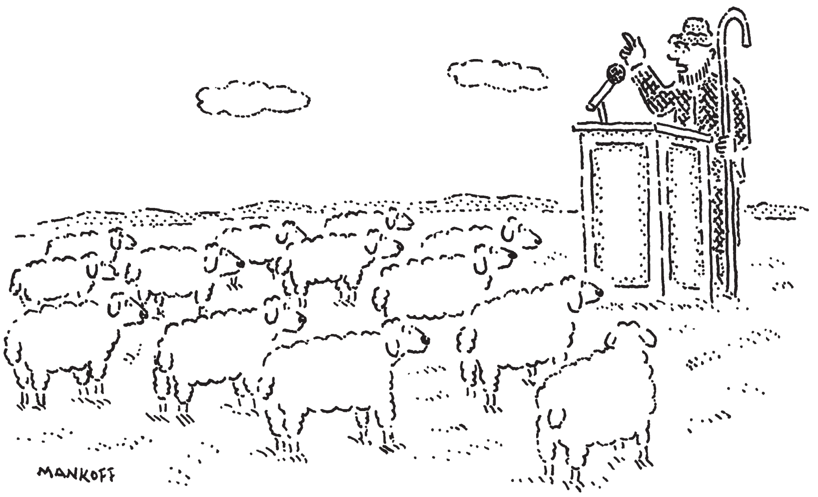
In a recent issue of *Business Week*[+] Gary Becker, a professor at the University of Chicago, pleads the case for the continued use of stock options as a tool of CEO motivation and compensation. Recent examples of the misuse of options, he argues, are not a sufficient reason to ban them.

"Salaries and 'normal' bonuses should compensate management for average performance compared with competitors," Becker says. "Options, on the other hand, should only reward business leaders who help their companies do unusually well. They should not be paid simply for succeeding in a booming industry." Nor should executives be punished for declines in share prices that are due to hard times for the whole industry.

A simple way to reward management only for top performance is to make options dependent on the performance of a company's shares, relative to the average for other shares in that industry. For example, instead of an exercise price that is equal to a company's share price on the issue date, options could be 'at the money' when the ratio of its share price to the industry's average share price is equal to what that ratio was on the issue date.

"Options," concludes Becker, "are a valuable business instrument when they only reward unusually good management and punish bad management."

* *Financial Times*, 30 August 2002
+*Business Week*, 5-12 August 2002



"My platform can be summarized in a single word: Leadership!"

For a reference list of further reading on topics in this issue, please call:
Mary Levy-Finan
Hansar International
Tel: 02/231 06 51
For suggestions and discussion, please call:
Anders Borg
Hansar International
Tel: 02/231 06 35