

Chapter One

THE LEADERSHIP DISCONNECT

THE END OF HIERARCHY

A major disconnect exists today on the topic of leadership. I have heard senior leaders in business, government, and nonprofit organizations talk about the need to push decision making down in their organizations. They do this with the goal of making their organizations more responsive to their customers and constituencies and more competitive against rivals. Rather than wait until a problem moves up through the management levels, quality- and quick-response-minded organizations need people who can solve problems and pursue opportunities as soon as they arise. Minimizing response time has never been more important in an organization.

And yet while organizations need leaders at every level and in every function if they are to quicken their response time, senior executives still talk and, even worse, think in terms of leaders, followers, subordinates, and direct reports. Although these executives might espouse the value of flatness, they still think in hierarchical terms.

Just as bad, most of today's management literature and many management education and training programs continue to divide the world into leaders and followers. Not only is this not actionable (how can people at every level and in every function solve problems

as soon as they arise if they do not have the authority to do so?), it creates confusion, a great deal of organizational second-guessing, and anxiety. How people think about leadership determines the results they get. Even better, how people think about leadership determines *if* they get results.

POOR LEADERSHIP, POOR RESULTS

Shortly after the terrible events of September 11, 2001, I was at a meeting where FBI director Robert Mueller explained why his agency was unable to act on important information it had in advance of the terrorist plot. Mueller admitted that agents within the FBI knew the names of the 9/11 plotters and even their whereabouts. The agents who had this information tried to alert their superior that an attack was imminent and that an organizational response must be prepared. And yet, as history shows, the FBI and other governmental security organizations failed to do anything at all.

In explaining his organization's lapses, Mueller said that in the culture of the FBI, agents with information are not authorized to act on that information. If they know something is imminent, they must send what they know up through the FBI's chain of command to people with decision-making authority. Because the FBI operates in a dangerous world, the chain of command is rigidly constructed to prevent the organization from acting on erroneous information.

But in the case of the FBI, no action was taken because in a hierarchy, the people at the top, who are expected to be the most knowledgeable, tend to look at information supplied by their subordinates with condescension. If something as important and dreaded as a terrorist plot were really under way, the people at the top think they would surely be aware of it. And so information vital to preventing a terrorist plot was transmitted into one of the FBI's many organizational black holes, unable to be acted on in time.

Later, in another organizational context, an experienced accountant, Sherron Watkins, who was working at Enron, signaled to the chairman of that organization, Ken Lay, that something was wrong with the company's many partnerships and the manner in which they were kept off the company's books. But rather than acting on his subordinate's information by taking it to the board, Lay chose to ignore Watkins. If something were really wrong, he reasoned, surely he, as chairman, would have known it. After all, Lay was the man who turned a humble Texas energy company into the darling of Wall Street.

Had Lay listened to the insights and warnings of an underling, he could have prevented what became the world's largest bankruptcy up to that time. Later still, more than two years before the onset of one of the worst financial crises ever, I heard Lewis Ranieri warn a room full of leaders in the banking, investment, private equity, hedge fund, and insurance industry that the subprime mortgage market was about to blow up and that when it did, the consequences would be catastrophic.

Why should the people in the room have paid attention to Ranieri? Because he was one of the inventors of mortgage-backed securities, the very product that was about to explode and bring down the world's financial system. The penalty for not paying attention to Ranieri was harsh, and many leaders in that room lost their jobs, their money, and even their institutions. They did so because they believed themselves wiser than the amiable and slightly disheveled inventor of these powerful but misused financial tools. After all, though Ranieri invented a market, he was an outsider, and they prided themselves on knowing that market far better than he did.

THINKING LEADS TO RESULTS

Not paying heed to a warning or creating structures that stifle action once a warning is sounded is not the only leadership lapse that can

occur when people in organizations continue to think in terms of leaders and followers.

Strangely, at Enron, Lay and Jeffrey Skilling, the company's now-imprisoned CEO, often discussed the fact that Enron was a flat organization where every person was either an entrepreneur or a potential entrepreneur. They gave interviews, including one to a coauthor and me in 2000, saying their company would become the world's largest firm, measured by market capitalization, because its people had sufficient autonomy to start new businesses and pursue new initiatives within the firm. They called their model "loose/tight": be loose with regard to controlling people and tight with regard to controlling finances. The model might actually have worked if the firm had been run by an honest CEO or had its chairman listened to Watkins's warnings.

Both the financial industry and the FBI pride themselves on their ability to ferret out information and act on it. And yet the top-down structure of these organizations obstructed the flow of vital information, making it impossible for people to act. Why did they fail to act? Because despite their rhetoric regarding the need for flatness, these two organizations were designed and constructed, and people were rewarded and given authority to act, in traditional hierarchical terms.

MISSED OPPORTUNITIES

Inaction in the face of new knowledge or information is only one of the consequences of hierarchy when the people at the top are too busy, too insulated, or too wise to pay attention. Missed opportunity is another. It is extremely difficult to list the number of instances in which poor leadership led to an organization's inability to seize an opportunity because there are simply too many instances in which that is the case.

Tragically, poor leadership tends to perpetuate itself, which explains why once great organizations slowly wither and die. As Joe Griesedieck, vice chairman and managing director of CEO services at Korn/Ferry, the world's largest search firm, told me, A players pick other A players with whom they surround themselves and from whom they build their teams. But B players pick B and even C players to prevent their leadership from being challenged. Over time, B players are succeeded by the B and then C players they picked. And since leaders in hierarchical organizations can't really be challenged, the tyranny of the B player is preserved. As a result, once great organizations wither and die. Missing out on opportunities is as much a killer of organizations as failing to pay attention to bad news.

One long-lived company's experience might prove instructive. Western Union, founded in 1851, commercialized the telegraph. In 1865, at the end of the American Civil War, the first war in which the telegraph played a role, Western Union was America's largest and most valuable communications company. In 1884, it was one of the original stocks in the Dow Jones Industrial Average, having built a nationwide communications infrastructure. And then it went to sleep.

Western Union was organized from the top down, like most other companies of its time. All strategic decisions and capital allocation decisions were made at the very top. Western Union's leaders could not be challenged. They were experienced people, from similar backgrounds. They had inherited a company of substance, which they were determined to preserve. And they were suspicious of outsiders and of new ideas.

In 1879 a young, Massachusetts-based educator and high-tech inventor, Alexander Graham Bell, attempted to interest Western Union in one of his inventions: the telephone. He argued that with his patents and its nationwide infrastructure of telegraph wires, the company could quickly be transformed into something new and

potentially far more valuable: a national telegraph *and* telephone company.

The never-before-challenged leaders of Western Union huddled together and examined Bell's patents, which they collectively deemed "no big deal." Of course, we now know Bell's patents were the most valuable in all of business history and went on to form the basis of the U.S. and global telephone industries. Those patents led to the creation of the Bell Telephone System, the American Telephone and Telegraph Company (AT&T), and many other companies. For nearly a century, the companies Bell founded were the world's most valuable, enriching millions of investors who owned their stocks.

After it had passed on the telephone, Western Union was offered another new invention: radio. With radio, information could travel around the globe instantly, reaching communities everywhere, not to mention ships at sea and airplanes high above the earth. But Western Union passed on radio too.

Later, in the late 1930s, Western Union glanced at another new technology: television. Some of its suppliers had decided to produce TV sets and TV production equipment, but the leaders at Western Union once again declined to participate, preferring instead to focus on what made them money *then*—delivering telegrams and transferring money—rather than what might make them money in the future.

Later still, Western Union observed the introduction of the Internet and briefly flirted with the idea of becoming a player in that burgeoning field. And why not? With its wire-and-microwave-based infrastructure, Western Union could have become an important carrier of packets of digital Internet traffic. But in the end, Western Union failed to invest in the Internet.

Finally, in the early 1970s, Western Union watched as cellular telephone technology was developed by Motorola and then commercialized in the mid-1980s by AT&T, one of Bell's companies.

Again, Western Union's infrastructure could have supported this technology. But the company decided not to invest. Western Union kept its network and its company intact, but failed to take advantage of decades of progress and change.

Today Western Union continues to exist, but it is limping along on the verge of extinction, saddled with debt, having been taken over, sold, and resold several times. And rather than growing, this old firm has spent most of its long life in slow decline. Today, as in 1871, Western Union's largest (and now sole) business is transferring money.

Western Union's leadership never missed an opportunity to miss an opportunity. Quite literally, they passed on the most significant technological advancements of the past 130 or so years. One can only imagine how different things might have been for this once-stellar firm if its insular leadership, and insulating leadership structure, had been open to new ideas. What if it had invested in the telephone? Radio? TV? The Internet? Cellular technology? What if it had built its business around innovation?

How many other organizations are in the same boat as Western Union, missing opportunities, failing to innovate, resistant to change, led by a cloistered assortment of B and C players? How many organizations turn away from the future even when it knocks at the door? Sadly, the answer is *far too many*.

LEADERSHIP DETERMINES RESULTS

These examples represent only a tiny handful of organizations whose leaders have created extreme vulnerabilities, stifled growth, and limited reach and caused damage. A comprehensive list of organizations whose leadership has done similar damage would be long.

But leadership matters not just when it comes to preventing calamities and seizing opportunities. It matters when it comes to

retaining talent, an organization's most precious resource. Richard Boyatzis, a professor of business at Case Western Reserve University and a noted researcher regarding individuals in organizations, told me in an interview that some firms actually become emotionally toxic places to work because of the way they are led.

Leaders within toxic organizations create cultures, or allow toxic cultures to develop, that harm the organization's talent. Badly led, toxic organizations not only dispirit the individuals who remain in place (the best people usually leave), they create environments of low productivity, low expectations, poor morale, and flagging creativity. And it doesn't end there. Poorly led organizations lose their resiliency. Not only that, but Boyatzis's research suggests that working in this type of organization can produce measurable physiological symptoms among the workforce. In other words, according to Boyatzis, some organizations are so badly led, so stifling to the dreams of employees, so damaging to their abilities and passions, that they can take a toll on their employees' health.

If every organization at the moment of its inception begins with big dreams, high hopes, and lofty goals, why do some sink into oblivion? Why do once great organizations fall into decline? The answer can be found in the way they are led.

A NEED TO ACHIEVE

Individuals are much more than cogs in the wheel of commerce. We've known that for decades. People are complex. They have hopes, fears, ambitions, dreams, and wide-ranging talents. Most people want to express themselves and contribute, and they want to belong.

For decades, studies around the world have confirmed that the overwhelming majority of people work for more than a paycheck. They work to find fulfillment, self-expression, and a chance to add

value. Study after study has shown that making the big bucks, which is important to a small set of individuals, particularly those on Wall Street, is not usually at the top of the list for most people. What is at the top of their list? Being part of a winning team in a winning organization that has a mission.

Research confirms that human beings working within organizations want to make a difference and be heard and recognized for their achievements. Even in clandestine organizations like the CIA, which attracts a type of person who likes (and probably needs!) to stay in the shadows and out of the limelight, employees crave recognition. Awards and even medals are given to employees who perform at their utmost, even if they work inside organizations dedicated to secrecy, discretion, and staying out of sight.

The need to be recognized for their achievements and for doing a good job is so universal that individuals routinely spend multiples of the monetary value of a prize in order to win it. The Ansari X Prize for space awarded \$10 million to the first team to build and launch on its own, and without government help, a spacecraft capable of carrying three people to a hundred kilometers above the earth's surface, twice within two weeks.

That prize was awarded in 2004 to a team of engineers, technicians, and aircraft and space entrepreneurs led by the space-and-airframe design pioneer Burt Rutan and financed by Microsoft cofounder Paul Allen. The team built and launched a craft called SpaceShipOne. How much did the team spend to win the \$10 million prize? About \$25 million.

The need to be recognized is universal. When the Defense Advanced Projects Research Agency announced in 2004 that it was awarding a \$2 million prize to the first group that could build a robotized car from scratch that could drive itself on a 142-mile course through a California desert, 195 teams entered the competition. They came from thirty-six states and represented thirty-five universities, three high schools, dozens of companies, and a number

of individuals. To win the prize, which was awarded in 2005, competitors collectively spent \$100 million.

It's not just spies, space geeks, and robot nerds who need recognition. On a far smaller scale, one has only to glance at Web sites that auction restored, and sometimes prize-winning, vintage automobiles, airplanes, boats, and other items. Almost without exception the cost of restoring these items exceeds their asking and final sale prices.

Why did people spend so much to restore these items? It's not that these projects got out of hand. It's that once people begin work on a project for which they are fully responsible and in control, they do not restrain themselves from doing the best jobs they can.

The need to do our best and be recognized for it is not something that develops. It's inherent in us. Between them, the Girl Scouts and Boy Scouts, and their sister and brother organizations like the Brownies and Cub Scouts, offer several hundred types of achievement and recognition awards, such as merit badges (boys) and bronze, silver, and gold awards (girls), in addition to leadership awards, levels, and ranks. These programs, for boys and girls roughly between the ages of eight and eighteen, have had hundreds of millions of members from around the world, beginning early in the last century. To receive awards of excellence and be recognized for their accomplishments, boys and girls must work hard. And, unlike school, which is compulsory, these programs are voluntary and require hours of preparation, work, and study.

I am not a sociologist or anthropologist, but I have observed firsthand leaders in action in all types of organizations around the world. Over the past several decades, I have discussed leadership with hundreds of experts around the world, and regardless of sector or nationality, certain commonalities have emerged.

Most people, of all ages and in all positions, want to do their best, contribute their utmost, and be recognized for having done so. If they are not doing their best, point your finger at their

leaders—the people with power—and not at them. If people are willing, on their own and voluntarily, to devote time and money to express excellence, why aren't they more willing to do it at work? Why aren't they willing to sacrifice for their organization? The answer can be found by looking at who's in charge.

In my own observations of organizations, I have seen that far too many leaders keep people back, retard their progress, and blunt their enthusiasm and their edge. Why would any leader do such a thing, deliberately or not? Too many leaders hoard power and so restrict the ability of people to make decisions. People tend to do what is expected of them. Expect very little, and that's what you're likely to get. But when leaders refuse to distribute power to their teams, their organizations, or their firms, they are really creating a situation in which ultimately they will get little help from the people who are around them since those people will not feel at liberty to act. Not only that, but by hoarding power, leaders create environments of second-guessing and mistrust, conditions that rarely are associated with success.

