

Reality Bites

In the book “Execution,” authors Larry Bossidy and Ram Charan contribute much of General Electric’s success under Jack Welch’s leadership to Jack’s ability to force realism into the organization. The authors go on to say, “Most companies *do not* face reality well...too many leaders fool themselves into thinking their companies are well ran.”

Business leaders that fool themselves into thinking their organizations are better than they actually are and do not address organizational capabilities realistically, are doomed to fail when reality bites. This plays out in the current failure rate of CEO’s. CEO turnover has never been higher – or the length of time they spend in the job shorter.

A study by Drake Beam Marin Inc. shows two-thirds of all major companies worldwide have replaced their CEO at least once since 1995, with 2000 departing in the year 2000. Another study by Pearl Meyer & Partners Inc., states 39 of the top 200 companies replaced CEO’s in 2000. While Challenger, Gray and Christmas reported that in the first 5 months of 2002, 315 CEO’s were replaced.

Why all the turnover? Look at the performance facts:

- ➔ 70% of strategies...are never fully implemented.
- ➔ 70% of change efforts...fail.
- ➔ 75% of mergers and acquisitions...under perform expectations.
- ➔ 91% do not sustain...profit or revenue growth of 5.5%.
- ➔ 75% lower profit %...than in 1951.

References: Louis Foringer, Chris Zook, Michael Beer and Niltin Nohria, Prospectus Strategy Consultants, “The Economist,”

Business is struggling nationwide, and CEO’s who do not face the reality of their organizational strengths and weaknesses will ultimately feel the bite that will take them right out of the organization. When the economy was robust they often could “sell” performance. No longer can they sell their way though substandard performance. They have to perform, and the only way they can perform is to start with the realities about their organization. They need to determine the answers to basic questions like:

- ➔ Is the organization linked to the market – and can the rate of internal change keep pace with the rate of external change?
- ➔ Does the organization have the capability to execute the strategies to succeed?
- ➔ Does organizational culture block success?

CEO’s often form answers to these questions based upon their personal observation or on input of a chosen few who tend to share the same perceptions. When CEO’s truly engage in finding the answers, there are tremendous differences between perceived and actual.

When Boake Sells led Revco out of bankruptcy in the late 1980s and early 1990s, he focused on understanding the market and understanding Revco. He focused his top intellectual talent on the market, and he focused on creating reality about the company. To find out about the company he focused at lower levels of the organization. Why did he go down into the company to learn? He knew there was tremendous knowledge within the organization. He determined those in the middle where more likely to position and play politics. Because of this positioning and politicking he did not hear what he needed to hear, he often only heard the good, not the bad. At the lower levels he heard everything, the good and the bad. He got a true glimpse of the reality about Revco.

If you know the truth about organizational capabilities, you can correct the issues. If you move forward based on perception, and your perception is wrong – the organization has no chance of success and the CEO will ultimately get bitten.

How do you go about understanding the reality? There are two initial options and at The Kanning Group, we suggest you start with one but eventually complete both:

- 1) Complete a validated cultural assessment. Do not guess at the culture, measure it. The first time we heard what a validated cultural assessment claimed it could do for an organization we thought, “right.” It is now hard for us to understand why every company does not complete a validated assessment. These assessments are easy to complete, inexpensive, and simply stated, they can predict if the organization can successfully implement its strategies. The knowledge gained from assessments is invaluable in making strategies reality.
- 2) Spend time listening at lower levels of the organization. Initially you will have to ask questions – and you may hear years of pent up frustration, but if successful at listening, you will begin to hear the truth about the organization and gain insights into how to improve performance.

Great leaders realize they do not know everything about the organization. They know they must create time to realistically understand every potential barrier for the organization to succeed. This discovery time is a great investment – and the CEO's that make this investment to access the organization's reality will ultimately realize an unequalled ROI.

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