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Why Leaders Fail



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Why Leaders Fail.

By Patrick R. Dailey

“All too frequently, an exceptional executive encounters a corporate trap door, falls, and then derails. This article presents 21st century challenges—corporate trap doors—that arise to snare exceptional executives.”

All too frequently, an exceptional executive encounters a corporate *trap door*, falls, and then derails.

Executives knowingly or unknowingly step into a critical situation in which their savvy and experience fails them. They may have been surprised. They may have seen the storm building only to push too hard. They over-correct. Predictably, boards move in to take charge. Game over.

What brings an exceptional executive's run to an unceremonial conclusion?

This article presents 21st century challenges—*corporate trap doors*—that arise to snare exceptional executives. A panel of Board and operating executives plus corporate psychologists was surveyed to assemble a contemporary understanding of derailment and prevention. It's clear to the panel that the competitive landscape is vastly different than just 20 years ago. Many new risks have emerged that threaten an executive's corporate survivability. With intensifying global challenges, instability of capital markets, increasing demand for personal and corporate transparency, a dizzying work pace and intensified corporate regulations, success in the role of a chief executive has become a more treacherous physical, mental, and political gauntlet.



Derailment accounts for 35% of executive turnover

Over just a five year period, 70% of companies will change CEOs as a result of planned succession, the aftermath of M&A, and force-outs resulting from derailment. A bit more than one-third of this turnover (35%) is due to involuntary derailment.

CEOs are being appointed later. In 2000, the average age at appointment was 50.2 years, in 2010, it was 52.2 years.

CEOs are remaining in office a shorter period of time. During 2000, outgoing CEO tenure averaged 8.1 years. In 2010, average tenure was down to 6.6 years with insider CEO appointments lasting longer in their jobs than outsiders (7.1 years versus 4.3 years).

Globally, chief executive turnover runs at the rate of about 14% annually. This rate has been fairly constant over a number of years with the range being 11% to 18% year to year in North America and broader in Europe, at 3% to 16+%. The emergence of Chinese companies in the global sample plus the lingering global recession has influenced a decrease in CEO turnover down to 11.6% during 2010—the lowest rate of turnover since 2003.

With the rapid emergence of China and other developing nations among the 2,500 largest public companies comprising the sample for study, Western European and North American companies may soon become a minority in the global mix—with 895 companies in the sample representing Asian-headquartered companies; 772 from North America; and 619 from Western Europe. (CEO Succession 2010. Booz & Company).

Derailment surfaces in three ways

• Business Failure

The most prevalent cause of derailment is failed financial performance. Liquidity, access to capital and credit, plunging market capitalization, and benchmarked

comparisons are the key litmus tests of executive survivability.

• **Board Surprise**

Derailment can arrive quickly. It may follow a bungled acquisition, a catastrophic customer blunder, personal or ethical gaffe or a “dust up” with the board. The Board is unexpectedly surprised with unsettling information and moves quickly to reset the leadership team and/or settle shareholders or regulators.

• **Cumulative Assessment of Executive Fitness to Lead**

The more common variety results from small miscues which accumulate over time and ultimately paint an irrefutable picture of fissures in the executive’s leadership, navigation skills and/or personal style. As these miscues incubate, an executive finds him/herself on a slippery slope of discredit and decline until there is often one catalytic moment in which the “sudden” reality of the executive’s failure becomes undeniable and irreversible.

Derailment is triggered by missteps in critical situations

Executives deal with countless situations each day. Most are benign, familiar, perhaps, routine meetings or situations...situations that can be well-managed with experience and judgment from prior lessons learned with temperament well under control. These are *business as usual* episodes.

Other situations take on greater significance—these are critical situations that may become *trap doors*. These are moments of truth that carry more weight and special significance in determining an executive’s overall success or derailment. They may be a major challenge or a small encounter but somehow these situations *frame out* the executive’s competency, compatibility, and weigh heavily in shaping the confidence that Board members and stakeholders have for the leader to continue to serve. While these situations may appear routine, they can be packed with surprise, novelty or cloaked as a Trojan horse. Deciphering which situations are routine vs. those critically important is often straightforward yet other times deceptively difficult. There are no warning flags, and a situation that was previously benign can mutate into a high risk situation without an astute reading of the contextual cues that accompany every situation.

Traps appear naturally. The competitive landscape changes, the pace quickens, the rules of the game change, the signs of change mutate, and reliable lessons learned turn obsolete, lose relevance or turn faulty.

“Trap doors become lethal when the executive has no game plan in his or her repertoire of lessons of experience and is unable to generalize from the familiar to this novel or unexpected situation.”

Traps can be intentionally set. Single-minded activists armed with litmus test questions, prime time media players on investigative witch hunts, discontent shareholders with the intent to discredit or embarrass, corporate raiders with an eye on buyout targets, and dysfunctional board members and disloyal senior leaders can and do create pernicious situations that test, distract, and disable exceptional executives.

Trap doors become lethal when the executive has no game plan in his or her repertoire of lessons of experience and is unable to generalize from the familiar to this novel or unexpected situation—there is failure to read a situation accurately or rapidly enough; action is unsuccessful, unsupported, late or off target. Competency “blemishes” somehow become more noticeable, less manageable and more critical determinants of derailment. Derailment is triggered by:

- Previously learned lessons have become irrelevant, obsolete, and faulty. Competency “voids” surface,
- Insufficient time is available for new learning or practice time to occur, and
- Generalization attempts fail. Leader cannot bridge from prior successes to current challenge.

21st century executives face vastly different challenges

Contemporary executives now face a significantly different array of challenges than faced just 20 years ago—most notably, more complex, external challenges that arguably carry heightened risk. 21st century executives spend more time dealing with external matters, stakeholders and constituencies. This time investment will have greater impact in

their overall contribution. Executives need to be more agile and *emotionally-gathered* in dealing with issues that are a consequence of decision transparency, unchecked flow and availability of information, plus social, political and corporate activism that lead to

scurrilous attacks, inquiries and accusations. Novel and treacherous trap doors lie in wait around these matters. External outreach, coalition building, dealing with regulators, personal presence/propriety and brand management especially in the face of a threat are more essential skills.

Dailey’s Executive Leadership Model presents four roles executives must successfully fulfill within a contemporary, commercial enterprise. At the core of the Model are temperament and critical thinking capabilities that serve as the foundation of behavior. The Model is used to catalogue the various trap doors.

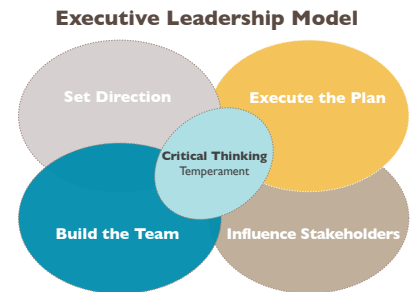


Figure 1

Trap Doors are catalogued and described

Our panel provided their insight in assembling a list of the most insidious *trap doors* that confront executives. While these critical situations may not always snare an executive and derail them, these trap doors do represent heightened risk to an executive’s security, status and survivability. Every executive, his/her Board, consigliere and/or advisors should be on high alert for these looming traps.

Executive Trap Doors

Set Direction

Difficulty Articulating a Path Forward

The trap is mis-judgement and bungled communications with key decision-makers about strategy, resources, and risk fails to foster a coalition of "on board" supporters.

Neglecting Renewal

Constraining renewal and upgrading efforts with the intent of minimizing risk leaves the leader with an organization unprepared for the future.

Playing on Competitors' Home Turf

Entering a market without a plan that reflects the rules in that market, or being brash enough to believe you can muscle in with an ill-suited game plan is a recipe for failure and retreat.

Chasing Innovation that Fails to Excite

The trap is sinking days, dreams, and dollars into innovation that your target customers repudiate. This is strategic mis-judgement.

Believing You are Smarter Than Your Customers

The trap is failing to learn from your customers--allowing top-to-top relationships to wither and your product/service offerings to lag competitors.

Failing to Listen to "Faint Signals"

Attending only to traditional data channel(s) traps the executive into conventional decisions-- social media and diverse dialogue can open doors to "game changing" advantage.

Missing Windows of Opportunity

The trap is not having your organization prepared to seize opportunities and missing the benefits of first market entrant-- leaders are criticized for fuzzy thinking and timid leadership.

Reliance on that "Magic Bullet"

The trap is putting your credibility on the line based upon a single or narrowly-focused event or breakthrough-- big bets can make you look desperate.

Choosing to Stay the Course

The trap is making the decision to stick with strategies that offer dwindling differentiation and shrinking advantage --- buy-time decisions may appear risk adverse to Boards.

Ignoring the Clock

The trap is making investments and strategic decisions without clarity regarding the time frame expected by owners-- the shot clock can run out on your vision.

Invincibility

Allowing invincibility and superiority to become part of your culture and leadership mindset will dilute your competitive edge. The mighty fall fast and hard.

Difficulty Making Change Stick

Failure to consolidate gains from change initiatives by allowing legacy processes, behaviors and values to re-emerge indicates a leader unable to realize his/her investment in change.

Execute the Plan

Ignoring wins by emerging competitors

The trap is failing to take note of changing customer needs, sales force complacency, emerging competitor innovation, relationships that have soured or been neglected.

Repeated Breakdowns in Core Processes

Downtime retooling and regrouping puts you in a chronic condition of playing catch-up. Your company is working harder and losing ground.

Chronic Suppression of Bad News

Reality can appear late and be obfuscated. The executive's view is distorted leaving little time to digest and extract simplicity from complexity.

Investing is Legacy

The trap is failing to adopt new, enabling technology, processes, and game changing talent able to accelerate cycle time, excite customers, and get you to the future before competitors.

Replacing Direct Labor

Too often technology upgrades and outsourcing costs begin to behave as uncontrollable fixed costs that escalate and begin to fall outside your direct control.

Disregarding Bureaucracy

The trap is failing to implement the "critical few" elements of bureaucracy that provide necessary control, order, predictability and compliance.

Micromanaging

Over-steering your senior executives saps their resolve; diminishes accountability and sends confusing signals through your organization.

Playing Catch-up Ball

Every "double down" situation requires "high-risk", over-commitment of resources and hyper-attention to a matter that may have already been decided, jeopardizing assets and personal credibility.

Blind-Pursuit of Perfectionism

Organization-wide perfectionism masquerades as a virtuous quality. But diverts focus away from those critical few items that are truly essential.

"Big Picture" Fixation

The trap is the unwillingness to look past the brilliance of "big picture" strategy to the seemingly insignificant implementation tasks that somehow make the difference.

Unwillingness to Walk-away

Irrational persistence becomes a trap door when the challenge/costs to win become all too personal to you and perceived as futile to your team.

Using the Wrong Metrics

Using backward looking metrics--revenue, market share, EBITDA-- relying on legacy assumptions and dubious predictability will erroneously guide you into the future.

Build the Team

Bungled Succession

The trap is being constrained by agreements and arrangements made prior to your appointment because you failed to probe, or negotiate these matters.

Lingering Rivalry

The trap is being engaged in all too competitive game of conflict and retaliation with an internal rival; as the victim earns victim status, your credibility is damaged.

Team Dysfunction

The trap is allowing chronic team dysfunction to fester and then diminish synergy and velocity. Boards hold the CEO accountable for leading and controlling the team.

Isolation at the Top

The trap is allowing sentinels to isolate you from all the facts, diverse opinion, and employee sentiments which are of critical value during times of change.

Weak Networks and Coalitions

The trap is building your knowledge base with narrow, single channel input and influencers. Valuable networks are more often multi-channel and diverse.

Knowing Little About Your Bench

The trap is failing to know the strengths, readiness, and values of emerging leaders. When you must rapidly mobilize, you are surrounded by strangers.

Smoothing over Conflict

The trap is allowing critical issues to go underground and resolved while the actors distance themselves from one another and brew organization discord.

Ubër Exuberance

Warning signals from the marketplace go unnoticed and unheeded. Tough questions are avoided and the organization fails to develop objectivity.

Saying "No"

One trap is not "saying no". Another trap is delivering "no" in ways that discredit or disrespect others: your harshness diminishes employee engagement/loyalty.

Failure to Earn Loyalty

The trap is your zeal in committing your troops to battle but in their eyes, failing to commit yourself-- you will lose the privilege to lead.

Too Often, "The Expert"

The trap is attempting to "out expert" your experts and alienating and underutilizing them; you fail the leadership task of inquiry and questioning.

Out Pacing Your Organization

Being too visionary puts the leader too far ahead of the organization's readiness, courage, and risk tolerance. Organizational support and confidence erodes as the leader appears unrealistic, even threatening.

Influence Stakeholders

Quarterly Surprises

The trap is lackadaisical monitoring of financials, failing to alert Board of imminent disappointment and not offering a cogent response. You appear "caught off guard".

Constrained Access to Capital and Credit

The trap is forced- retrenchment--- dictated by outsiders, pulling back on growth, accepting undesirable financing terms and restrictive covenants. You lose control. Boards take charge.

Bruised Alliance Partners

The trap is allowing your alliance partners to perceive they have been duped; intentionally dealt with unfairly, and treated with disregard.

Failure in the Inner Circle

The trap is isolating your Board's Inner Circle, surprising them, and marginalizing their contribution-- tension and mistrust lead to undone Board relationships and dwindling support.

Shrinking away during Crisis

Any sign of withdrawal from active leadership during crises is perceived as inept leadership and abandonment. Boards take note when leaders fail to stand tall and face the heat.

Problems differentiating self vs. company

Over reaching for executive benefits and special privileges makes you look greedy and non-aligned with shareholders interests.

Showmanship over Stewardship

Over exposure results when excessive energy and resources are invested in building a personal brand that competes with the commercial brand— best to serve as the steward, not the showman.

Wavering Ethics

The trap opens when ethics and code of conduct boundaries blur and vary from one situation or person to another— trust and credibility are bedrock competencies.

Discomfort in the Spotlight

The trap is failing to recognize when the lights come on and being unprepared to perform on the corporate stage-- appearance, courtesy, presentation and Q&A skill, warmth and demeanor are essential intangibles.

Complex Answers

The trap is failing to have a simple grasp over a subject or topic---yet, offering overly complex, detailed responses that confuse and mystify an audience.

Dueling with Activists, Regulators and Media

Winning counterpoint debates may be deemed valuable— but the trap is becoming a target of activists, regulators and the media.

Ignoring Corporate Responsibility

The trap is being silent about sustainability or corporate responsibility--- leaving an executive out of touch with needs and conditions within markets, employees, or stakeholders.

Tactics for Avoiding Derailment

• Enlist your Inner Circle.

Derailment can be avoided by proactively enlisting your inner circle for advice and coaching.

Trusted Board members, the Chairman or Lead Director, or a consigliere such as the senior HR leader provide multi-channel information and insight. High on the list of information is contextual information, confidential feedback and prudent ideas for pacing and directing your business strategy, building your team, interacting with stakeholders, and managing your reputation.

The role of the inner circle is twofold. Your inner circle acts to protect-by sharing wisdom, providing insight and early warning. Your inner circle also acts to direct-by shaping your thought processes, and by questioning and testing your choices for action and conclusion.

• Be alert to your dark side behaviors

Increased self-awareness protects you from maladaptive behavioral episodes.

Personality is firmly set by early adulthood. One's fundamental disposition for critical thinking and emotional control—i.e., our temperament is hard-wired by that time. Yet, this hard-wired persona is often not "seen". The fundamental disposition is overlaid with adaptive behavior learned during years of trial and error experiences. Learned behavior enables exceptional executives to successfully problem solve, influence, and generally, excel. There is nothing sinister; it's the natural learning process to achieve mastery. Colleagues and boards come to know the executive from his/her learned behavior repertoire, i.e., the façade.

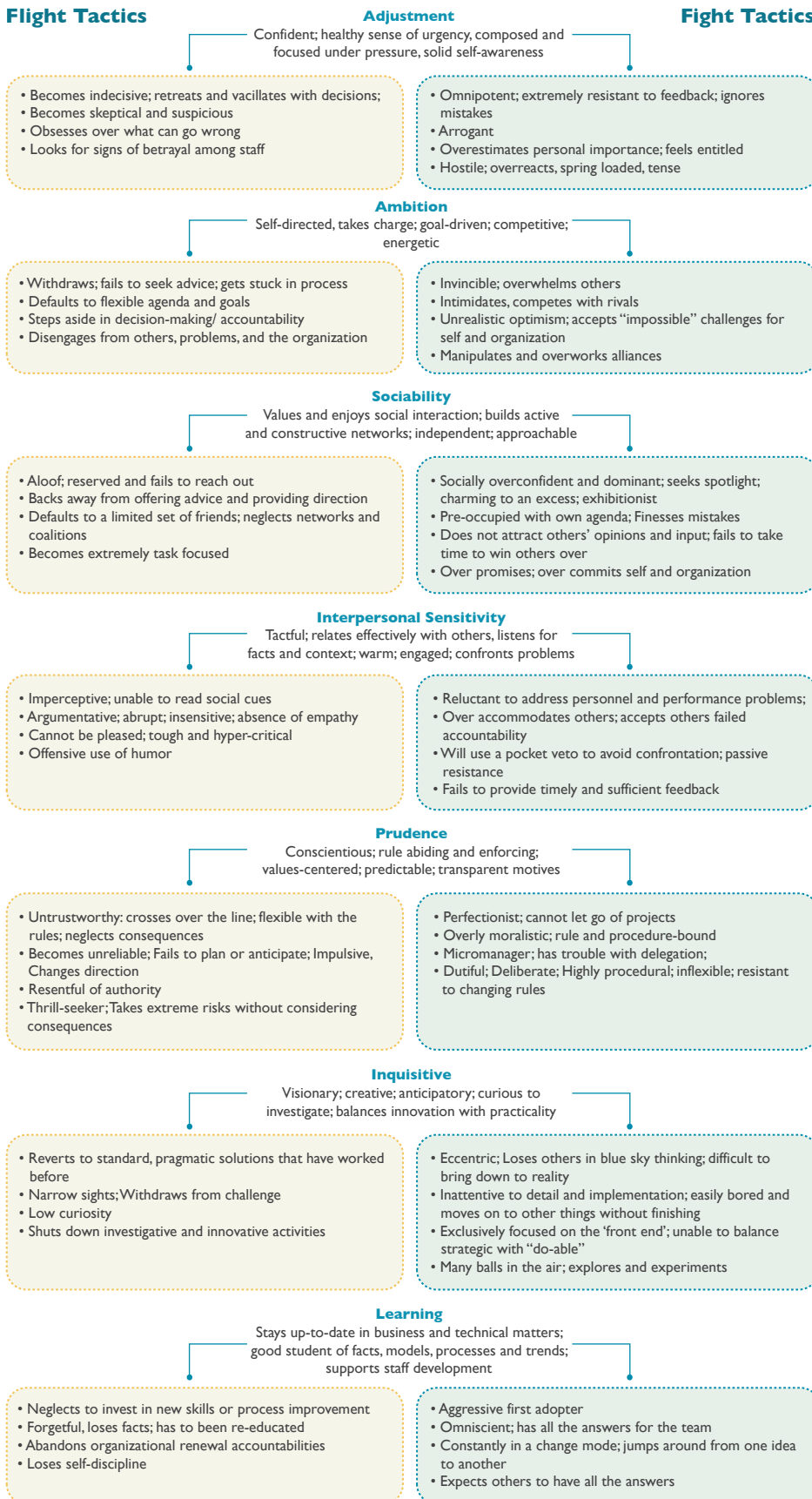
“ Behavioral dysfunction or so called dark side behavior, a phrased coined by Dr. Robert Hogan, tend to surface when an executive finds him/herself operating out of his/her comfort zone.”

This façade may breakdown when the executive encounters stress and unfamiliar challenges associated with corporate trap doors. Behavioral dysfunction or so called *dark side behavior*, a phrased coined by Dr. Robert Hogan, tends to surface when an executive finds him/herself operating out of his/her comfort zone. When learned behavior fails, stress levels ramp up and the executive, sensing this deconstruction, switches to "high alert." Self-protective *flight or fight* behavioral characteristics are automatically mobilized. Regrettably, these behaviors may be maladaptive in the context of 21st century leadership requirements triggering career-destructive behaviors to emerge from behind the previously well-managed façade. These maladaptive behaviors can emerge instantaneously or can incubate over lengthy periods of time before emerging -- but when flight or fight capabilities are triggered, any executive becomes vulnerable.

According to Drs. Robert Hogan and Marilyn Buckner, dark side behavior veers off in two, diametrically opposite directions. Flight behaviors become maladaptive when the executive demonstrates characteristics perceived as excessively insecure, mistrustful, withdrawn, and risk adverse—the executive copes with stress by dramatically moving away from problems and colleagues. At the other extreme, fight behaviors become maladaptive when the executive demonstrates characteristics perceived as excessively competitive with colleagues and the Board, overwhelms people and problems, manipulates and intimidates—the executive copes with stress by aggressively acting to dominate and control people and situations.

The table on the next page provides a simple breakdown of the red flags of maladaptive behavior using Hogan's personality model and Buckner's explanation. Adaptive characteristics for Hogan's seven personality factors are displayed in the chart's center. At the extremes of the table are examples of maladaptive flight and fight behaviors. These out-of-bounds behaviors exacerbate and accelerate inability to navigate trap doors. Derailment becomes more likely.

Table 1: Red-Flags of Derailment



• Improve your cipher of context cues.
Derailment can be avoided by becoming astute at reading context cues.

Education in the corporate world predominately focuses on development of job content skills—i.e., technical, professional, personal, team and leadership. These skills are largely within the individual's control to master and then apply. Executives are hired and appointed for these skills; rewarded for applying these skills. Across a career, these are honed and supplemented. Rarely are executives deficient in job content areas.

In contrast, developing an executive's ability to decipher context clues is overlooked. It is infrequently a topic during the succession planning process. Yet, context conveys vital, embedded messaging about—how to initiate change, set strategy and solve problems. An astute read of the context—history, protocol, boundaries—unlocks keys for fine tuning management style, pace, communications and collaboration. It can be the difference between clumsy missteps vs. savvy leadership.

Deciphering context often appears instinctive. Yet, it is a skill that can be learned. In application, deciphering context is a quick, if not instantaneous, disciplined gathering of contextual cues—peripheral information that enables a savvy executive to accurately perceive those visible, presenting issues as well as intuit hidden or obscured ones, understand the forces at play, and set boundaries. Critically important, this brief period provides the executive a momentary step back—a brief moment to gather him/herself emotionally, allow constructive values to rise to the top and for the job content skills, investigative or action processes to be mobilized. This instantaneous gathering period is an essential step in avoiding maladaptive temperament and defective critical thinking from sending the executive down a self-inflicted trap door.

• Have a Learning Agenda

Executive learning prepares you to navigate new and morphed trap doors. It is an antidote to derailment.

Executive learning is easy to discuss,

Table 2: The Elements of Context

Element	Description A situation which	Mental Checklist
Core Matter?	Is central to the enterprise's vision, mission, or viability	<ul style="list-style-type: none"> • Defining moment or a footnote? • What can be won? • What can be lost? At risk?
Status Check	Action or deliberation is underway; status must be assessed; action taken or direction given.	<ul style="list-style-type: none"> • Why am I being involved <i>now</i>? • Who is accountable? Acknowledged? • What facts are known? Unknown? • Source credibility? Objectivity? Experts? • Competing priorities? Interdependencies?
Players	Individuals/coalitions participate & have considerable power to stop, derail, or accelerate an initiative. They judge. They influence opinion.	<ul style="list-style-type: none"> • Who's involved? On the side lines? • Cliques. Elders. Opinion leaders, gate keepers • Sources of power and influence? Used before? • Who has power? To start? To stop or detour? • Where are the silent vetoes?
History	A base line exists; prevailing expectation(s) are established; nature and degree of challenge must be understood.	<ul style="list-style-type: none"> • History lessons? Pain. Celebration. • Readiness, willingness, fatigue, confidence? • What do others expect I must do? <ul style="list-style-type: none"> ◦ Act: Initiate? Invest? Launch? ◦ Hold: Study? Investigate? Defer? Wait? ◦ Stop: Abandon? Restudy? Retreat?
Values in Spotlight	Will be heavily scrutinized and influenced by values, principals and Code.	<ul style="list-style-type: none"> • Humanity: Respect, Honor, Dignity, Privacy • Fairness: Crediting, Favoritism, Balance • Humility: Compassion: Protection, Helpfulness
Freedom to Act	Resources, time and mgmt attention are or could be limited.	<ul style="list-style-type: none"> • Quality, Quantity, Control of Resources? • Time available? Time adequacy? • Decision Choices? Necessary decision style?
Scorecard	Metrics need to be understood and agreed.	<ul style="list-style-type: none"> • Who determines the scorecard? • Variables: objective/subjective; single/multiple • Variables: hard/soft; long term/ short
Protocol	Ceremony, signs & symbols carry importance.	<ul style="list-style-type: none"> • Degree of inclusion v. exclusion • Social courtesy. Local-country awareness • Communications routes and confidentiality • Holy Grail. Rings to kiss. Red flag awareness • How/ when to "say no" • Understanding the "small stuff" that matters

harder to initiate, and difficult to complete— discipline and time are illusive in light of the 24/7 demands placed upon corporate executives. Often at fault are learning projects that are over-engineered with lofty aspirations requiring excessive time investment and too much accountability dumped upon subordinates—the objectives of bona fide executive learning are high-jacked and morphed into nothing more than delegated organizational projects— which leaders are quite comfortable sponsoring, overseeing, reviewing or generally presiding over. This is not executive learning; it's the traditional management role in operation.

Executive learning is not about sponsoring, overseeing or presiding. Learning typically begins with listening and acceptance of a failure or upcoming opportunity along with encouragement from an inner circle board member, a consigliere; perhaps, the HR leader. Today, experimentation, practice, and competency-mastery are often played out in the full view of employees, stakeholders, bloggers, and maybe, media. Usually, it involves learning from others—role models and experts. A learning cycle concludes with relatively permanent changes in skill or perspective about self. The executive thinks and behaves differently. With most over engineered learning, we instinct-

tively resort to our "base behaviors" instead of our "learned behaviors" during times of stress.

Without personal learning and renewal, executives can find themselves playing with old rules, old tools and worn out game plans. They may stress and revert to more basic behavior rather than apply lessons of experience. They lose their edge and fall behind others that remain fit, fresh, competitive, connected to the workforce and to the emerging market. Commit to only one or two personal learning projects. Keep your plans simple, doable, and personal—don't allow these to become organizational projects.

Wrapping Up

Most executives arrive in the C-suite strategically and emotionally well-prepared for high stakes risk-reward choices in perhaps their final career stop. Yet, success as a 21st century executive requires different capabilities—temperament and mastery around pace, complexity, transparency, global competitors, stakeholders and mounting governmental intrusion. Novel, fast-emerging and rapidly mutating obstacles—trap doors—confront executives' as they pursue achievement, build reputation, and strive for long-term survivability. Many navigate risk superbly. While all leaders experience failure of some magnitude, a surprisingly high number of chief executives do pay the price by surrendering their jobs to externally-sourced "top graders" ushered in for turnaround or strategic redirection and occasionally lose their companies altogether due to cataclysmic crisis occurring on their watch.

In summary, what brings an exceptional executive's run to an unceremonial conclusion?



The essential antidote to derailment is an ongoing commitment to executive learning—learning to build and repair relationships, re-new market and customer perspectives and fostering organizational trust, candor, risk taking and then, innovation. The payoff goes well beyond the executive's mental health and job survivability to a sustained high performance culture and a bolstered brand reputation.

About the author

Dr. Patrick R. Dailey is a founder of Board Quest, LLC. a board of director consultancy. Patrick has held senior level Human Resources positions in Fortune 100 firms...all undergoing significant strategic and cultural change. Dr. Dailey has worked in the technology sector for Hewlett-Packard and Lucent Technologies; consumer products for PepsiCo and Herbalife; chemicals and pharmaceuticals UK-based The BOC Group; and consulting for Korn/Ferry International and Chicago Change Partners, with the firm's founder, Dr. Charles Bishop. Patrick serves on the Board of the National Association of Corporate Directors- Atlanta Chapter. He also serves as a director for a private business. He received a Ph.D. in Industrial and Organizational Psychology from the University of Houston, Texas, U.S.A. Patrick can be reached at pdailey@boardquest.com or 310.400.9992