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## Running the show

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### What does it take to be a good leader?

MOST people who lead companies today are sitting in the boss's chair for the first time. Even chief executives recruited from outside are less likely than in the past to have done the top job elsewhere. And yet this is not only a highly complex job to learn; people also often pin enormous hopes on new bosses.

For many corporate leaders, these expectations are a burden. The most skilful and experienced of them may be able to bring about transformation in the first 100 days, but for most the reality is wildly different. George Binney, a management consultant, and a group of eight colleagues, backed by Britain's Ashridge Management Centre and France's HEC business school, have recently done something rather unusual: they have gone into six large publicly quoted companies in Europe (three of them American-owned) and two large public enterprises where a new chief executive was about to arrive, and observed the leader through the first two or three years of transition.

Their report, which is due to appear later this autumn, will give a startling picture of the gap between ambition and outcome. Again and again, new leaders arrived talking about transformation and expecting to make radical change. Their staff also saw them as potential saviours, magical figures who could create change.

These expectations did not help the new bosses' self-confidence. "How important is charisma, George?" one anxiously asked Mr Binney. But the worst thing from the company's point of view was the constant and hectic change set in motion by the new arrivals. There were repeated reorganisations, leaving loops of what Mr Binney calls "organisational spaghetti": tangled reporting lines, unclear roles, a lack of boundaries. Managers exhausted themselves, rushing from one meeting to another, rarely able to step back and reflect. Managers in international companies led particularly hideous lives: "Incessant international travel, long periods away from home, sleeping poorly in unappealing hotels."

In spite of much talk of empowering their staff, leaders often acted more like schoolmasters, trying to ensure that reports were delivered on time and decisions carried through. Some leaders fired staff rather than tackle the underlying problems that survived when the sacked employees had been (time-consumingly) replaced. Only when the bosses lowered expectations and abandoned their more heroic ambitions did they make progress. The person who best survived the transition was a female boss who in her first few months cut by half all the targets she had been given. The most successful strategy, it turned out, was to adapt rapidly to the limitations of the business and its organisational culture. But for every one of them, this adaptation took at least a year and sometimes two. Effective leadership, Mr Binney and his colleagues concluded, "was dramatically ordinary stuff".

This new modesty is reflected on the business bookshelves. This year's bestselling management book is Mr Collins's "From Good to Great", a study that emphasises the need for steady, modest progress over many years. "On average," says Mr Collins, "it takes seven years to get to the point where a company shifts from good to great." Moreover, this shift is most likely to come from organic growth. Selling almost as well as Mr Collins's is another book in praise of attention to detail rather than grandiose visions: "Execution: the Discipline of Getting Things Done", by Larry Bossidy, yet another former GE executive who now runs Honeywell. "Leading Quietly", by Joseph Badaracco of Harvard Business School, published last year, has chapters with unheroic titles such as "Buy a little time" and "Nudge, test and escalate

gradually”.

Bosses themselves are keen to emphasise the need to pay attention to business fundamentals. “You can have months on end when you don't think about strategy or mergers and acquisitions,” says Roger Parry, head of the international arm of Clear Channel, an American media company and author of a new book on the role of the CEO. “But you can't have a day when you aren't obsessed by operations, cash-generation and people.”

The need to concentrate on operations is all the greater in America because fewer companies seem to be appointing chief operating officers (COOs). Peter Crist, a headhunter based in Illinois, notices that a growing number of firms have recently promoted the COO to the top job but not replaced him, including Wal-Mart, General Motors, IBM, McKesson and Procter & Gamble. The proportion of top companies with a COO has dropped from a peak of 50% in 1999 to 40% this year. He argues that boards now often stop chief executives from employing a “spanbreaker” who gets between them and the nitty-gritty of the business. And chief financial officers (CFOs) are also in growing demand as candidates for the top job, which suggests that chief executives need greater financial skills than ever before.

But three leadership qualities matter more than anything else. One is to have a clear sense of direction for the business and an ability to communicate it; the second, a knack for motivating people; and the third, a measure of adaptability.

Communicating, says Vodafone's Sir Chris Gent, is crucial. You need to make everyone throughout a vast business feel that they know you, and know what you expect of them. Tesco's Sir Terry agrees, emphasising the need to keep the message extremely simple. “Getting it right through the business is what makes the difference between mediocrity and success,” he says. Other top bosses put more weight on people management. “If we get the right person in the right place, it's magical,” says Sir Martin Sorrell, head of WPP, the world's biggest advertising group. Certainly, getting the human relationships right determines whether good people stay or go. More than any other factor, reports John Challenger, who runs a big employment firm, a failure to get on with the boss is what makes people look for a new job. A person who feels undervalued, misunderstood or frustrated will leave.

Along with the charm and empathy, however, successful bosses need a certain ruthlessness. People like to be liked, so the temptation is to avoid conflict, but fudging or postponing tough decisions often makes life worse for everyone. Sooner or later, corporate leaders must be prepared to make unpleasant decisions: to sack a colleague, say, or to shut a plant where they have worked in the past. Few find it easy. Joshua Margolis of Harvard Business School is doing a study of “necessary evils” in business, and finds that many managers single out the misery of having to fire people. Even those who eventually become used to it tend to say, “You would be inhuman if it didn't get to you.”

Top bosses must also show an ability to roll with the punches. One of the most admired exponents of the art of snatching victory from the jaws of disaster is Ernest Shackleton, a British Antarctic explorer who set off on an ill-prepared expedition, having hired arbitrarily, trained his dogs badly and failed to learn to ski. But the way he deftly converted his aim of crossing the Antarctic on foot into one of getting all his men out alive has assured him a place in a Harvard Business School case study. Successful leaders have a similar ability to sweeten adversity.

## The servant leader

Running an industrial or service organisation is tricky, but leading a bunch of professionals is harder still. Yet, with companies buying in creative brainpower in the same way as they buy spare parts and machinery, the number of professional-service firms has grown vastly. And as human capital becomes ever more important to corporate success, companies of all sorts increasingly emulate the model of the management consultancy, the investment bank or the law practice.

The point about professional-service firms is that their employees really are their main assets (a claim often made hypocritically by other companies). Such people-oriented, knowledge-based businesses need

to be led from the centre, rather than the front; by consent and through respect, rather than by command. The old military metaphors of leadership, which understandably dominated the era immediately after the second world war, are least appropriate in such companies with their network of powerful partners.

In addition, the leaders of professional-service firms often do the job part-time, because they continue to be producers too. In traditional companies, managers are rarely producers, yet even in big law firms the managing partner remains a practising lawyer. An ambitious youngster who takes a lowly job in a car company probably hopes to become a top executive; one who joins an investment bank probably expects to remain an investment banker.

Professionals of all sorts, be they management consultants, lawyers, doctors or teachers, get to the top of their trade by being professionally competent, not by being good managers. No wonder, then, that professional services are so often badly managed. They are sometimes led by a firm's second-raters, who are most likely to have spare capacity.

There are two other options, explains Harvard Business School's Mr Nanda. One is to outsource the task of running the firm to professional managers. But this frequently causes tensions. Without being a practitioner, it is difficult to have a sense of how the profession operates. Someone who has never put a car together may still be perfectly competent at running a car company; but someone who has never taught might have trouble running a school effectively.

The other possibility is to rotate the job, making senior members of the business take it in turns. A professional may be willing to give up a few years as a practitioner as long as there is a clear exit. Marakon, a management consultancy, elects its chief executive from among the managing partners for a three-year stretch. All must stand, except those who have already served a term. It creates, say its consultants, a sort of Athenian democracy, without too dominant a leader.

This makes it harder for the incumbent of the moment to push through tough decisions, because he is drawing authority from the very people who will be most affected by them. Last year one venerable but troubled Boston law firm, Hill & Barlow, decided to shut down because its partners could not bring themselves to cut their numbers. Only where an incoming leader has enough authority to push through difficult changes early in his term can he hope to get them past his peers.

Most of those who lead businesses around the world, however, are neither hired nor elected but born to the top job. Most companies are run either by their founder or by one of his family. Two-thirds of Asia's publicly traded companies are controlled by a single shareholder (compared with only 3% in America), according to the World Bank. Although family-owned companies, quoted and unquoted, account for the great bulk of global economic activity and employment, they attract far less attention and scrutiny than big quoted companies run by career managers. Leading them has advantages but also brings problems of a special kind.

## Family affairs

One advantage is that of security of tenure. With a founder's family solidly in control, the patriarch can afford to surround himself with talent without the usual fear that one of his top people may stage a coup. The family boss can spend his time any way he likes—including being an eccentric idealist—without worrying that the markets will take revenge. He can also afford to take a long-term view of investment and of developing markets, and to allow a strong corporate culture to flourish. Timberland's Mr Swartz describes the regular gatherings of aunts and uncles who own his business: "There is an incredible sense of accountability and a shared sense of purpose." The Oddo index of shares in French family-controlled businesses has outperformed the French market ever since it was launched seven years ago. When it works well, the family firm is capitalism at its best.

Corporate founders naturally feel the sort of passion for their businesses that management gurus urge on hired hands. "They are much better dinner companions," says Sarah Teslik, who runs the Council of

Institutional Investors (CII). "They are more exciting, and they have a more wide-ranging curiosity"—though they tend to talk unstoppably about their business. Their passion makes them powerful stewards of the brand. Frank McGuire, a management speaker, likes to recall how Colonel Sanders, the founder of Kentucky Fried Chicken, sold the business to Heublein, a large food company, which promptly decided to water down the gravy in order to boost profits. "Don't fool with the gravy," he bellowed. When the new chief executive explained the benefit to the bottom line, the old man swept out of the room, announcing that he was "goin' on the Johnny Carson show to tell 'em that shit ain't fit to eat." That saved the gravy, at least for a while.

Founders age. Their heirs are often better educated, with an MBA from one of the business schools that have recently spotted this underserved market. But the first generation hesitates to let go, suspecting that its children may be stronger on management theories than on hunch and passion. Besides, they all know what happened to King Lear. Family members may clamour to be able to sell their shares, but selling up may seem a breach of trust or a blow to family pride. Asia has a disproportionate number of septuagenarian and octogenarian bosses, but western family bosses too tend to stick around: neither Rupert Murdoch nor Warren Buffett seems in a hurry to go. But succession planning is vital. Sooner or later mortality delivers a leadership crisis to every family firm.

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