

# THE CEO ADVANTAGE JOURNAL

2010



BANYAN TREE ON USEPPA ISLAND, PHIL FISHER

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Leading change in times of crisis.

## **Keeping Core Values Alive**

CEOs discuss how they manage the culture of their organizations.

## **Churchill's Personal Traits** by Steven F. Hayward

How a great leader's personality pulled him and his people through adversity.

## **Capableism vs. Capitalism** by Dan Sullivan

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SAMUEL JOHNSON ONCE OBSERVED that we “more frequently require to be reminded than informed.”

*The CEO Advantage Journal* offers reminders of simple, practical disciplines to leaders who desire to build their organizations toward greatness. Rather than claim brilliant new methods, we aim to reinforce fundamental disciplines and suggest practical applications of them.

We firmly believe that the success of any organization begins with a strong executive team. The only way to achieve sustainable great results is to build a team of executives who are committed to the values, purpose, and envisioned future of the organization.

*The CEO Advantage Journal* is for these executives. It should be an aid in addressing some of the greatest challenges facing CEOs and executive teams:

- Our executive team is not performing.
- We lack strategic execution.
- Our business results are not optimal.
- Have I hit the ceiling as a leader?

As advisors who use The CEO Advantage™ process, our purpose is to work with CEOs and executive teams in their quest to build great and enduring organizations, and this publication is a natural extension of that purpose.

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*Translating Vision into Execution and Results.*

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## the **CEO** | *advantage*™

Dear Reader,

As I think back to the frenzy surrounding “Y2K,” it is hard to believe that we have closed out another decade. In stark contrast to the economic optimism of ten years ago, we now have a new understanding of volatility and uncertainty. Global balance, government policy, social structures, and individual economics have all undergone tremendous shifts. It is safe to say that these challenges will continue at a fast pace as we enter the second decade of the millennium.

This is no time to be scared, however. With challenges come opportunities! Challenges expose needs, and entrepreneurs and entrepreneurial organizations develop the new ideas, processes, products, and services to meet those needs. This spirit of innovation has always been the heart of progress for individuals and society.

Innovation does not just happen, however. It requires effective leadership that fosters a culture of entrepreneurial thinking and disciplined action. Foundational to this culture is a love of learning by *everyone* in the organization. Learning does not always mean “new” concepts. In fact, since most of what we read and hear is forgotten within a few weeks, learning should include repetition of sound principles. This is especially apparent to anyone with children. Each week, as my children progress in their lessons, I find myself learning things I once knew and have long since forgotten.

Once again, this edition of *The CEO Advantage Journal* contains articles that review some of the fundamental disciplines required for organizations to be effective. Covering a broad range of topics including effective decision making, school management, family business management, hiring processes, and leading cultural change, these articles should have something for anyone who serves in a leadership role. In addition, we are pleased to include the insights of Dan Sullivan, founder of Strategic Coach®, and a study of the personal traits of Winston Churchill.

This publication depends on the diligent efforts of its contributors. Thanks to each of you for your ideas, open minds, and positive attitudes throughout the article submission and editing process. Thanks also to our managing editor, Scott Bahr, for his determination and superb work on this project. Whatever acknowledgement he receives for his work will fall far short of what he truly deserves.

As a final note, I would like to review a few unique aspects of *The CEO Advantage Journal*:

1. This publication is not for sale, and hard copy distribution is limited. However, the full publication, as well as each individual article, is available for pdf download at [www.tcjournal.com](http://www.tcjournal.com).
2. This publication is intentionally void of advertisements and promotional claims. Our desire is to educate and inform through good content set in a visually appealing publication.
3. We profile two artists whose work is used throughout the publication. Our objective is to provide a visually unique experience.

I trust you will enjoy reading the 2010 issue of *The CEO Advantage Journal*.



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# The Sky is Falling!

by  
Susan  
Diehl

**How an effective decision making process helps avoid the perils of groupthink and improves performance.**

**W**E ALL KNOW THE FAMOUS STORY of Chicken Little who, after an acorn fell on his head, ran to tell the king that the sky was falling. Along the way, he encountered other friends, including Turkey Lurkey, Henny Penny, and Goosey Loosey, who eagerly jumped on the bandwagon to warn the king of Chicken Little's discovery. This band of well-intentioned alarmists encountered Foxy Loxy who tried to derail the plan and eat them instead. Narrowly escaping crisis, they finally got to the benevolent king. He asked the "right" question: "where is the piece of sky?" The answer revealed the truth and gently allowed Chicken Little to save face with his friends.<sup>1</sup>

Did Chicken Little use a sound decision making process when he concluded that the sky was falling and the king needed to act? Why did his friends blindly follow him? Might the outcome have changed if the king had not questioned Chicken Little? Many times in our own organizations, we perceive that a crisis exists, and we assign the resolution of that crisis as a key priority. When we meet to decide on a course of action, many leaders fail to question basic assumptions and afford great deference to the advocate assigned to resolving the priority. In one scenario, the group decides to take action on the proposed solution and no one thinks to challenge the proposal or question its efficacy. This phenomenon is known as "groupthink."<sup>2</sup> In another scenario, leaders engage in endless debate over a single option, and upon reaching impasse, they present an "up or down" decision to the CEO. This is usually a false choice, excluding many alternative options and leaving leaders feeling resentful.



A Day To Remember (Phil Fisher)

Decision making theory has been around for a long time.<sup>3</sup> Only recently, however, has research uncovered key disciplines that can help us make sound decisions quickly while avoiding the perils of groupthink. In this article, I will explore four such disciplines. The “PACT” model for decision making is: (1) Prepare and agree on clear objectives, (2) Assess and propose multiple viable options, (3) Clarify roles up front, and (4) Test decisions and improve the process accordingly.

### PREPARE AND AGREE ON CLEAR OBJECTIVES

Preparation is the key to success in so many endeavors, so it almost goes without saying that preparation is critical to effective decision making. When a business crisis emerges, whether it threatens a short or long term element of your organization’s strategy, it requires careful preparation *before* it is assigned priority status. This preparation includes carefully defining the problem and agreeing on the desired outcomes. Without disciplined problem definition and objective setting, team members tend to choose options based on faulty assumptions, setting the stage for impasse and unilateral decisions that do not garner the support of the team.<sup>4</sup> This dynamic occurs because teams are presented with choices on which they must vote, and the vote

often necessitates a tie-breaker. The subsequent problems are often attributed to unhealthy teamwork or leadership problems. In his recent article “When Teams Can’t Decide,” Bob Frisch writes: “To combat [the problem], companies use team-building and communications exercises that teach executives how to have assertive conversations, give and receive feedback and establish mutual trust. In doing so, they miss the real problem, which lies not with the people but with the process.”<sup>5</sup>

To improve the process, teams need careful preparation and problem definition. First and foremost, leaders must challenge whether a perceived problem is real; i.e., is it a barrier to effective strategic execution? There are many ways to approach problem definition, but I find the “Define” phase of the Six Sigma™ process instructive. In this phase, project sponsors seek information that helps describe the symptoms of a problem and the context in which it exists.<sup>6</sup> The objective is to come up with an operational or strategic definition, scope and boundaries, an estimated impact on the organization, and some baseline data supporting the project definition.<sup>7</sup> In addition, the leadership team needs to assess whether the issue is important and if its resolution will have high impact on the organization.

Once the problem is defined and its priority status tested, the team should then set clear objectives. This step is critical to an

effective decision making process. The team must determine not only how to define the desired outcomes, but also how to measure them. “In the absence of clearly articulated goals, participants will choose options based on unspoken, often widely differing, premises....”<sup>8</sup> Frisch describes a manufacturing company that decided to close a plant based on its objective to achieve the highest possible return on assets. However, when this objective was shared with the parent company, the parent wanted to keep the plant running. Its objective was to minimize corporate overhead and maximize earnings. Closing the plant would necessitate closing another plant, and this would inhibit the parent company from achieving its objective.<sup>9</sup> Once the team understood this outcome, they were able to attack the problem as a team.

### ASSESS AND PROPOSE MULTIPLE OPTIONS

The team meeting is a perfect forum for evaluating and assessing options for solving a thorny business issue. In his book *Death by Meeting*, Patrick Lencioni underscores the importance of this strategic tool: “It is where executives wrestle with, analyze, debate, and decide upon critical issues (but only a few) that will affect the business in fundamental ways.”<sup>10</sup> Once a problem is defined and objectives set, the team must structure a process for developing the best possible decision, and generating constructive conflict around the validity of the proposed solutions is vital.<sup>11</sup> We must not be misled into thinking that the team meeting is an *event*, cautions Garvin and Roberto, but rather, it is but one part of a decision-making process.<sup>12</sup> The meeting is the vehicle through which teams stage the critical inquiry into possible solutions, and there are steps that will help maximize the quality of the final decision and minimize interpersonal conflict.

First, generate multiple, viable options for consideration. Current research reveals that when groups consider multiple options, they are, by necessity, opening their minds to the range of possibilities. This helps to avoid the groupthink that occurs when a single option (go/no go) is presented and there is limited room for rational inquiry. Indeed, people feel constrained to ask questions when only one option is presented—especially when the presenter has far superior knowledge of the material. They leave the meeting with unanswered questions and the decision does not garner necessary buy-in. Multiple options are also linked to teams with lower occurrences of interpersonal conflict.<sup>13</sup> “Working together to shape those options enhanced the group’s sense of teamwork while promoting a more creative view of [the company’s] competitive situation and its technical competencies.”<sup>14</sup> In addition, considering multiple options helps avoid the false choices that are a recipe for poor decisions and team resentment.

Second, develop a process to assess and constructively analyze the options. This is one of the most important steps in the decision making process and should be given due time and attention. For one thing, if done poorly, it can lead to dissension, lack of commitment, and interpersonal conflict. Furthermore, if a decision is made too quickly or too late, it can have disastrous consequences strategically. In order to structure this part of the process effectively, teams should strive to make this a collaborative (rather than competitive) process. A process characterized by debate or advocacy (competitive) is typically not transparent; sponsors or advocates are prone to withholding information necessary for an effective decision simply to make their project look more attractive.<sup>15</sup> Garvin and Roberto go even further, writing that this approach “typically suppresses innovation and encourages participants to go along with the dominant view to avoid further conflict.”<sup>16</sup> Again, this is groupthink, and it stifles effective decision making.

In contrast, the more effective methodology is one of collaborative inquiry where teams are assigned to represent certain positions, study all angles of the problem, and articulate the pros and cons of their position to the broader leadership team. These “issue” teams are required to engage in critical thinking around an idea, vigorously testing its assumptions and hypotheses. In forming these groups, it may be wise to break up natural coalitions or assign people to take a position that they do not normally represent. This will disrupt natural biases that may occur along functional or hierarchical lines. During the presentation of these opposing views, all team members should ask challenging and probing questions relative to the *issues*, maintaining focus on the problem to be solved and the agreed-upon outcomes. Whatever feedback is received should be incorporated into the proposal, or a new option can be created with the best features of all of the options. This process will help to drive the team toward consensus; if this cannot be achieved, only then should a tie-breaker be used.

### CLARIFY ROLES UP FRONT

As with many issues in leadership, there is a debate over whether a final decision should be made by the team or by an individual. There is certainly empirical support for both. Group decisions can be achieved through the engagement process already described with teams ultimately coming to consensus through the iterative process of testing, probing, and refining their proposal. On the other hand, teams may also reach impasse, and no amount of collaborative effort will break the tie. In “Who Has the D,” Paul Rogers and Marcia Blenko underscore the importance of assigning a sole decision maker – someone who is accountable for the decision and its implementation:

## The CEO is not *and should not* always be the sole decision maker.



*Eventually, one person will decide. The decision maker is the single point of accountability who must bring the decision to closure and commit the organization to act on it. To be strong and effective, the person with the D needs good business judgment, a grasp of the relevant trade-offs, a bias for action, and a keen awareness of the organization that will execute the decision.*<sup>17</sup>

Key considerations to take into effect when selecting the decision maker include “global vs. local,” “center vs. business unit,” “function vs. function,” or “internal vs. external.”<sup>18</sup> These considerations imply and underscore an important point: the CEO is not *and should not* always be the sole decision maker. Indeed, assigning all decisions to the CEO will inhibit the organization’s ability to quickly make decisions and adapt to new obstacles and opportunities. Action is the goal when assigning roles for decision making.

As with all systems, clarifying these key roles is not enough; human systems should be put in place to reinforce the importance of these roles, and objectives should be set to measure the quality of each employee’s performance in the role. Clarity and team alignment around those in decision making roles is essential, for these roles often can and do trump the organizational chart.<sup>19</sup>

Finally, key stakeholders should be identified up front. For example, those who have veto power or input into the decision should be defined before the issue teams are engaged, and these roles should be chosen carefully and judiciously to avoid bogging down the process. Make your choices meaningful. For example, too many people with input may be overkill without enhancing the quality of the decision. Remember the old adage: if you don’t have time to do it right the first time, you won’t have time to do it over.

## TEST DECISIONS AND IMPROVE THE PROCESS ACCORDINGLY

The problem with measuring the impact of a decision making process is that one only knows of its soundness after—sometimes *long* after—the decision is made. However, there are some tests for decision making effectiveness in the present, as well as metrics to track. Each major decision should be followed by a debrief session in which the team assesses lessons learned that should be incorporated into the next decision. Was the process followed? How was the quality of the critical inquiry? Was there interpersonal, rather than cognitive, conflict?<sup>20</sup> Catching



Watchful (Phil Fisher)

these issues early can help improve execution and inform process innovation or compliance.

As to the quality of the decision itself, there are steps teams can take to test the efficacy of the choice *during* the process. First, track the number of alternatives generated. Second, assign “intellectual” watchdogs who are designated as “devil’s advocates” for the process. If the fundamental assumptions for a project have changed, retest the assumptions and challenge them vigorously. Third, always come back to the original criteria set for the project. Does the solution measure up to the objectives set at the beginning? If not, why not? (Know the answer to this important question; you may not have the chance to answer it a second time!) Fourth, ensure that the process itself was fair. “A real-time measure of perceived fairness is the level of participation that is maintained after a key midpoint or milestone has been reached. Often, a drop in participation is an early warning of problems with implementation....”<sup>21</sup> Fairness also requires that the decision maker keep an open mind and actively listen during the process. People do not need

# If the fundamental assumptions for a project have changed, retest the assumptions and challenge them vigorously.

to agree as much as they need to feel heard and understood. Finally, do a post-audit on selected decisions and see how well they match up with the expectations and assumptions set forth at the beginning. Track the results of these audits over time to see whether your team's decision making is improving.

## CONCLUSION

The PACT model helps teams drive toward team effectiveness on decision making by following key disciplines and process guidelines. By engaging in careful problem definition, clear objectives, structured critical inquiry around multiple options, clearly assigned roles, and reality testing of the process, teams will see measured improvement in the speed and quality of their decisions.

Finally, it will save you from the perils of groupthink, especially when the "sky" is just an acorn.



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For a complimentary reprint of this article, visit [tcajournal.com](http://tcajournal.com).



Windsong (Phil Fisher)

## End Notes:

1. "Chicken Little" has many variations, including those with no happy ending. It is derived from an African folk tale dating back centuries. The morals of the story are many.
2. "Groupthink" has been defined as: "A mode of thinking that people engage in when they are deeply involved in a cohesive in-group, when the members' strivings for unanimity override their motivation to realistically appraise alternative courses of action." (Janis, Irving L., *Victims of Groupthink*, 1972, page 9.)
3. E.g., Plato utilized the technique of option analysis, listing "pros" and "cons" in order to reach a sound decision.
4. Frisch, Bob, "When Teams Can't Decide," *Harvard Business Review*, November, 2008 p. 4.
5. Id.
6. Watson, Gregory, *Six Sigma for Business Leaders* (2004) p. 101.
7. Id. at 103.
8. Frisch at p. 6.
9. Id.
10. Lencioni, Patrick, *Death by Meeting* (2004) p. 241.
11. Lencioni, Patrick, *The Five Dysfunctions of a Team*, (2002); Garvin, David A. and Roberto, Michael A., "What you Don't Know About Making Decisions," *Harvard Business Review*, September, 2001, p.26.
12. Garvin, and Roberto at 26.
13. Eisenhardt, Kathleen M., Kahwajy, Jean L. and Bourgeois III, L.J., "How Management Teams Can Have a Good Fight," *Harvard Business Review*, July-August, 1997, p. 37. See also, *The Handbook of Conflict Resolution*, 2d edition, edited by Deutsch, Coleman and Marcus, (2006), p. 75. ("A cooperative context tends to facilitate constructive controversy, whereas a competitive context tends to promote destructive controversy. Controversy within a competitive context tends to promote closed-minded disinterest and rejection of the opponent's ideas and information.")
14. Id.
15. Garvin and Roberto, p. 25.
16. Id.
17. Rogers, Paul and Blenko, Marcia, "Who has the D," *Harvard Business Review*, January, 2006, pp. 14-15.
18. Id. at 14-18.
19. Id. at 19.
20. Id. The authors have a useful checklist for diagnosing problems with the process at p. 20.
21. Garvin and Roberto at 31.



Spitler Box Front (Brian Laurich)

# Managing the Business of Education

Schools must learn to operate like the businesses that they are.

*by Prafulla Pande and Suranjan Shome*

**C**HANGE IS TOUGH. It doesn't matter what kind of business you run or in what era you live, socioeconomic change happens, and it disrupts the patterns and approaches that have been successful in the past.

Leaders in most organizations understand this. Sure, we're all susceptible to sticking our heads in the sand sometimes and reacting too slowly or not at all to changing market forces, but we know that we cannot ultimately escape reality. It hits us right at the bottom line. The hard numbers tell the story, and what we want reality to be has no bearing on what it actually is. If we fail to make decisions consistent with reality, our organizations cease to exist.

Schools are different. In many ways, they live in a bubble,



shielded from the consequences of market dynamics. Public schools, in particular, are still operating under models that became obsolete years ago thanks in part to school choice initiatives and rapidly changing customer expectations. Enrollments are declining, costs are increasing, and quality is slipping. However, because they are government-funded, the money keeps flowing without adjusting to market reality. Private schools are no exception, though their bubble is created more by educational idealism than political expediency.

And yet, schools are not different at all. Schools are subject to the same economic realities as the rest of us; the consequences are just delayed. Citizens and business people have been pointing out operational inefficiencies and poor financial policy in the schools for years, but the funding is just now drying up. School systems are being faced with the reality that, while their cause might seem unique, they are still a business. They have customers, they provide products and services, they rely on cash flow, and their bottom lines still need to be in the black.

Schools are beginning to grasp this reality, and the pain is as real as the change. Yet, in spite of the pain, this is an exciting time. The first step to improvement is recognizing the problem,

and though it might have come later than we would have liked, school leadership teams and communities – both public and private – are now seeing it for what it is. It's time to fix this, and there are solutions.

As professional business advisors to CEOs and their executive teams, we have developed a keen interest in the education sector. The problems are real, but so are the opportunities. Public and private schools may have different business models and approaches to learning, but the fundamental challenges they face are largely the same. In this article, we will briefly examine those challenges and suggest an approach to meeting them.

What we are suggesting is not rocket science. It's just good business, and that's exactly what schools are: businesses that happen to develop a very valuable product that impacts not just students, but our entire society.

## THE CHALLENGE

The communities that schools serve today are much different than what they were decades ago. No longer do families stay in one town for generations, sending their children out the door to walk to the neighborhood school. People are mobile, and

Red Maple Star Quilt (Brian Laurich)





population shifts coupled with more isolated neighborhoods have greatly changed the nature of how we interact. Things have even changed within households. Parents are less involved in their children's education. How and where families spend time is different. It is common for both parents to work outside the home. In many ways, these changes have shifted the role of the school from education to caretaking. The demands are enormous.

The academic expectations are also different. Economic globalization has resulted in new needs for the workforce, and schools are scrambling to prepare that workforce. In addition to reading, writing, and arithmetic, schools are teaching more (and different) foreign languages. Mandarin, Japanese, and Hindi are joining German, French, and Spanish in the classrooms. The technological explosion (students are texting more than they are talking these days) and the digital revolution have teachers trying to find the appropriate balance of screen time and traditional lecture/book time. The ways student learn are changing dramatically and teaching methods are struggling to keep up.

Finally, the economic pressures are also immense. For starters, families have less children today than they had a generation or two ago. Consequently, enrollment is down. Schools may have fewer kids, but they cannot easily downsize an infrastructure that was built for a much larger system decades ago. On top of that, the struggling economy has hit private schools through more families choosing to get a "free" education at the public schools and public schools through tax revenue shortages.

In the face of such transformational change, schools typically resort to closures, layoffs, program reductions, consolidations, and donations to address the situation. Somehow, they are expected to do this without compromising the quality of education. We actually think it can be done. It *must* be done. But it will not happen unless schools see themselves as businesses and attack their problems like businesses.

## THE PLAN

Schools are businesses, plain and simple. They have revenue and they have expenses. They have a product (education) and customers (students and parents). Increasingly, thanks to school choice initiatives, private and charter schools, and extensive homeschooling networks, those customers have a choice in where they get their education. If a school wants to be successful, its managers must ask themselves, "Why would parents choose to send their children here?" Just like any business, schools must find ways to delight their customers if they hope to retain them and attract more.

In many cases, school administrators, having been trained in education, have little professional business background; yet, they are leading complex business units with revenues in

the millions. They're used to teaching students, not creating market-driven solutions. What's most mind-boggling is that some are okay with that. They are so enamored with the noble *idealism* of education that they diminish the importance of managing the *business* of education. It's as if the product is sacred and the market will have to adjust.

Of course, the reality is that the product must adapt to meet the market. This starts with the leadership team. The K-12 education industry tends to have an unhealthy division between operations and finance with the superintendent and the treasurer *both* reporting directly to the board of directors. This is unhealthy. Anything less than "CEO-style" authority

for the superintendent leads to lack of accountability. Ideally, everyone should be accountable to the superintendent (the CEO), and the superintendent alone should be accountable to the board. Most businesses

operate this way for good reason, and schools are not exempt from those reasons.

School leadership teams also need to start thinking more strategically. We have found that many schools are not looking at the right metrics. Consequently, the entire system is stocked with gross inefficiencies, and these inefficiencies continue to drain money for years before they are noticed. This gets back to market-driven thinking. What is the need of your customers? How do you meet that need? What can you do to meet that need better? Who is the competition? How are you setting yourself apart from the competition? The answers to these questions might be uncomfortable. That's the point. If "business as usual" no longer exists, then the "usual" assumptions must die the same death. Most of the time, the answers are fairly obvious; leaders just need the courage to acknowledge them and act accordingly.

Federal and state laws require all schools to develop a strategic plan, but the law does not require a *useful* strategic plan. Once the box is checked and the writing is on the page, most school strategic plans are rarely seen again. Frankly, it would not make a difference if they were since they are often so full of generalities that one wonders how to act on them. A school definitely needs a strategic plan, but it must be one that inspires specific actions and provides metrics for judging performance within a fixed time frame.

One area that often highlights misguided strategic thinking is technology. We were once taken into the "command station" at a high school. Had we not known differently, we might have thought we were at NASA. The level of equipment was incredible! Unfortunately, the equipment was not being used anywhere close to its potential. This particular district boasted about having the "latest and greatest" technology, but it was not being translated to the students. What was the objective here? Was it to have state-of-the-art technology available to the students? Or was it to prepare the students for a technology-

**Laws require all schools to develop a strategic plan, but the law does not require a *useful* strategic plan.**

## We cannot allow the means to an end to become the end itself.

driven world? Those might not seem like very different questions, but strategically, they are worlds apart. We cannot afford to allow the means to an end to become the end itself.

An accountability-inducing leadership structure coupled with an action-oriented strategic plan is a key step toward running a school like the business that it is. Just having a plan is not enough, however. You must be able to execute it.

### THE EXECUTION

The key to effective strategic planning is *process*. Long-term visions remain pipe dreams without short-term actions. Short-term actions don't get done without metrics and deadlines. Metrics and deadlines are the building blocks of a strategic meeting rhythm, and the meeting rhythm is the engine that drives strategy execution. We recommend a quarterly meeting rhythm to our clients. For 90 days, they commit their entire organizations to specific goals that move them in the direction of their long-term vision. At the end of the 90 days, they review their progress and set goals for the next 90 days. Again, this isn't just good *school* practice, this is good *business* practice. (Remember, that's what schools are.) It's a structure that equips organizations to meet the needs of the market they are seeking to serve.

Several years ago, a school leadership team asked us to work with them. We began our first meeting with the question, "Why are we here?" They responded that they hoped we could help bring some fresh ideas to their strategic plan. Our next question was, "Well, what does your plan currently look like?" You see, we are not in the business of creating strategic plans; we are in the business of helping leadership teams create their *own* strategic plans and implementing the disciplines to consistently execute them. By law, every school system has a strategic plan; however, the question is: "What are you doing to actually get it done?" Today, this same team will tell you that the most valued skill they have received from their time with us was the same component they were missing: *execution*.

### EMBRACE THE CHANGE

For far too long, the K-12 education industry has been in "stand and deliver" mode with a one-size-fits-all model. The time for this to change is now. School leadership teams must face the facts of the momentous changes they are experiencing, develop a market-driven strategy to respond to those changes, and implement a process to ensure execution of that plan. Indeed, education is a noble profession and plays an important role in the construction of the culture and the well-being of the next adult generation. A commitment to sound business strategy is essential – a giant leap toward the high ideals that schools have always pursued.

In this case, change is good.



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Gold Weathervane (Brian Laurich)

*A framework to understand and profit from global forces of change.*

# Capableism

VS.

# Capitalism

by Dan Sullivan

**S**ince the late 19th century, capitalism has been something people have loved or hated, but, either way, you couldn't ignore it and the influence it's had on society. It has been the overriding issue in human history over the past two centuries. Many scholars believe that all the wars of the 20th century were essentially one Great Capitalist War, all of them fought to see who and what form of society was going to best harness this extraordinary economic force in the world. With the collapse of the Soviet Union in 1991, it was pretty well decided that Western-style capitalism — exemplified by the United States — was the winner. Many “experts” on the winning side now felt confident about making powerful predictions about the 21st century.

The predictions said that global progress was now only a question of bringing all countries and peoples into a global capitalist system. For many individuals, it seems that this worldwide integration of all activities and organizations within capitalism means that all other human issues are subsidiary and dependent. For these “capitalist enthusiasts,” one's access to, and use of, capital is the single determinant of personal success, status, and security. Nothing else is as important, and no other human qualities or considerations count as much. If you master capital, you are master of your world. For those of this mind, life now has a single purpose: becoming a more and more skillful capitalist.

### Capitalism Is Part of Something Much Larger.

Not everyone believes this explanation of world progress or buys into this capitalistic vision of the coming century, especially in light of what has happened to the global economic system and many of its key institutions and players in the past eighteen months. Some disbelievers are avowed enemies of capitalism, their fundamental wish being to take the world back to some mythical agrarian or nomadic society. These are generally marginalized individuals with limited credibility and influence. But other disbelievers in the primacy of capitalism are actually supporters. They do not deny the importance of capitalism or its crucial role in global progress; it's just that they don't see it as the central factor. They see capitalism as a sub-system of something much larger and more important. I count myself as a member of this group. Lately, I've been proposing a different model for understanding what drives progress in the world, one that's bigger and more inclusive than capitalism. I like to call this "Capableism."

Capableism is based on the idea that there is a powerful instinctive drive in humanity — within each individual — to constantly increase personal capability, and that this drive is what generates all progress in the world.

### THE DIAGRAM

I have created the diagram at the right to illustrate the relationship between Capableism and capitalism in the 21st century.

#### Global Growth System

I see our entire global society as consisting of a single growth system that, because of technological capabilities, is becoming more integrated with each passing year. The world's population is now over six billion, with projections calling for ten billion by the year 2050. Because most people are now within the influence of global communications, there is a growing collective aspiration for personal improvement and progress. It is this collective desire shared by billions of individuals that fuels the growth of Capableism as the central change and improvement dynamic in the 21st century. All other institutions and structures in global society are now compelled to respond to this growing force. Many of them are failing to do so, some catastrophically, as we've seen in the past 18 months.

#### Potential

The desire for greater capability, and for personal and organizational growth, is always greater than the ability to achieve it. The more progress individuals achieve, the greater the potential for even more growth and progress. The more people improve, the more they want to improve. With each new expansion of capability, the hunger for even greater capability increases.

#### Capableism

In the center of the diagram, and in the center of human affairs, is an intense, expanding collective desire for greater capability. Capability in what areas? Capability in all areas of human experience and activity — with more areas being created every

day. This desire for greater capability always has permanent characteristics:

- **Infinite.** Human beings, collectively, have an infinite number of aspirations, an infinite amount of curiosity, and an infinite desire to grow in new, better, and different ways.
- **Universal.** No one has a monopoly on the desire for greater capability. It is universal, pervasive, and all-encompassing. This is not a grand, utopian notion, but an idea that reflects the infinite number of experiences and activities of six billion individuals going about their daily lives and their businesses.
- **Unequal realization.** Having said that the desire for greater capability is universal, however, it must be pointed out that there is great inequality among the structures and institutions for achieving greater capability. Certain cultures, societies, countries, and organizations have been far more successful than others in focusing, channeling, and capitalizing on the central force of Capableism. Wherever this occurs, individuals who are involved experience much greater progress and prosperity.

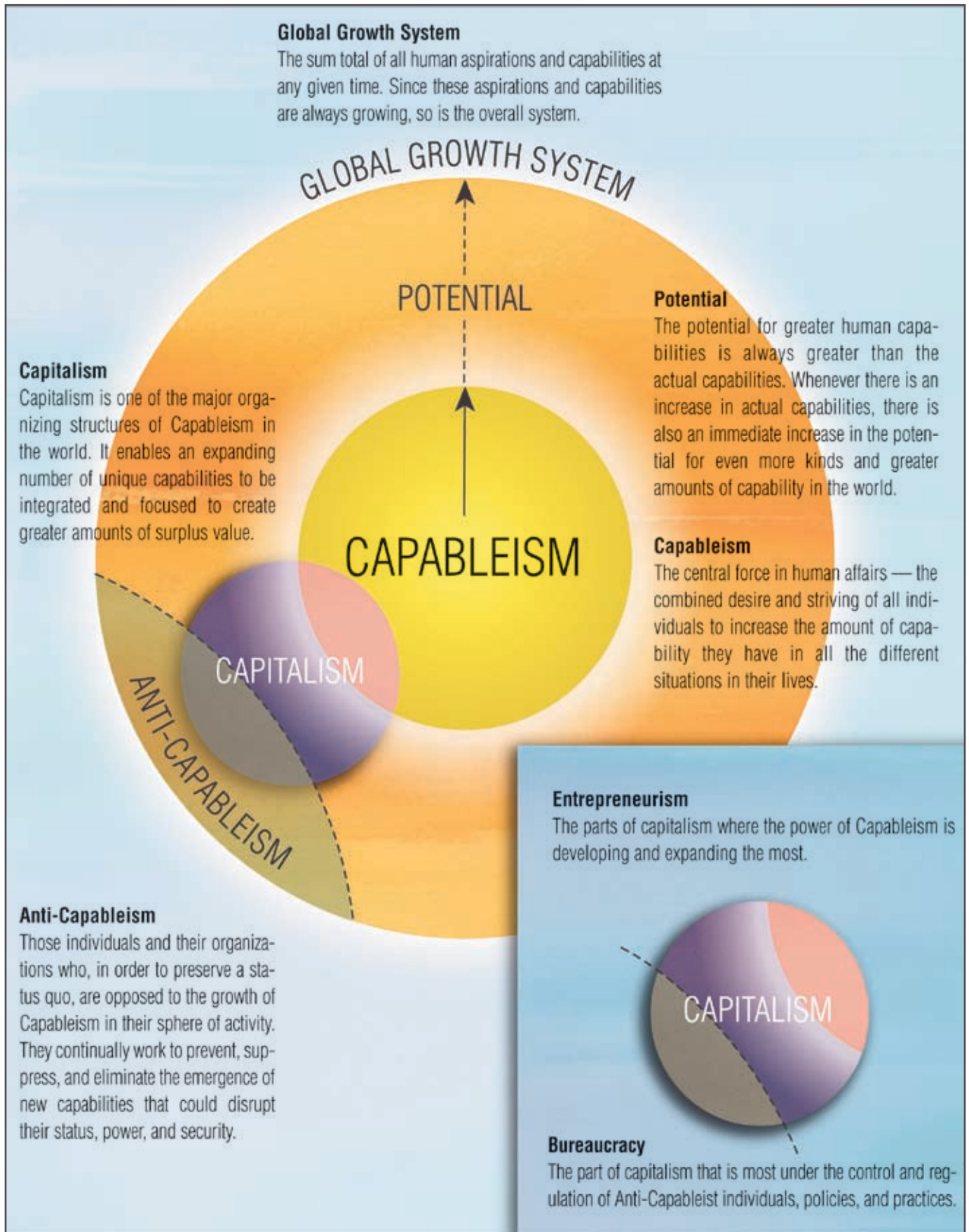
In the diagram, there are two other features that require explanation: Capitalism and Anti-Capableism.

#### Capitalism

Capableism has been an emerging force since the origins of the human race. One could say that Capableism is humanity. But the last five centuries, more than any other span of time, have seen an exponential growth of human capabilities. Each individual endeavors to become more capable, but more often than not, individuals pool their resources to achieve much faster and larger results. Out of this combined effort come all manner of structures and institutions, some of which become mega-structures. Capitalism is one of these. It is a specific, extraordinarily useful vehicle for channeling Capableism that has now taken hold, in greater or lesser degree, in the vast majority of societies on the planet.

- **Expanded cooperation.** The essential characteristic of capitalism is an incessant expansion of practical cooperation among people who are largely strangers to one another. It is this cooperation among strangers that makes capitalism such an extraordinarily useful system in the world.
- **Innovation.** The essential vehicle of cooperation is entrepreneurial innovation, which creates new kinds of value for increased numbers of individuals. Capitalism invites and facilitates new solutions in every area of life.
- **Value creation.** The expansion of cooperation becomes possible because the individuals who are included within the structures and processes of capitalism, for the most part, agree to create more value on a daily basis than they consume.
- **Surplus.** This leads to surplus value (profit), which is then reinvested to expand the cooperation even further. The





closed-loop process of value creation, profit making, and reinvestment leads to higher and higher levels of cooperation — continually involving greater numbers of diverse individuals and groups in the world.

### Anti-Capableism

Over the past two centuries, some groups of people have identified themselves as anti-capitalist when, in fact, they have actually been Anti-Capableist. Anti-Capableism usually takes on two distinct forms of protest and resistance:

- **Reactionary.** These are individuals who are frightened by the emergence of new capabilities that they do not understand and that they do not possess. They feel powerless in the face of other people's superior capabilities. More than that, they experience these new capabilities as disruptive forces that undermine the meaning and security of their lives.



Bleu Provence (Phil Fisher)

- **Bureaucratic.** Bureaucracies often start off as positive and progressive organizations. But as the internal structures and methods become more entrenched, the individuals within the bureaucracies become more self-serving. Increasingly, they focus on their place in the pecking order and on the internal politics of the organization. This leads to a growing disconnect between the organization's internal priorities and activities and its original external purpose for existing. As this happens, virtually any new capability that develops in the outside world is seen as a potential threat to the status quo of the organization and its members. Because bureaucracies have power over outside events and situations, they are able in many cases to frustrate,

undermine, and prevent the emergence of whole new areas of capability. There are millions of bureaucracies in the world, in every sector of human activity, that are practical enemies of greater Capableism.

### Entrepreneurism vs. Bureaucracy

Finally, if you look again at the diagram, you'll see that the smaller circle representing capitalism partially overlaps the larger circle of Capableism. The overlapping area is the sector of capitalism that is dominated by entrepreneurs, where emerging innovations continually facilitate the growth of greater Capableism within the capitalist system. The other overlapping area within the capitalism circle, farther out toward the margin, represents where capitalism is in the grips of anti-capableist forces. This is where the usefulness of capitalism is being undermined by reactionary and bureaucratic opposition. Examples of this in our own times would be large portions of the labor union movement and certain sectors of the legal

industry — as well as political parties and movements based on or influenced by socialist principles.

### MAKING GREATER SENSE OF THE WORLD OF CHANGES

By using this Capableism diagram in thinking about your own personal life and about the world at large, you can make much greater sense of the changes that are taking place in every area of daily life. Capitalism develops out of the inescapable desire to increase human capability. It is one of the major ways in which Capableism expands — but it is not the only way. Democracy is another, as are science, technology, and culture. Capitalism, therefore, like these others, is a sub-system of Capableism; it is not the most important factor or

force on the planet.

It is Capableism, therefore, that gives rise to capitalism — and many other liberating structures and institutions — not the other way around.

### SUMMARY

What drives individuals to improve is not greater mastery of capital, but greater expansion of their unique capabilities. Human beings at their core are not capitalists, but Capableists.

- Capitalism is an acquired knowledge and skill that we may or may not learn over the course of our lives, but each of us is born with a natural instinct for Capableism.



Lake Como Series Como (Phil Fisher)

- This individual drive for greater capability in all areas of our lives governs all of our other motivations and characteristics.
- Our greatest happiness as individuals is measured by the degree that we can continually become more capable.
- Our greatest periods of unhappiness come from having the drive for increased capability frustrated or blocked, and from the resulting cessation of growth as a human being.
- If capitalism, therefore, is going to be a positive and beneficial factor in human affairs, it must always be developed in the service of Capableism.

### Harnessing the Power of Capableism

From this perspective, the upheavals and structural changes we've been experiencing can be viewed from 30,000 feet as the effects of the forces of Capableism taking down structures that no longer support its growth. To business leaders on the ground, the message is to focus on what you do that increases the capability of others, both to deal with this uncertainty and to move ahead confidently in spite of it. Looking at my entrepreneurial clients, I see that those who have focused on creating and effectively communicating true value — those who provide direction, confidence, and capability that their clients can't get from competitors — are experiencing this as a time of unprecedented opportunity, while those who rely primarily on selling commoditized products and services are suffering.

It's time, more than ever, for smart entrepreneurs and other business leaders to build their businesses around increasing the capabilities of others. For many, this will be a paradigm shift that will require entirely new ways of thinking about what they do and how they do it. At the core are the customers' shifting motivations: what keeps them awake at night, what they're most excited about and what they most want to support and develop in themselves. Businesses and other institutions that can figure out how to genuinely help people eliminate their biggest dangers, capture their biggest opportunities and maximize their most valued strengths will always be able to draw customers and generate income. Those that can't consistently deliver on these fundamental human desires will continue to fight a losing battle against the undeniable forces of Capableism.



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There is much to be learned in the study of success, but executives cannot afford to ignore the lessons of failure.

*By Troy Schrock*



# Failure, *a Great Teacher*

**M**ICHAEL JORDAN, LANCE ARMSTRONG, Tiger Woods. New York Yankees, New England Patriots, Detroit Red Wings. Southwest Airlines, Walmart, Apple. Bill Gates, Warren Buffet, Jack Welch.

We are obsessed with success. In sports, entertainment, business, government, individual feats, group accomplishments...whatever the genre, we find, highlight, profile, study, and promote the success story. In a profound way, we relate to success. It awakens within us a sense of, "Hey, I could do that!" At that moment, it doesn't matter if we ever do. We

get fired up to participate vicariously through the successes of others. That is why sports fans, for instance, talk about their favorite team in the first person.

We especially love the stories of those who have pulled themselves up by their bootstraps – people who were seemingly little before they made it big. The rags-to-riches theme is common in our movies. The "defy all odds" script characterizes our national heroes and the legends they spawn. Put simply, America loves a winner. It encourages us. It inspires us. It drives us.



The same goes for business. Books about business and leadership success routinely top the bestseller lists, and in the last few decades, many authors have risen to meet that demand (see list on next page). Each study tries to identify more obscure successful organizations and attempts to develop yet another framework of “essential” principles for success. Each time, eager business leaders and entrepreneurs gobble them up.

I am not surprised that the bookshelves of the last 30 years have been crowded with success stories. It has been one of the greatest periods of business building and wealth creation in the history of the United States and the world. We have also enjoyed a sustained period of peace in industrialized nations. It has felt good, and studies on business success allow us to bask in the good vibes. Surrounded by success, we naturally focus on it.

I am also not surprised that this mood has changed in the wake of the 2008-2009 financial meltdown and economic recession. Suddenly, people are buying books on failure. Organizations are struggling financially, customer patterns are changing drastically, and the regulatory environment is more volatile

## Business leaders are accustomed to studying the possibility of failure, but they are much less comfortable studying the reality of failure after it happens.

than ever. Executives realize they don’t have it all figured out. All the levers they knew to pull are no longer working. Thus, they are newly interested in the factors of failure. Even Jim Collins, the *Good to Great* guru, has released a book called *How the Mighty Fall*. It’s a trend that will probably continue for some time.

This is good. We know that we learn from our mistakes and the mistakes of others, but until now, how many of us have habitually studied failure – particularly our own – to glean its lessons? Probably not many. When we fail, the conventional wisdom is to “move on” and “not dwell on the past.” Yet, the study of failure may be the most fertile ground for productive improvement leading to sustained excellence. All entrepreneurs and business executives should give it serious attention.

Business leaders already understand risk, and the successful ones embrace it. Failure is inherent in risk, so business leaders are accustomed to studying the *possibility* of failure on the front end of a decision, but they are much less comfortable studying the *reality* of failure after it happens. The effective executive needs a balanced approach. In this article, I hope to

prompt leaders to study failure, and I will offer some general guidelines on how to do it.

To begin, we must first understand how faulty we can be in our attribution of either success or failure.

### FAULTY ATTRIBUTION

*“When a company is doing well, with rising sales, high profits, and a surging stock price, observers naturally infer that it has a smart strategy, a visionary leader, motivated employees, excellent customer orientation, a vibrant culture, and so on. When that same company suffers a decline—when sales fall and profits shrink—many people are quick to conclude that the company’s strategy went wrong, its people became complacent, it neglected its customers, its culture became stodgy, and more. In fact, these things may not have changed much, if at all. Rather, company performance creates an overall impression that shapes how we perceive its strategy, leaders, employees, culture, and other elements.”*

PHIL ROSENZWEIG<sup>1</sup>

We tend to go overboard with our diagnosis of the factors that lead to success or failure, and thus, we get it wrong. If a company does well, we think they do everything well. If they struggle, we assume there is room for improvement in everything. For a simple example, Jerker Denrell at Stanford University notes that persistence will always be noted as a factor in success.<sup>2</sup> However, when an initiative fails, persistence will probably not be acknowledged even if it played a role in the failure (i.e., stubbornness, resistance to necessary change). The reason is that we think of persistence as a positive trait, so we are not inclined to look for it in an unsuccessful endeavor.

This is important for executives to understand. The first step in diagnosing the root cause of an outcome is to get beyond the apparent, and that is tougher than it sounds. End results quickly construct the lens through which we interpret reality, and we oversimplify factors that are complex and intertwined. Business does not operate in a vacuum, so outcomes are rarely attributable to a single variable.

Furthermore, not all variables are within our control. Sound decisions and well executed actions can be doomed by bad fortune. Recently, I learned of an organization that was set to close a big deal on September 11, 2001. Obviously, that deal did not close due to the events of that infamous day – events that were completely uncontrollable and unexpected by those who worked so hard on the deal. Ultimately, the deal *never* happened. While those circumstances were extreme, similar stories are countless. Failure is not always attributable to poor decisions or poor execution.

At the risk of oversimplifying, outcomes can be attributed to three sequential factors:

1. Decisions (good or bad)
2. Actions (good or bad)
3. Fortune (good or bad)

## Suggested Books on Business Success

*In Search of Excellence: Lessons from America's Best-Run Companies* by Tom J. Peters and Robert H. Waterman, Jr. (1982)

*The Winning Performance: How America's High-Growth Mid-size Companies Succeed* by Donald K. Clifford, Jr. and Richard E. Cavanaugh (1985)

*Built to Last: Successful Habits of Visionary Companies* by Jim Collins and Jerry I. Porras (1994)

*The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market* by Michael Treacy and Fred Wiersema (1995)

*Good to Great: Why Some Companies Make the Leap and Others Don't* by Jim Collins (2001)

*Less is More: How Great Companies Use Productivity as a Competitive Tool in Business*, by Jason Jennings (2002)

*Think Big Act Small: How America's Best Performing Companies Keep the Start-up Spirit Alive* by Jason Jennings (2005)

*The Breakthrough Company: How Everyday Companies Become Extraordinary Performers* by Keith R. McFarland (2008)

When studying outcomes, we tend to make three mistakes. First, we focus 80% of our time on the outcomes resulting from a good/good/good sequence and the remaining 20% on those resulting from bad/bad/bad. Second, we tend to ignore the element of fortune altogether. Granted, it is out of our control, but we can still anticipate it and plan accordingly.

Third, we view the contributing elements strictly through the lens of the outcome (faulty attribution). A favorable outcome may have occurred in spite of a poor decision, for instance, but we see the favorable outcome, proclaim "success," and pat ourselves on the back. Consequently, we miss hundreds or thousands of hours, gobs of resources, and a host of environmental issues that contributed to the final outcome. We are so intent on getting the short story and moving on that we leave behind a pile of instructive gems.

### THE KEY IS LEARNING

*"Companies can...fix problems, alter course, adapt to new environments and new circumstances, even completely rebuild themselves. But the lifeblood of adaptive change is employee learning. ('Organizational learning' is a useful term, but it's only a metaphor. People learn, not organizations.)... Employee learning is the vital asset that allows companies to change and heal themselves."*

FREDERICK F. REICHELDT<sup>3</sup>

## Suggested Books on Business Failure

*The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value* by Frederick F. Reichheld (1996)

**Note:** This book is not entirely on failure, but chapters 7 and 8 challenge the reader to look for and learn from failure.

*When Giants Stumble: Classic Business Blunders and How to Avoid Them* by Robert Sobel (1999)

*Why Smart Executives Fail: And What You Can Learn from Their Mistakes* by Sydney Finkelstein (2003)

*Greed and Corporate Failure: The Lessons From Recent Disasters* by Stewart Hamilton and Alicia Micklethwait (2006)

*The Self-Destructive Habits of Good Companies: And How to Break Them* by Jagdish Sheth (2007)

*How the Mighty Fall: And Why Some Companies Never Give In* by Jim Collins (2009)

The ultimate purpose of studying success and failure is to learn, and the rapid pace of change in today's economy makes learning more important than ever. Businesses simply cannot expect to make money tomorrow the same way they make money today. Technologies change. Customers change. Needs change. Competitors change. You simply *must* stay on top of all this change.

Even the "great" companies of the success books are susceptible to the challenges of change. Critics point out that many of the profiled companies struggled after the books were published. However, an organization's fall from success does not negate the lessons from what led to their success. We just must be disciplined in accurately identifying the causes of their success, unblinded by faulty attribution. The key is learning.

Similarly, many organizations (thankfully) recover from periods of failure to enjoy sustained periods of success. Yet, we can still learn a great deal from what caused them to initially fail. Indeed, their ability to recover from that failure likely resulted from their own commitment to learn what caused it.<sup>4</sup> Again, the key is learning.

As the business leader, the pattern of learning starts with you. Invest the time in knowing *yourself*. Establish a consistent rhythm of reviewing your own performance (I like to do this at least once per year). What did you do well? What did you *not* do well? What have you learned about your competencies, communication style, and leadership abilities? What specific steps do you intend to take to improve?

Do this same thing with your executive team. To survive and thrive, you must invest the time and resources in *really* knowing your business and market environment. Finally, train your employees to follow suit. Frederick Reichheld is right: there is no such thing as "organizational learning." Only

individuals can learn. Your organization simply reflects the collective efforts of its people.

Failure is a great teacher, so capitalize on it. Every individual in your organization should track their decisions and actions and watch for failure. There is no guarantee that the final analysis will lead to new actions that are consistently successful, but over time, assessing failure in this way can only help your organization.

In this dynamic economy, you cannot afford the “let’s just wing it” approach. Not only are your chances of success less, but the benefits and consequences of the decision are more random and more difficult to identify. With a robust system of analyzing success and failure, you can build decisions on previous ones, watching for patterns of success (to be emulated) or failure (to be avoided).

## LOOK FOR FAILURE

*“I’ve often felt there might be more to be gained by studying business failures than business successes. In my business, we try to study where people go astray, and why things don’t work. We try to avoid mistakes...It’s an inversion process. Albert Einstein said, ‘Invert, always invert, in mathematics and physics,’ and it’s a very good idea in business, too. Start out with failure, and then engineer its removal.”*

WARREN BUFFET<sup>5</sup>

Why do we not study failure more readily? I suspect the reasons include:

- We naturally try to hide mistakes. As individuals and as organizations, we simply want to look good.
- Failure hurts. We do not like experiencing it, and so we choose not to dwell on it.
- Success is much more fun. Whether it’s our own experience or sharing in the excitement of others, success feels much better than failure. That’s why winning teams lead professional sports leagues in attendance each year.

We must fight the natural inclination to ignore failure. We’ve all heard the old adage: *those who ignore history are doomed to repeat it*. Studies and anecdotal experience show that disasters are rarely – if ever – unique; the indicators and preconditions tend to be the same. Investigating past failures and their root causes will help to recognize and eliminate them when they emerge again. As Buffet said so well, “Start out with failure, and then engineer its removal.”

## HOW TO STUDY FAILURE

*“Hundreds of engineers are scrambling to figure out why a fuel gauge on the space shuttle Discovery failed right before its launch, while NASA clings to the possibility that it might be able to make another attempt on Sunday.”<sup>6</sup>*

The aerospace industry does a good job of studying and learning from failure. Commercial airlines, for example operate way beyond six sigma when it comes to the most important aspect of their business – safety. The only way to get to that level is by fervent study of failure and taking steps to ensure that mistakes do not repeat themselves.

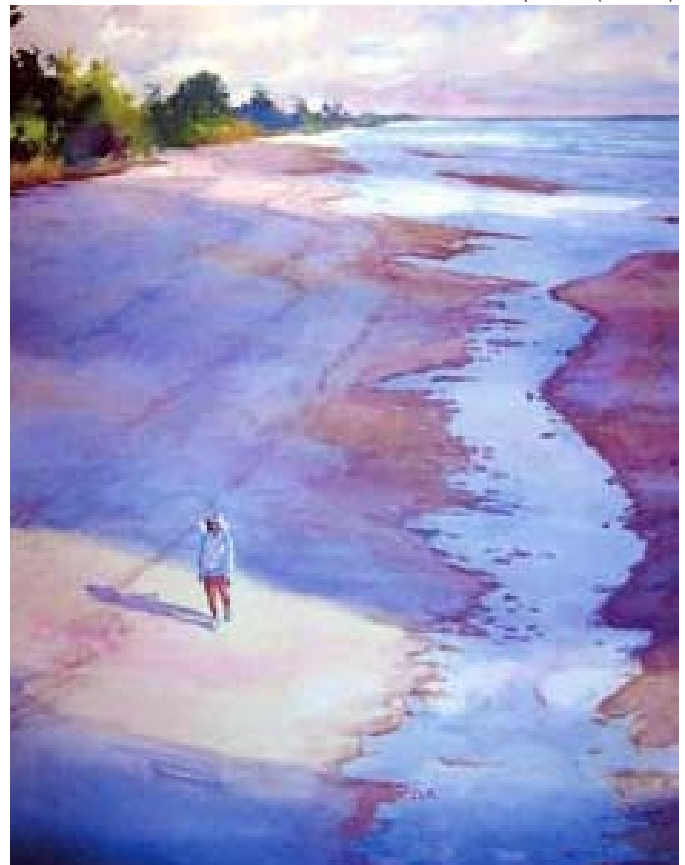
Look at the resources immediately assigned to the problem in the NASA example – literally *hundreds* of engineers all focused on one little malfunctioning fuel gauge. Does your organization attack failure with this level of urgency? Sure, your business may not be launching multi-billion dollar space expeditions, but as far as your employees are concerned, you might as well be. For the sake of your organization’s future, you must make a habit of studying failure.

What failures should you study? Some examples include:

- A loyal customer who goes elsewhere
- Good employees who leave the organization
- Breakdowns in delivery of a key product or service
- Poor financial performance – specifically in gross margin
- Project outcomes that fall short of targets
- Failure to achieve strategic priorities

In short, a failure is any outcome that falls short of the goal. Even outcomes that appear to reach the goal, however, should not be exempt from analysis. Remember to avoid the mistake

Low Tide on Naples Beach (Phil Fisher)



## A systematic approach to studying failure begins with establishing a rhythm for debriefs.

of focusing too much on the final outcome. Even bad decisions and bad actions sometimes result in good outcomes. Therefore, every outcome – failures and successes – should be analyzed.

A systematic approach to studying failure begins with establishing a rhythm for debriefs. The United States Military does this very well, as noted by Geoff Colvin in *Talent Is Overrated*:

A powerful tool with great potential for most organizations is the U.S. Army's after-action review. Colonel Thomas Kolditz, who runs the leadership development program at the U.S. Military Academy at West Point, says that for the past twenty-five years "it has literally transformed the Army." The concept is simple. After any significant action, in training or in combat, soldiers and officers meet to discuss what happened. They take off their helmets – a symbolic action indicating that "there's no rank in the room," as Kolditz says. "Comments are blunt. If the boss made a bad decision, often it's a subordinate who points that out." The session isn't about blaming; instead, it's "a professional discussion," as an army training circular puts it. Part of its strength is that it yields very complete feedback.<sup>7</sup>

Practically speaking, you may not be able to debrief with your team after every significant outcome. That's why it is so important to have a rhythm to your reviews. I suggest a quarterly meeting where you and your team review the goals for the previous quarter and assess your performance, then set new goals for the next quarter. The simple discipline of a quarterly recalibration meeting is possibly the most powerful single step you can take to learn from failure and improve your execution. Do the same thing with your annual initiatives at the end of the year. Where did you fail? What did you learn? What steps have you taken as a result of those lessons?

The second component of a systematic approach to studying failure is a solid process for root cause analysis. Whether it's LEAN, Six Sigma, or something else, a *process* provides the discipline to search for the true source of a problem rather than just its symptoms. Eliminating the source of a failure is the only way to ensure that it won't happen again.

The third component of a systematic approach to studying failure is to involve people from throughout the organization in failure analysis. As much as possible, mix executives,

managers, and staff on analysis teams. This is the best way to ensure that you consider every aspect of the failure in question. It also maximizes your ability to think in terms of the customer, as certain levels of your organization are probably in closer contact with the end product than others.

## CONCLUSION

As an avid reader of Peter Drucker, I have often noticed that he naturally uses examples of both success and failure to highlight various points. The ultimate goal is to identify what works, and there are lessons to be learned in both. As opposite as they may seem, success and failure are just different types of the same thing – experience. And experience is a horrible thing to waste.



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## End Notes

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## Do the Lessons of Large Corporate Failures Apply to Midsize Businesses?

During 2009, I embarked on a study of executive and organizational failure by tackling a number of books on the subject. The examples in these books are primarily large multinational corporations, so in my work with executives of midsize companies, I am frequently asked, “Do these lessons apply to a company our size?”

The answer is definitely yes. The general causes of failure highlighted in these books include:

- Poor strategic decisions
- Unsuccessful new ventures
- Overreaching in expanding the business
- Bad acquisitions done in the ever-elusive search for synergy
- Choosing not to cope with innovation and change
- Failure to face reality and act on vital information
- Dominating CEOs who see the business as an extension of their egos and personal agendas
- Executive hubris
- Failure of internal controls
- Ineffective boards of directors

With the possible exception of ineffective boards of directors (which most midsize businesses don’t have), each of these is a real possibility for midsize companies.

In fact, midsize companies might even be more susceptible to some of these than larger corporations. First, CEOs of midsize businesses are often the founding entrepreneur; thus, they are susceptible to seeing the business as an extension of themselves because it really is their business. This can create an environment in which executives and employees are unable to properly challenge the CEO on anything – a sure-fire recipe for failure. Second, midsize businesses may be more susceptible to the failure of internal controls. They simply don’t have the resources for this function that larger corporations do.

Beyond these, however, I see little difference in the susceptibility of midsize and large businesses to these causes of failure.

*–Troy Schrock*

Evening in the Everglades (Phil Fisher)



# Who's 1st in the Family Business?

by David Dudon

The answer to that question says a lot about how the business is run and its prospects for the future.

IT IS OFTEN SAID THAT experience is the best teacher. I've also heard that the best way to learn is to teach. When it comes to managing family businesses, I've done both.

For sixteen years, I served as President and CEO of the machining and fabrication business that my father had started. I love my family, and it was a joy to work with them in this way. Our business relationship enabled us to create a body of memories unique among most families, and we were blessed with enough financial success to provide a living for all of us. Yet, it was not always easy. Family businesses are still businesses, so they encounter all the same struggles and barriers to growth as non-family operations. In addition, when professional relationships are also blood-related, one must deal with another set of challenges. It can be very difficult to make sound *business* decisions when those most affected will be sitting at your Thanksgiving dinner.

For the last two years, I have taught business management courses, including courses on family businesses, as an adjunct professor at the University of Dayton. I guess they figured I was an expert with some knowledge to pass along, so they asked me to teach. In reality, preparing for my first class showed me how dumb I really am. Somehow, I've now made it through four semesters without the administration realizing that they are actually paying *me* to learn. What an experience this has been! In preparing notes, reading books, and communicating my experience, I've gleaned numerous lessons that I wish I would have known when I was actually in business myself. (If my students ever read this, I'm toast.)

I actually have a second outlet for teaching: my own advising business. After exiting my family business, I began advising CEOs and executive teams in the areas of strategic thinking, strategy execution, and

team alignment. Because of my experience in and passion for family businesses, many of my clients fit this mold. It's gratifying to share the things I've learned with those who are still in a position to apply them. Together, my clients and I continue to learn what works best and what does not work at all.

Through all of this, I have found there to be three types of family businesses. Let's call them Family First, Business First, and Shareholder First. Each has its own culture, authority structure, and objectives. Each has its own way of making decisions, and the consequences (good or bad) of each type are real. I like to illustrate these types using the relationship between the three leadership entities common to all family businesses: the family, the CEO (who is usually the entrepreneur who started the business), and the management team.

If you are a leader in a family business, I'm sure you'll see yourself in one of these models. Perhaps this article will prompt some thinking that is long overdue – or simply a good refreshment of some good work you've already done. If you are *not* in a family business, the principles in this article still apply to you. While family businesses are certainly unique, good management is good management no matter what type of business yours is.

## FAMILY FIRST

The Family First business is easy to define. If the CEO is a Johnson, and your last name is Johnson, then you've got a spot

in the business – perhaps even the leadership team – whether you are qualified or not. That may seem like an excessively strong statement, but I've seen a lot of family businesses, and it's not uncommon.

As its label implies, the Family First business is all about the family. The CEO (usually the founder) defines himself by the business, so it's very important to him to keep the family name at the top. Therefore, he demonstrates unflappable loyalty to his family whether they are invested or not. The CEO communicates almost exclusively with the family. Financial numbers are handled not by the executive team, but by the family. The family even exerts tremendous influence over who does what in the business.

Much has been written about the importance of trust in executive leadership, but in the Family First business, it's simply not there outside of the family circle. Ownership chooses not to share information with the management team, much less the employees. No matter how hard the management team works or how much value they create, the family keeps them in the dark, and they can only do the best they can with the limited information they're given. One might call this a communication issue, but it's much more serious than that. It's a lack of trust, and it's purposely designed that way.

The family's motivation to operate this way is simple: money. They want to live the life of a king, complete with fancy cars, big vacations, large houses, and financial rewards for their grandchildren. The attitude is, "We're giving people jobs; what else do they want?"



Air Field (Brian Laurich)

Let me be clear. The family has every right to operate this way. After all, they do own the business, so it's up to them how they want to run their company, invest their resources, and distribute the financial yields. With this right, however, comes the "right" to the consequences of their decisions. In most cases, they're not good.

For one thing, Family First businesses rarely survive beyond the second generation. Usually, they last only as long as the original entrepreneur stays involved. The lack of trust starts with him, and it's been present from the beginning. He started the business by doing everything himself, and he's never stopped. Decades have passed, and despite his "CEO" title, he still hasn't learned to manage; he only knows how to *do*. The business was built on his passion, speed, and tenacity. When a client had a problem, he was quick to solve it, and this speed built the business. Sure, employees and management teams were hired along the way, but it's still the entrepreneur running the entire show.

The problem with this is obvious. When that same entrepreneur decides it's time to retire or passes away, there's nobody to take his place because he has not trained anyone properly. Worse, his organization was built to support him, not to perform the work for him. This is usually when the next

**Family First businesses rarely survive beyond the second generation. Usually, they last only as long as the original entrepreneur stays involved.**

generation steps into their "rightful" leadership roles. (They are Johnsons, after all.) The problem is that they don't know what they're doing. Therefore, they call on anybody they can find in the organization who has an idea of what to do, resulting in management by committee. Consequently, the strength of the business (speed) is totally lost, and the company starts to decline.

In *How the Mighty Fall*, Jim Collins illustrates the progression that companies go through on their way to decline. Stage 1 is "hubris born of success," and that's exactly what we see in the Family First business. The business may still be growing, but beneath the external signs of success, they have lost their competitive advantage because the new generation is trying to make decisions that they're unqualified to make. Every growing organization hits a leadership barrier at some point; in this case, the Family First business hits it because the leaders are only there for their last name.

Within the leadership issue is a talent issue. According to

Collins, "no company can consistently grow revenues faster than its ability to get enough of the right people to implement that growth." (He calls this Packard's Law.) Great talent won't put up with the Family First business for very long. Collins explains why when describing Stage 2 in *How the Mighty Fall*:

A Stage 2 company can fall into a vicious spiral. You break Packard's Law and begin to fill key seats with the wrong people; to compensate for the wrong people's inadequacies, you institute bureaucratic procedures; this, in turn, drives away the right people (because they chafe under the bureaucracy or cannot tolerate working with less competent people or both); this then invites more bureaucracy to compensate for having more of the wrong people, which then drives away more of the right people; and a culture of bureaucratic mediocrity gradually replaces a culture of disciplined excellence.

Interestingly enough, these businesses usually do end up with a consistent, loyal workforce; it's just not composed of the *right* people. Workers grow complacent in this environment, taking advantage of a decent wage and a family ownership that consistently pays it. The attitude tends to be, "We are who we are; we'll never get any better, and that's okay. I'll just stay here, do the best I can, and keep my job." And that's exactly what happens. The organization reaches a certain level and never progresses further. They'll explain it as being the product of adverse market forces or some other excuse, never facing the brutal fact that the reason they are where they are is that they lack sufficient leadership.

And the family distrusts whatever leadership they do have. Why? Well, they're not Johnsons.

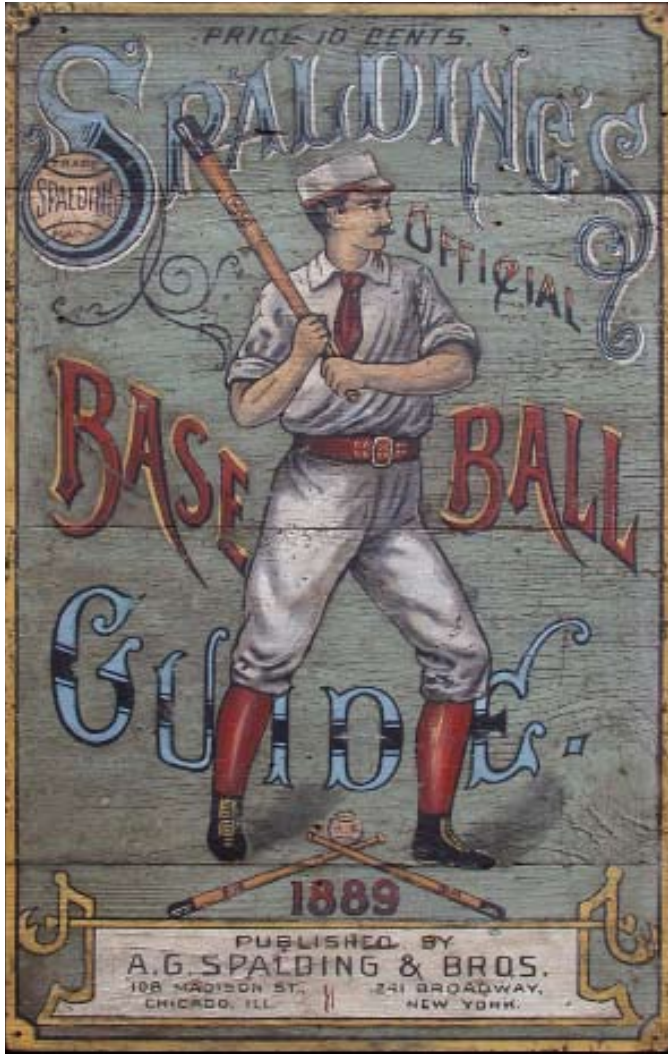
## **BUSINESS FIRST**

The Business First family business is owned by a Johnson, but it's not about the Johnsons. Family members must be qualified to progress in the business. It should come as no surprise that in my experience, Business First organizations operate way above the curve relative to their Family First peers. In some cases, these businesses may not even have any family on the executive team.

The CEO of the Business First business is still loyal to his family, and he still keeps family informed and involved to the extent that they can be helpful. However, the business has its own identity separate from the family name. Naturally, the CEO would love future generations to succeed him, but only if it is good for the business. In fact, all business decisions are made on what is best for the business, not the family.

What makes a Business First company work right is what makes any company work right: executive team alignment, clear strategic thinking, and strong strategy execution. They focus on getting the *right* people on board, not just the right last name. They are loyal not just to the family, but to the employees who make the business work and whose livelihoods





1889 Spalding Baseball Guide (Brian Laurich)

depend on its success.

Trust in the management team is high. After all, they were hired to do a job, so they must be equipped to do it. The ultimate goal for the CEO is value creation, so profits are largely reinvested in the business rather than divested to the family.

Obviously, the long-term prospects for the Business First company are much better than the Family First company. Having built an organization with capabilities greater than his own, the CEO enjoys the confidence of knowing that when he decides to step down, the business will continue whether his children are running it or not.

However, such a seamless transition can only occur if the founder has carefully formulated a succession plan. In many cases, most of his assets are in the business. When his life ends, the family usually inherits the assets whether they've been involved in the business or not. This can create a very difficult situation for the organization. Suddenly, non-involved family members are driving company cars and even collecting paychecks simply because they have inherited ownership. Because they are owners, decisions cannot be made without their approval. Thus, every decision is slow and based on a

“what’s in it for me” mentality. Consequently, the Business First mentality becomes a Family First mentality, and the organization declines (not to mention the family relationships).

The moral of the story is that in the family business, succession planning is absolutely essential to maintain harmony both in the business and the family. It is also the only way to ensure that the Business First business *remains* a Business First business.

## SHAREHOLDER FIRST

The Shareholder First family business looks much like the ideal Business First structure with one key difference: even the CEO is not family. The family members are the owners – period. They are not involved with the day-to-day operations in any way. They’re not looking for power, and they’re not looking to strip the business of cash. They just keep their hands off, and if it continues to build wealth, they’re happy. They understand that growth takes time, so they buy into a long-term strategy and trust their management team to execute the plan.

The Ford Motor Company is a good example of this. The Ford family, led by the 13 great-grandchildren of Henry Ford, still owns a controlling interest in their iconic namesake. But they don’t directly run the company. In fact, CEO Bill Ford, Jr. fired himself and hired an outsider, Alan Mulally, to replace him in 2006. By all accounts, the management team confidently runs the company with the confidence of the Ford family’s support.

## A FOURTH MODEL?

It’s quite possible for all three leadership entities to intersect. In this case, the family *is* the executive team. This rarely lasts long, however. With time, the business will take on one of the three structures already discussed. As the generations pass, it’s very difficult to maintain a full integration of family and business operations, and I’m not sure it’s even desirable. The business must be free to function as a business, unhindered by personal ambitions or the legacy of a family name. The lives of many – employees and family members – depend on it.



*David Dudon is CEO of Retro Solutions and a certified CEO Advantage advisor in Dayton, Ohio. He was formerly a partner in The Mutual Group, where he was CEO and President of Mutual Tool & Die. He can be contacted at [ddudon@rsolutionsllc.com](mailto:ddudon@rsolutionsllc.com).*

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*PhilFisherFineArt.com.*

## Phil Fisher

Naples, FL

Phil has been painting since childhood. As an adult, he tried “more financially secure avenues” before devoting his career to his love of art – particularly watercolors and oils. His paintings reveal his fondness for his native Florida, as well as scenes from Italy, San Miguel, Mexico; the Bahamas, New England, and Northern Michigan.

Preferring to work “plein air,” Phil floods the canvas with light and color. He strives to depict “life happening” in familiar landscapes. One of his greatest joys, he says, is “when I’m painting on location and people come up and share my enthusiasm while watching me paint; it drives and inspires me.”

Phil studied formally at the University of Toledo, the Toledo Museum of Art, the Ringling School of Art in Sarasota, Florida, and the Instituto D’Allende in San Miguel, Mexico. His watercolors have garnered many awards from his peers in national and international exhibitions. His work can be found in over 50 private and corporate collections, both locally and internationally.

Phil’s wife, Natalie Guess Fisher, is also an artist. Together, they own and operate the Phil Fisher Gallery/Studio in Naples, Florida.



Residents of Montepulciano (Phil Fisher)



Who Dat (Phil Fisher)



Old Farm Road (Phil Fisher)



# Brian Laurich

## Woodsboro, MD

Born in Greensburg, Pennsylvania, Brian Laurich earned a Bachelor of Fine Arts degree from Slippery Rock University in Pennsylvania. After working for 13 years as a graphic designer, he began creating signs out of old wood for gifts to family and friends. He soon realized he had tapped into an interest for high-end, historically accurate signs.

Brian's client base grew to include historical landmarks, museums, interior designers, restaurants, homeowners, and other artists. Initially, he focused mostly on early 1900s designs. Later, he began creating authentic late 18<sup>th</sup> and early 19<sup>th</sup> century designs on actual period wood, incorporating the original painted surfaces to achieve maximum realism. This includes reproductions of authentic tavern signs, trade signs, and variations of period motifs.

Brian's attention to detail and devotion to producing quality work on historically significant wood has created a new medium. His unique style culminates from fine arts schooling, graphic design experience, research in period design, and a deep appreciation for the beautiful textures and surfaces of antique wood.

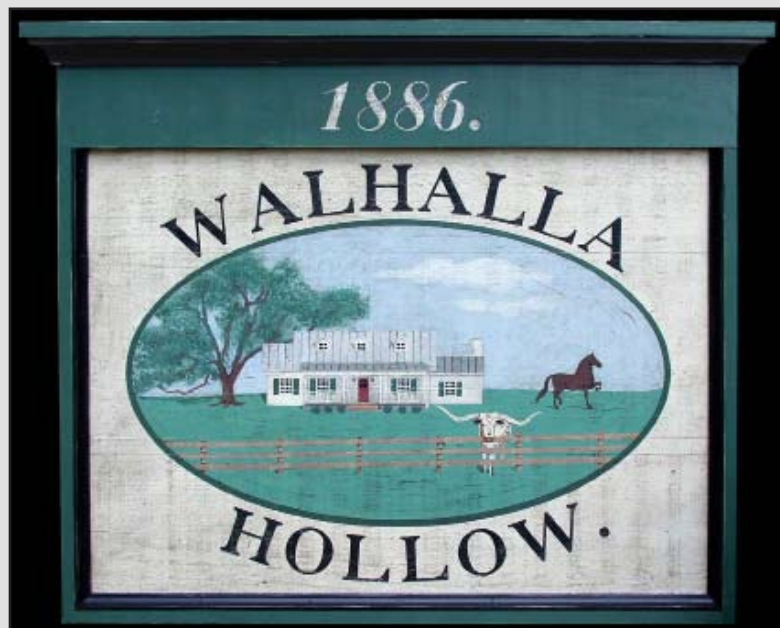
He and his wife, Christine, live in Woodsboro, Maryland with their daughters, Amalie and Hannah.



[www.vintagesigns.com](http://www.vintagesigns.com)



Centennial Eagle & Shield (Brian Laurich)



Walhalla Hollow (Brian Laurich)



N. Brown Menu Board (Brian Laurich)

**When faced with a crisis, do you see...**

**DANGER**

or

**Opportunity?**

**Here's how to lead your employees to bring about positive change.**

*by Ellen Bryson*

*“When written in Chinese, the word crisis is composed of two characters. One represents danger, and the other represents opportunity.”*

(John F. Kennedy)

**T**HESE DAYS, we are inundated with the word “crisis.” Turn on any news report, and you are likely to hear of a “crisis” – the financial “crisis,” the climate change “crisis,” the health care “crisis,” or any other pressing issue of the day (or, at least, an issue that someone wants to press). It’s no accident that the word is usually used in a political context. After all, “crisis” is a persuasive word precisely because it denotes danger, and danger snaps people to attention. The natural question that follows is, “How do we solve this crisis?” That’s where opportunity comes in. Whether the crisis is real or manufactured, it creates a significant opportunity to influence change.

It makes sense that a crisis embodies both danger and opportunity. Crises only occur when something is broken, so the danger component is obvious. As for opportunity, if something is broken, shouldn’t we *want* to change it? A bankrupt corporation, a health epidemic, or an overheated





car are all symptomatic of a root cause that has been there all along. If the underlying issue never resulted in visible failure, we would never know to fix it, oblivious to the harm it was causing.

Tony Dungy, former head coach of the Indianapolis Colts, has a son, Jordan, with a disease called *congenital insensitivity to pain* with anhidrosis (CIPA). He literally feels no pain. Jordan will reach into a hot oven to grab a cookie and proceed to eat it, unaware of the fact that he is burning his mouth. “For Jordan, diving on the driveway is the same as diving on the grass,” Dungy writes in *Uncommon*. Since Jordan never feels pain, it’s very difficult for him to know when an activity is causing personal damage.

Jordan’s ailment highlights the importance of real crises. They happen for a reason. When we ignore crises or take actions to cover them up, it’s the same as if Tony Dungy were to give a painkiller to his son. On the contrary, Dungy alerts his son to the danger of his actions and helps him change his behavior to avoid future reoccurrences.

Whether you are inclined to first see a crisis as a danger or an opportunity, it’s important to recognize that both are there. Thus, real crises should be embraced as the disruptive forces by which organizations, processes, and people improve. Danger and opportunity are powerful motivators.

So why, even when faced with danger and opportunity, is positive change so difficult? John Kotter, author of *Leading Change*, found that only one in three change initiatives succeed. Why is that?

Recently, I stumbled upon a May 2009 McKinsey Quarterly article by Carolyn Aiken and Scott Keller entitled “The Irrational Side of Change Management.” Aiken and Keller cite a June 2003 McKinsey article, “The Psychology of Change Management,” in which Emily Lawson and Colin Price suggest four basic conditions necessary for employees to change behavior:

1. A compelling story. They must understand the need for change and agree with it.
2. Role modeling. They must see leaders behaving in new ways that support the change.
3. Reinforcing mechanisms. Systems, processes and incentives must be aligned with the new behaviors.
4. Capability building. Employees must have the skills required to make the desired change.

While crediting these elements as a good start, Aiken and Keller caution that you can’t just implement them and expect to change people’s behavior in a meaningful way – that is, a way necessary for long-term change. Human beings are not robots. We have our own wills, desires, passions, and motivations. Leading change is not as simple as inputting a certain stimuli and waiting for an expected result. No, to stimulate real change, you must understand how people interpret their environments and choose to act.

If only I had figured this out sooner...

\* \* \* \* \*

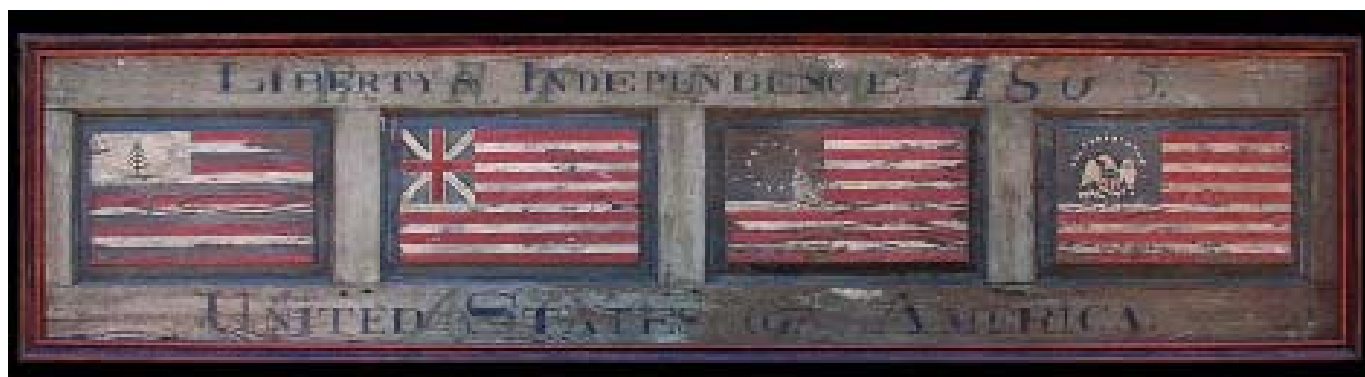
I was the Chief Manager of a competitive start-up telecom venture located in the southeast. Within months of my arrival, the dot.com bust and the Enron/WorldCom fiascos occurred. Consequently, our business plan for a carrier’s carrier basically went up in smoke. We scrambled to redefine our business model by focusing on revenue streams we could develop internally with the existing group of owners in hopes that we could protect the investment already made and have a chance of survival while the industry recovered. As a result, our financial needs increased significantly due to the need to extend our network further and deeper into the state. Our owners’ local companies became intertwined with the new company, and jointly providing services became essential for our survival.

The industry chain of events created a major reluctance on the part of lenders to fund competitive start-up telecom ventures. Even though we were five months into the loan process with a large nationwide cooperative bank, our hopes of closing the loan grew dim. The bank wanted guarantees from the owners in order to lend the money for the competitive venture because the now-obsolete model was based on providing services to carriers like WorldCom and Enron.

The owners resisted. They had never been asked to guarantee loans before and were reluctant to do so under any circumstance. Each of them were successful executives that had run regulated utilities (local telephone companies) most of their careers. The competitive landscape and financing in the new environment were totally foreign to them.

For us, this was a crisis. The danger was real, and we had to seize the opportunity to find a way to be competitive. Change was imperative if we were to save our company and initial investment. What followed next was quite remarkable.

Liberty & Independence (Brian Laurich)



We re-engineered the business model so that revenue needed to sustain the new venture in the early years of operation would be generated by moving a service that had always been jointly provided by the owners of local telephone companies and a Regional Bell Operating Company (RBOC) to a jointly provided service between the owners and our start-up venture. This was risky because we had to first convince all interconnecting telecom carriers across the country that we had the authority to require this change.

Once implemented, however, it would immediately generate positive cash flow and eliminate much of the risk as-

sociated with the original business model, thus easing banks' concerns about our loan request.

Revising the business plan and selling the idea to owners was the easy part. Implementation was a different story, for it required us to conduct business in a very different way from what all parties were used to. It also required other telecommunication companies to change the way they interconnected with our group of companies – a way that was different from how they connected with the other 1000+ such companies around the country. Regulated industries are pretty stagnant; once something is put into motion, it typically remains unchanged for decades. When this group of owners had decided to launch the new competitive telecom venture, no one ever thought it would impact the way they conducted business in their local companies.

Put simply, our new business model created a lot of unexpected complexities. Many functions previously provided by the RBOC now became the owner's responsibility. For one thing, they were now forced to negotiate with all carriers directly. This required new processes and procedures, new skill sets, new network configurations, and more direct responsibility for ensuring that the service was delivered as ordered to the end customer. No one had bargained for this much involvement in the day-to-day operations on the front end.

Some owners had little difficulty implementing the change in their organizations. Others, however, got cold feet and struggled learning to operate in the new environment. Yet, they had no choice. Once we made the decision to do this, everyone had to stay on board.

Fortunately, the plan worked. We got our loan and began generating positive cash flow immediately. The start-up is now in its tenth year of operation and going strong. The local companies adjusted, provided new opportunities for their employees to grow in their jobs and learn new skills, protected their initial investment, and are now reaping the benefits of having a profitable competitive company that has opened even more opportunities for their local companies.

That said, we could have done better. Hindsight is 20/20, of course; it's always easier to diagnose the past than it is to accurately assess the present or the future. Looking back on

this scenario, I see how Aiken and Keller's insights could have helped us implement the necessary changes sooner and more completely – even with the owners who were hesitant to go down this path. More time would have been required on the front end, but the outcome could have been much better.

Aiken and Keller present nine pitfalls that commonly get in the way of the four change-inducing conditions given by Lawson and Price. In the remainder of this article, I will review

## The more **personal ownership** your employees feel for an initiative, the more **passionately** they will work for its success.

each of them and examine our situation in light of these pitfalls. I hope you can learn from our crisis and seize the opportunities when you face your own.

### **Behavior 1: Create a Compelling Vision**

***Pitfall 1: What motivates you doesn't motivate most of the other people.***

Social science researchers have identified five major forms of impact that motivate people: impact on society, the customer, the company and its shareholders, the working team, and "me." Aiken and Keller note that one of these motivations will resonate with the leader, and he will thus base his message on that motivation. The problem is that he's missing 80% of the picture, and probably 80% (or more) of his audience.

I was motivated by the needs of the company and its shareholders. It was all about survival. Granted, that was a legitimate motivation. The other possible motivations – the customer, the working team, and the individual employees, in particular – depended on the existence of the company. However, I did not adequately communicate that. I focused on finding new revenue streams to sustain operations and provide sufficient resources for growth, but failed to connect this goal with *all five* motivations.

Naturally, every organization wants and needs to make money, but that is probably not your chief goal. You're providing livelihoods to employees and their families. You're providing an essential service or product to your customers, thereby benefiting society. Making money is simply the means to these higher aims. Communicate that! When casting the vision for your organization, tune everyone in to all five forms of impact. You'll enjoy greater buy-in and better results.

***Pitfall 2: You're better off letting them write their own story.***

The more personal ownership your employees feel for an initiative, the more passionately they will work for its success. I once heard the story of a professional baseball coach who noticed a mechanical glitch in the throwing motion of one of his infielders that was contributing to an increase in errors.

The problem was that this particular player was notoriously resistant to outside advice. Instead of confronting the player with his insight, which he knew would be ignored, the coach deliberately walked by the player each day with a handful of video tapes. After several days, the player asked what he was doing. Feigning frustration, the coach said that he had been studying film of the player's throwing motion for days hoping to find the cause of the errors, but he wasn't able to find anything. The player immediately asked for the tapes, confident that he understood his own game better than anyone else and could certainly spot any problems with his motion. A few days later, the player made the necessary change, and his errors decreased.

Would it have saved time for the coach to just tell the player what he needed to do? Certainly, but it would have been wasted time because the player would have never bought into the change. Many times, the key to buy-in is to allow employees to think that they developed the necessary actions themselves.

In our situation, we provided step-by-step instructions to help everyone implement the changes. The new venture facilitated all interactions between the industry and the individual local companies. The local telephone company owners were given a roadmap to follow for implementation. A consultant who had assisted other organizations in a similar effort was hired to develop the plan and guide the implementation. Yet, there was little to no opportunity for the individual owners to contribute to the development of the implementation process. Consequently, few of them bought in. Even as they went through the motions, resistance and doubt impeded success.

Here's the lesson: allow your people to take ownership of your success at all levels and in all situations.

***Pitfall 3: It takes a story with both + and – to create real energy.***

Recently, we've seen a lot of business books and articles dedicated to studying failure. During the booming 1990s, we saw a lot of studies on success. To really influence change, we need a little of both. Remember, most people are moved by danger, and some are driven by opportunity. Just as you strive to avoid pitfall 1 by addressing all five forms of impact, you

**If leaders have the power to **role model** change, are they not also **responsible** for role modeling the **bad habits** that require the change?**

must be sure to tap into both sources of motivation. Aiken and Keller call these the "deficit based" and "constructionist based" approaches.

As the Chief Manager, I focused heavily on the deficit based

approach. We had a serious problem that needed correcting, and I shouted "danger" from the rooftops to pull everyone on board. This approach created a lot of resistance in some, and implementation was a struggle. Had we taken the time to engage people in the discovery process of formulating a solution, effective change could have been smoother without bruising so many egos.

## **Behavior 2: Role Modeling**

***Pitfall 4: Leaders mistakenly believe that they already "are the change."***

Leaders are often part of the problem; yet, they don't see themselves needing to make changes in their own behaviors. Aiken and Keller ask some provoking questions to illustrate this:

How many executives when asked privately will say no to the question, "Are you customer focused?" and yes to the question "Are you a bureaucrat?" Of course, none. The fact is that human beings consistently think they are better than they are. Consider that 94 percent of men rank themselves in the top half according to male athletic ability.

Let's pause for a moment and ask ourselves a painfully logical question: if leaders have the power to role model change, do they not have the power to role model the bad habits that require the change?

In *The Five Temptations of a CEO*, Patrick Lencioni encourages CEOs to embrace self-examination and actively encourage employees to challenge their ideas and behaviors. Using 360-degree feedback, for example, could have defused some of the tough issues in our company and changed bad behavior at an individual level before it was able to fester company-wide.

***Pitfall 5: "Influence leaders" aren't a panacea for making change happen.***

Aiken and Keller suggest that success depends less on how persuasive leaders are than how receptive people are to the idea. Charisma may win some short-term points, but it will rarely facilitate long-term change. Usually, real change is driven by unexpected non-leaders who feel compelled to step up and make a difference.

During our implementation, we saw this in an employee that worked for one of the most reluctant owners. Seeing the success other companies were having as they completed implementation, he began talking to people in those companies about their experiences. Once he was convinced of the need for the change and saw the value it could bring to his company, he quickly sparked excitement in his own coworkers about being part of the solution. Ultimately, he helped the owner grow comfortable with the process and see the value of moving forward. Simply put, he drove the change in his organization.



### Behavior 3: Reinforcing Mechanisms

#### ***Pitfall 6: Money is the most expensive way to motivate people.***

Few would argue that financial incentives must be tied to desired behaviors, but the ideal form of these incentives may not be what you think. Aiken and Keller mention how the CEO of Continental Airlines sent an unexpected \$65 check to every employee when the company was ranked in the top five for on-time airlines. “Small, unexpected rewards,” they say, “can have disproportionate effects on employees’ satisfaction with a change program.” Perception often drives reality. If your people feel appreciated, they will act accordingly. Expected rewards such as salary increases just don’t have the long-term effect that conventional wisdom says they do.

We did a good job of this, frequently recognizing and celebrating success. Each network conversion was a cause for celebration as an important piece in the bigger opportunity for the system, and dozens of people in different companies were recognized for their efforts in implementing this initiative. We went to great lengths to help others understand how each person’s individual performance supported the overall vision. Emails and special letters of recognition were written to our owners about their employees’ specific contributions that supported the overall vision. Those individuals were personally thanked, verbally *and* in writing. People were recognized in board meetings and the company annual meeting for their individual and team contributions. They felt appreciated and acknowledged for their hard work...and it hardly cost a thing.

#### ***Pitfall 7: The process and the outcome have to be fair.***

“Employees will go against their own self-interest if the situation violates other notions they have about fairness and justice,” write Aiken and Keller.

This strikes at the heart of one of the biggest stumbling blocks we experienced. Even though it was never stated in these terms, the perception of unfairness was the underlying reason for one company’s strong resistance to implement the necessary changes after the decision was made. This company’s owner had the largest network in the group and therefore had the largest responsibility and greatest risks associated with the conversion. He still had only one vote, and he felt cheated. Had time been taken to truly understand his concerns and help him get comfortable with the situation, chances are that things would have progressed faster without as much conflict and resistance.

### Behavior 4: Capability Building

#### ***Pitfall 8: People are what they think, feel and believe in.***

When driving change, we tend to lock in to how people behave, but we must also consider how they think, feel, and believe. Aiken and Keller cite a bank whose sales per banker were down because bankers spent too much time on paperwork.

They reacted by changing their process to maximize customer-facing time. What they failed to realize, however, was that bankers were *choosing* to spend time on paperwork because they found customer interaction uncomfortable. Even after their well-intentioned changes, the bank saw little change in sales per banker.

We were guilty of the same, taking little time to understand the causes of behaviors. Once unanimous approval was given for the plan, we expected everyone to jump on board. Had we taken time to understand and address the soft issues of leading change, we likely would have avoided the internal conflict and upheaval we experienced. In all situations of significant change, leaders must invest time in reorienting employees from danger to opportunity.

#### ***Pitfall 9: Good intentions aren’t enough.***

Training is essential in building capability, but it can’t be just a one-off event. Training must be spread over a period of time and targeted efforts made to immediately incorporate that training into peoples’ responsibilities. This speaks to execution. Everyone has some good ideas; it’s putting them into practice that separates the great from the rest.

In our situation, we conducted training sessions on the new processes and procedures almost immediately, but employees did not have ample time to practice what they learned before actual implementation of the new system. As a result, the plan was solid, but the execution was not. Just like shooting a basketball, much of success depends on the follow-through.

\* \* \* \* \*

Crises are *good* things because they prompt us to make necessary change. Study these nine pitfalls and think about how you might avoid them in your organization. Build relationships with your people and bring them on as partners in your plans. Face the danger, seize the opportunity, and relish the thrill of improvement.



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How to make sure your employees “fit” before you hire them.

# HIRING TO THE CORE

John Kobasic

**D**ESPITE AN ABUNDANCE OF AVAILABLE resource materials, coaching, and professional services, making the right hiring decisions is still a little science and a lot of art, especially in small to midsize companies. Organizations are always looking for the ideal blend of potential, compatibility and productivity in their employees. Those who consistently get it right create a distinct competitive advantage for themselves.

One of the most critical challenges in making the right hires is filling your pool of candidates with A, B, or C players – whatever is most appropriate for the job. In *Topgrading*, Bradford Smart, Ph.D. offers solid techniques for identifying and attracting these high-caliber individuals. Yet, this is only part of the equation. The delicate process of turning human capital into productivity, growth, and profitability can still challenge even the most skilled professionals. An A+ player on paper may prove to be a D player for your company. As an employer, how do you protect yourself from the politics, cynicism, despair, disruption, and real cost of making wrong people choices?

The answer is the second critical challenge in making right hires: finding people who are willing and able to embrace your company’s core values. Core values are the DNA of your company. They are uniquely yours, and they should influence everything you do – especially your hiring decisions.

## GETTING YOUR CORE VALUES RIGHT

When Jim Collins and Jerry Porras released *Built to Last* in 1994, it seemed that everyone in business jumped on the core values bandwagon. Even Enron proudly displayed their core values to employees and Wall Street in their 2000 annual report. What were they? Communication, respect, integrity, and excellence.

Enron is just one example of how core values are often misunderstood and misused. They may look good on paper, but if they are constructed only to impress employees, customers, competitors, regulators, and investors, they are worthless if not downright dishonest. In “Make Your Values Mean Something” (*Harvard Business Review*, July 2002), Patrick Lencioni writes, “Empty values statements create cynical and dispirited employees, alienate customers and undermine managerial credibility.”

Core values should not be confused with advertisements. Frankly, if no one outside the company ever hears them, they are more likely to be true. Core values define who you already are; they tap the nerve of your organization’s passion and personality. But accurately identifying them can be tricky. It’s not

because they’re complicated; in fact, if you’re tempted to list fancy platitudes that look good on a plaque, you’re going about it all wrong. No, core values are simple – ideally expressed in a few short expressions. You just might be too close to your company to see them right away.

Once you and your executive team think you have identified your core values, don’t be afraid to try them out for awhile. Share them with your employees and watch their reactions. Do they eagerly embrace them, or do you hear a few snickers? Would you hold on to them despite big changes in your market? After a few iterations, you’ll have a list that uniquely fits your company. Commit to them and recite them over and over again. Each of your employees should be intimately familiar with them and enthusiastic about them. Weave them into your performance reviews and routine MBWAs (management by walking around).



Bahamian Celebration (Phil Fisher)

## HIRING TO THE CORE

Next, make your core values the basis of your hiring process. Candidates simply must exhibit compatibility with your core values. Hiring A players is bound to have a huge impact on company performance, but if they do not share your core values, that huge impact is likely to be the opposite of what you had hoped.

I have enjoyed the privilege of working with a very talented and dedicated executive team at an engineering/design firm. Among other things, they design life-saving medical equipment, so they do not employ people with anything less than the highest technical skills. As important as this is, however, they consider it just as important to hire people who demonstrate compatibility with their core values, one of which is a strong sensitivity to customer needs. They have developed a well-orchestrated process of screening candidates specifically for core value conviction. If a candidate does not match, regardless of technical skills, he does not get hired.

## HOW TO FIND THE RIGHT CANDIDATES

Having established the importance of hiring based on core values, it's time to talk about how to actually execute this. First, divide the hiring process into five stages: resume, phone interview, first in-person interview, second in-person interview, and offer. Each of these steps gives you an opportunity to identify questionable candidates and eliminate them from consideration without wasting time. Furthermore, these steps allow you to build rapport with promising candidates.

The focus on core values begins with stage one: the resume. Look for any indication of the previous employer's core values and signs that the candidate was conscious of them. The most likely place to find this information is in the cover letter that many candidates include with their resumes. For example, you might find a sentence expressing the candidate's desire to seek a position that [fill in the blank]. That "fill in the blank" might be your first clue as to whether this prospect will fit your culture. The clues may be tough to spot, however. Candidates are unlikely to explicitly say, "These are my core values," or, "These were my previous employer's core values and they were not a fit for me," so do not automatically eliminate a candidate if this first filter turns up little. At the very least, you should see things that prompt specific value-seeking questions in the phone interview. You can probe further at that time.

The personal interview, likely broken into two stages, enables you to get a better read on candidates who have made it past the resume filter and the phone interview. This is where you absolutely can – and must – assess the candidate's adaptability to your organization's core values. Your success depends on your questions, which cannot be susceptible to easy answers. Obviously, any question that can be answered with a "yes" or a "no" is unproductive for your purposes, but even beyond that,

questions must elicit thoughtful answers that are unique to the candidate and representative of his nature. For example, if you ask, "How well do you handle stress," the candidate can easily construct a generic response that sounds good. A better question to ask might be, "Regarding the high-level proposal you had to prepare overnight in your previous job, tell me specifically what you did to meet the deadline." Other examples:

- Instead of asking, "What it was like working at XYZ Company?" ask "Give me some specific examples of how your previous work experience has prepared you for this position."
- Instead of asking, "Why do you want to work for our company?" ask, "How do you anticipate your work for our company fitting into your long-term goals?"

Behavior-based questions are key. Don't ask them how they feel about core values. Instead, ask questions that reveal how they think and operate. Gauge their sincerity, and take note of what they are willing to reveal about themselves. (A candidate's willingness to say "I don't know" can tell you a lot; in fact, you might even want to push for this answer to see if the candidate will go there.)

On a practical note, it's a good idea to have several people from your organization interview the candidate for the second interview. Be sure to coordinate the types of questions you ask (without asking the same questions) so you can measure consistency of answers. This practice will increase your confidence in your hiring decision, whether that decision is to extend an offer or to let the candidate go.

Finally, don't stop with the hiring process. Core values should be the basis for your annual performance reviews, and if an employee proves to be incompatible with your culture, that is a strong sign that he would be better off going elsewhere.

## CONCLUSION

Core values are the basis for alignment throughout your organization. They continually guide and reinforce your company's purpose. They provide the metrics by which management can reward or discipline, promote or release. They are the "fire in the belly" that drives your organization and the reason you get excited about what you do.

And they depend on who you hire.

**A candidate's willingness to say "I don't know" can tell you a lot.**



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## LEADERSHIP LESSONS FROM HISTORY

# Churchill's Personal Traits

*The consummate example of leadership in adversity, Winston Churchill demonstrated that success is impacted not just by what you do, but who you are.*

**Steven F. Hayward**

**Editor's Note:**

*While a graduate student in history at Claremont Graduate School in the 1980s, Steven F. Hayward served as editor of a regional business magazine, a job which included numerous discussions with local businesspeople. As Hayward's interview subjects learned about his academic interest in history and politics, talk would turn to politics. The dearth of political leadership was a common complaint. Just as common was admiration for Winston Churchill, though such admiration was rarely based on more than a basic knowledge that he "stood up to Hitler" and gave powerful speeches. Well equipped by his studies, Hayward seized the opportunity to offer further details of Churchill's leadership. "I began to see that Churchill's story offers valuable lessons for executives and entrepreneurs," he writes. "Many was the time that a businessperson would call back asking again for the details of a Churchill*

*story I had told."*

*The result is Churchill on Leadership, a book that should be on the "must-read" list for all current leaders and those who aspire to lead. Hayward masterfully distills the essential leadership patterns from Churchill's life (drawing from his successes and his failures), supported by a large collection of Churchill's own words, a concoction of candor, wit, and conviction that makes it downright fun to read.*

*The following excerpt shows that Churchill's leadership in the face of adversity transcends politics and foreign policy; indeed, it is quite applicable to our current economic climate. As it was difficult to select the "best" excerpt to include here, we strongly encourage business leaders to read the entire book and add it to their personal libraries as a frequent source of refreshment.*



**G**OOD WORK HABITS, coherent organizational structures, and superior communication skills do not in and of themselves constitute leadership or guarantee success. Leadership is equally a matter of personal character as of executive skill. Military historian Maxwell Schoenfeld reminds us that even though Churchill's executive reorganization of the war effort after he became prime minister was essential to his success, "The central problem was essentially one of leadership, not of staff."

Churchill learned this lesson early on from his first political patron, Prime Minister Herbert Asquith. Asquith was one of the most dominant and successful politicians of the period, and he led his Liberal Party to several major political triumphs in the years before World War I. He advanced Churchill's career more than any other prime minister. After one of Asquith's political victories, Churchill wrote to him admiringly, "It is not always that a leader's personal force can be felt amid all that turmoil." Years later, looking back after Asquith's death, Churchill wrote: "Mr. Asquith was probably one of the greatest peace-time Prime Ministers we have ever had." The key term here is "peace-time." Asquith was not up to the task of wartime leadership. "In war," Churchill wrote of Asquith several years later in *Great Contemporaries*, "he had not those qualities of resource and energy, of prevision and assiduous management, which ought to reside in the executive.... [The war] demanded a frenzied energy at the summit; an effort to compel events rather than to adjudicate wisely and deliberately upon them."

What made possible Churchill's own "frenzied energy at the summit" was a combination of character traits that transcend mere executive skills.

### Courage and Optimism

Churchill's courage was evident from his earliest days as a young lieutenant in the army. Maurice Hankey, cabinet secretary during World War I, wrote later that "We owed a good deal in those early days to the courage and inspiration of Winston Churchill who, undaunted by difficulties and losses, set an infectious example to those of his colleagues who had given less thought than he, if indeed any thought at all, to war problems.... His stout attitude did something to hearten his colleagues." After Churchill left the war cabinet for the front line trenches in France, Hankey lamented in his diary: "Since Churchill left

the Cabinet and the War Council we have lacked courage more than ever."

The key to Churchill's courage was his unbounded optimism. Only an optimist can be courageous, because courage depends on hopefulness that dangers and hazards can be overcome by bold and risky acts. "I am one of those," he remarked in 1910, "who believe that the world is going to get better and better." He deprecated negative thinking. In a speech to his officers in the trenches in France in 1916, Churchill exhorted: "Laugh a little, and teach your men to laugh.... If you can't smile, grin. If you can't grin, keep out of the way till you can."

"It is a crime to despair," he wrote after the disaster of the Munich agreement in 1938. "It is the hour, not for despair, but for courage and re-building; and that is the spirit which should rule us in this hour." In his last major speech as prime minister in 1955, surveying the growing threat nuclear weapons posed to the very survival of civilization, Churchill concluded: "meanwhile, never flinch, never weary, never despair."

"All will come right" was a favorite phrase. He repeated it often in the darkest days of World War II, and he seldom ended a wartime speech without a ringing note of optimism, usually drawn or adapted from a famous English poet. (He ended one speech with a lyric from Arthur Hugh Clough: "But westward, look, the land is bright!") After Churchill had been hit by a car and nearly killed in 1931, he summed up his optimism into a credo: "Live dangerously; take things

as they come; dread naught, all will be well." "When you get to the end of your luck," he wrote in the 1930s, "there is a comfortable feeling that you have got to the bottom."

Optimism is also the key to the can-do spirit, to the don't-take-no-for-an-answer attitude that is essential to successful executive leadership. Nearly all human organizations are subject to an inertia that results in an it-can't-be-done attitude. This was always unacceptable to Churchill. "Churchill's supreme talent," one of his aides recalled, "was in goading people into giving up their cherished reasons for not doing anything at all." When apprised of delays in shipbuilding in 1939, for example, Churchill sent a memorandum to one of his senior administrators: "It is no use the contractors saying it cannot be done. I have seen it done when full pressure is applied, and every resource and contrivance utilized." And Churchill once urged a diplomat in a cable: "Continue to pester, nag and bite. Demand audiences. Don't take NO for an answer."





S. Wadsworth Lion (Brian Laurich)

Churchill's optimism and cheerfulness tend to be obscured by the accounts of his occasional depression, what he called his "black dog." There is no doubt that the pressures of office and the fearfulness of events often left Churchill profoundly discouraged – especially when he was out of office and powerless to affect events that he understood so clearly. But these occasional collapses of Churchill's spirit have probably been exaggerated (along with the popular image of his drinking), and in most cases they were short-lived. It is worth noting that Churchill often turned to his favorite hobby – painting – when he was discouraged, but that unlike serious manic depressives or brooding artists who paint dark scenes or write morose poetry, Churchill always painted in bright, vivid colors, a reflection of an underlying optimism and happiness of soul. (Regarding his choice of colors for painting, Churchill wrote: "I rejoice with the brilliant ones, and am genuinely sorry for the poor browns.")

One aspect of his optimism that was especially important was his legendary sense of humor. But this, too, had a serious underpinning in his mind. "It is my belief," Churchill said, "that you cannot deal with the most serious things in the world unless you also understand the most amusing."

### Kindness, Magnanimity, and Gratitude

Like any ambitious, demanding person in a position of great responsibility and facing enormous pressures, Churchill could be abrupt and hard on his subordinates. "It is a wonder any

of my colleagues are speaking to me," he once remarked during an especially difficult period early in World War II. But as with the accounts of his occasional depression, accounts of Churchill's domineering manner or rudeness have been exaggerated, and his kindness and consideration for his subordinates overlooked.

"The idea that he was rude, arrogant, and self-seeking is entirely wrong," wrote General Ismay, one of his closest aides during the war. Martin Gilbert, who interviewed nearly all Churchill's secretaries and assistants in the course of research for his massive biography, wrote: "The overriding impression that his secretaries gave me was of a man who worked hard himself, drove them equally hard, but did so with humor and kindness, alert to their personal needs and quick to apologize for any outburst of anger." The many diaries, memoirs, and other records of experiences with Churchill are replete with observations similar to this account from Lord Normanbrook: "He would at intervals find time to say or write a few words of appreciation which showed a quite exceptional generosity and kindness."

Churchill also was an exceptionally forgiving person – an aspect of magnanimity. "I do not harbor malice," he wrote in a letter in 1921. "I always forgive political attacks or ill-treatment not directed at private life." This trait was most on display after World War II began, when Churchill's position was unassailable on account of his clear and consistent warnings over the previous years. If anyone had a right to say "I told you

so” and demand retributions against the position and careers of the officials who had been derelict in their leadership, it was Churchill. But he did no such thing. From a Conservative Party official who had even tried to remove Churchill from Parliament just a few months before the outbreak of war, Churchill most graciously accepted an apology, writing: “I certainly think that Englishmen ought to start fair with one another from the outset in so grievous a struggle and so far as I am concerned the past is dead.”

His largest magnanimity was reserved for Neville Chamberlain, the architect of the disastrous Munich agreement with Hitler that Churchill had so bitterly criticized. Chamberlain worked assiduously to keep Churchill out of office in the months and years before war came, and when waning political support compelled his resignation in May 1940, he was not enthusiastic about Churchill replacing him as prime minister. But once Churchill was in the government, Churchill was extremely loyal and supportive of Chamberlain, and after Churchill became prime minister, he defended Chamberlain against critics. (Churchill had kept Chamberlain in the government as a member of the war cabinet.) John Colville noted in his diary that Churchill “never countenances a word against Chamberlain.” When a group of MPs demanded a parliamentary “inquest” against those responsible for the conduct of policy before the war (meaning chiefly Chamberlain), Churchill spoke out forcefully against the idea. “This,” he said to the House, “would be a foolish and pernicious process....Of this I am quite sure, that if we open a quarrel between the past and the present, we shall find that we have lost the future.” Churchill’s final kindness to Chamberlain was his eulogy in the House of Commons after Chamberlain’s death of cancer in November 1940. Churchill sought to put their past disagreements in the most generous light possible without ignoring them entirely:

It fell to Neville Chamberlain in one of the supreme crises of the world to be contradicted by events, to be disappointed in his hopes, and to be deceived and cheated by a wicked man. But what were these hopes in which he was disappointed? What were these wishes in which he was frustrated? What was that faith that was abused? They were surely among the most noble and benevolent instincts of the human heart – the love of peace, the toil for peace, the strife for peace, the pursuit of peace, even at great peril, and certainly to the utter disdain of popularity of clamor. Whatever else history may or may not say about these terrible, tremendous years, we can be sure that Neville Chamberlain acted with perfect sincerity according to his lights and strove to the utmost of his capacity and authority, which were powerful, to save the world from the awful, devastating struggle in which we are

now engaged. This alone will stand him in good stead as far as what is called the verdict of history is concerned.

It was Churchill’s kindness, his sincere interest in people, and magnanimity that enabled him to win people over consistently. The historian George Dangerfield recounts a typical scene in which Churchill’s benign countenance won someone over. “He [a skeptical union worker] and his colleagues had come to think of Mr. Churchill as a modern Nero, with an awful lust for gore; but no – ‘the bloodthirsty one looked as lamblike and as amiable as the gentlest shepherd on earth....If patience and courtesy, if anxious effort and sincerity count for respect, then Winston Churchill is entitled as a man to gratitude.’” Another embattled union leader echoed this theme in a memoir of his first meeting with Churchill: “I had formed an opinion of Winston Churchill as a daring, reckless, swashbuckler individual who was afraid of no one....I expected arrogance, military precision, abruptness. When he appeared, I knew I was wrong. He came in, his fresh face all smiles, and greeted me simply, without a trace of side or trappings. I felt I had found a friend.”

The most remarkable example of Churchill’s magnanimity was his refusal to criticize the British people when they voted him out of office in a landslide just two months after the war ended in 1945. When a colleague spoke to Churchill of the “ingratitude” of the people as the votes were coming in on election night, Churchill replied: “Oh no, I wouldn’t call it that. They have had a very hard time.” In his resignation message, he said “It only remains for me to express to the British people, for whom

*“If we open a quarrel  
between the past and the  
present, we shall find that  
we have lost the future.”*

I have acted in these perilous years, my profound gratitude for the unflinching, unswerving support which they have given me during my task, and for the many expressions of kindness which they have shown toward their servant.” Though Churchill was bitterly disappointed and discouraged, he summoned up his typical good humor when speaking of the blow. When the King offered Churchill a knighthood shortly after the election loss, he declined the honor, saying: “I could not accept the Order of the Garter from my Sovereign when I had received the order of the boot from his people.”

### **Independent Judgment and Self-Criticism**

Because Churchill was an excellent talker and master of argument, it is too often supposed that he was not a good listener and did not take criticism well. He was thought to be stubborn, though it should be recognized that stubbornness is the twin of determination, and therefore requires to be kept in proportion. In fact, an important part of Churchill’s method and success was his independent judgment and self-criticism. “Every night,” he remarked to one of his aides during the war, “I try myself by

Court Martial to see if I have done anything effective during the day. I don't mean just pawing the ground, anyone can go through the motions, but something really effective."

Although Churchill's supreme self-confidence always led him to believe he could persuade his colleagues about the course of action he favored, he always sought criticism and advice from his colleagues and subordinates. One of his aides at the Treasury in the 1920s said of Churchill that "He always took criticism very, very meekly. One could say exactly what one liked in the way of criticism....He wanted the full critical value from subordinates."

After setting out his ideas in memoranda to his staff, it was typical of Churchill to conclude with the request: "By all means confront me with the facts and put the worst complexion on figures." On his first day back at the Admiralty in 1939, Churchill sent his initial thoughts to the senior staff with the

concluding wish: "The First Lord submits these notes to his naval colleagues for consideration, *for criticism and correction*, and hopes to receive proposals for action in the sense desired." (Churchill's emphasis.)

In a speech to the nation early in the war about the government's war policy, Churchill declared that "We do not shrink from fair criticism....Criticism in the body politic is like pain in the human body. It is not pleasant, but where would the body be without it?" In World War I, he had written that "the object [of parliamentary deliberation] is to find out what is the best thing to do, and counsel and criticism are necessary processes to that end."

Despite Churchill's tendency to dominate meetings with his volubility, he always encouraged a complete discussion of issues, and never penalized or fired anyone from openly or vigorously disagreeing with him. "Opportunity was always given for full discussion," one of his wartime aides wrote. Lord Bridges wrote after the war, "I cannot recollect a single Minister, serving officer or civil servant who was removed from office because he stood up to Churchill and told Churchill that he thought his policy or proposals were wrong." Moreover, Churchill never overruled the service chiefs of staff, even when he strenuously disagreed with their decisions.

Churchill's own self-criticism and independence of judgment, combined with his habit of seeking advice and criticism, led him to change his mind from time to time. As noted earlier, he once said – and meant – "I would rather be right than consistent." The same dominating purpose usually reveals itself in Churchill's positions; typically he was changing his mind about *means* rather than *ends*. But because he changed his mind and even his party affiliation on two occasions, he set out his thoughts at length in an essay titled "Consistency in Politics":

A Statesman in contact with the moving current of events and anxious to keep the ship of state on an even keel and steer a steady course may lean all his weight now on one side and now on the other. His arguments in each case when contrasted can be shown to be not only very different in character, but contradictory in spirit and opposite in direction: yet his object will throughout have remained the same....We cannot call this inconsistency. In fact it may be claimed to be the truest consistency....A Statesman should always try to do what he believes is best in the long view for his country, and he should not be dissuaded from so acting by having to divorce himself from a great body of doctrine to which he formerly sincerely adhered.

## Loyalty to the Team

Throughout his life and after Churchill has suffered from the reputations of being an overly ambitious glory-seeker. It is a charge that he himself would not necessarily dispute. He disliked sharp party partisanship, and his rugged independence led him to switch parties twice, infuriating many of his fellow MPs.

## Churchill's Thought Process

Winston Churchill was very methodical in his approach to making decisions. Stephen Hayward lists three do's and three don'ts that defined Churchill's thought process.

### The Do's:

- Always concentrate on the broad view and the central features of the problem at hand.  
*"It is a good thing to stand away from the canvas from time to time and take a full view of the picture."*
- Factor in risk and chance by keeping things in proper proportion.  
*"If things never turn out as well as you expect them, it is also true that they never turn out as badly."*
- Keep open to changing your mind in the presence of new facts.  
*"I would rather be right than consistent."*

### The Don'ts:

- Be careful not to look too far ahead.  
*"Only one link in the chain of destiny can be handled at a time."*
- Avoid excessive perfectionism.  
*"'Nothing avails like perfection' may be spelt shorter, 'Paralysis.'"*
- Don't make decisions for decision's sake.  
*"There is great wisdom in reserving one's decisions as long as possible and until all the facts and forces that will be potent at the moment are revealed."*

Adapted from *Churchill on Leadership* (Chapter 6) by Steven F. Hayward



This fierce independence of opinion and loose allegiance to party led many to consider him unreliable and disloyal. While this judgment is reasonably well-founded as it applies to Churchill the independent politician, a closer look will show that during periods when he held a responsible high office, Churchill was extremely loyal and supportive of his colleagues and superiors – he was a genuine team player. Throughout his “Wilderness Years” in the 1930s, even as his party leadership snubbed him and turned a disdainful ear to his advice, he campaigned vigorously on behalf of the Conservative Party during general elections.

Once a policy was arrived at or a political quarrel decisively settled, Churchill would cease his criticism or opposition and get on board. After losing a long and often bitter fight against the India dominion policy in the early 1930s, Churchill told one of his opponents that “you need not expect anything but silence or help from us.” He was fond of quoting the words of Lord Cranborne, who had opposed the Reform Bill of 1867: “It is the duty of every Englishman, and of every English party to accept a political defeat cordially, and to lend their best endeavors to secure the success, or to neutralize the evil, of the principles to which they have been forced to succumb.”

Because of Churchill's formidable speaking skills, his cabinet colleagues often relied on him to assume the burden of defense against criticism in the House of Commons. This he always did with vigor and usually with success, even when he was not in full agreement with the cabinet policy or when the policy clashed with his own previously expressed opinions on the issue.

### Rest, Relaxation, and Change of Pace

Churchill is reported to have said once that “There is no good time for a vacation, so take one anyway.” Churchill was the master of the working vacation. Churchill took many long trips, both in and out of office. He seldom took a trip that was complete leisure, even when he was out of office. “My work and my holidays are the same,” he wrote to George Bernard Shaw. He would always take along trunkloads of work, usually materials for his current book project. During World War II he would spend nearly every weekend at the prime minister's

country retreat, Chequers (the British equivalent of Camp David).

The importance of recreation for Churchill was not so much to find rest from his preoccupations as it was to stimulate his mind through a change of pace. “Human beings do not require rest,” he once remarked to an aide. “What they require is change, or else they become bloody-minded.” He elaborated on this theme in his essay “Painting as a Pastime,” which described

how he took up painting in the months immediately after his dismissal from the Admiralty in 1915 – a period of profound stress and disappointment for him. Churchill quickly became as proficient as an artist as he was as a writer, though he was bashful about exhibiting his paintings. (Pablo Picasso is reported to have said of Churchill's painting: “If that man were a painter by profession he would have no trouble in earning a good living.”) For the rest of his life Churchill derived profound relief through painting, though he only found time to work on one painting during World War II. “If it weren't for painting,” he remarked in 1955 shortly after resigning from his second premiership at the age of 80, “I couldn't live; I couldn't bear the strain of things.”

“Change is the master key,” he wrote. “A man can wear out a particular part of his mind by continually using it and tiring it, just in the same way as he

can wear out the elbow of his coat...Change is an essential element in diversion of all kinds.” The remedy – change – is supplied through hobbies. “To be really happy and really safe, one ought to have at least two or three hobbies, and they must be real,” Churchill wrote. Churchill's other great hobby was bricklaying; he built a large brick wall substantially by himself at Chartwell, his country home.

Churchill's reliance on changes of pace explains in part his unusual work habits. In addition to the change of pace afforded by travels, the various aspect of his daily routine – dictating in bed in the morning, taking naps and baths, working late after dinner – all ensured that each working day would have several different phases. “For every purpose of business or pleasure, mental or physical,” he wrote in *My Early Life*, “we ought to break our days and our marches into two.” This was why he held almost unfailingly to his afternoon nap. When



Pennsylvania Clock (Brian Laurich)

an American executive told Churchill that his office routine consisted of the regular 8 to 5:30 day in the office, five days a week, Churchill replied: "My dear man, you don't mean it. That is the most perfect prescription for a short life that I've ever heard." He went on to advise the executive about the virtues of a regular nap: "Don't think you will be doing less work because you sleep during the day. That's a foolish notion held by people who have no imagination. You will be able to accomplish more. You get two days in one – well, at least one and a half, I'm sure. When the war started, I *had* to sleep during the day because it was the only way I could cope with my responsibilities."

### Calmness under Stress

Churchill was no stranger to the number one problem faced by all executives – stress. Churchill's colleagues and friends marveled at how calm he was amid the most trying circumstances. In part his ability to deal with stress and trial was a function of his courage and fearlessness. He would, for example, set up his painting easel near the front line trenches in World War I, and paint away as shells were exploding nearby. He would seldom duck when shells exploded, sensibly observing that by the time you hear the report of an exploding shell, it is too late to duck. It was this innate courage that enabled him to gather strength in a crisis. Though all Churchill's colleagues said that he held up to the stress of the war extremely well, he was not immune to the effects of stress. Churchill suffered two heart attacks during World War II, and nearly died from pneumonia as well.

There is no silver-bullet solution for stress, of course. Churchill's main method for dealing with stress was *never to be in a hurry*. Churchill could have invented the slogan, "Never let 'em see you sweat." Certainly he epitomized this popular axiom. "Winston's disregard of time," one of his top aides wrote, "is sublime." Churchill's calmness amid commotion and crisis not only imparted confidence to his colleagues and subordinates, but was also the key to his enormous productivity and concentration. One of his secretaries wrote: "I do admire the unhurried way in which he gets through such a colossal amount of work, and yet never seems otherwise than at leisure."

The lesson of Churchill's extraordinary calm and aversion to haste is that hastiness dilutes your concentration, disrupts your priorities, and makes it impossible to follow a consistent method of work. Churchill's calmness and seeming leisure were closely related to his immense powers of concentration, and were in many ways the linchpin of his success.

### Personal Contact

Much is made these days of MBWA – Management By Walking Around. Churchill was a relentless practitioner of the idea. He not only valued the face-to-face contact that visiting the scene provided, but it was also a means of gathering unfiltered information firsthand.

Visiting the scene was a practice that dated from Churchill's earliest days, and was perhaps an extension of his first career as a war correspondent. As under-secretary for the colonies, he undertook a tour of Britain's African colonies, reporting back directly to the King about what he found. As home secretary, he toured prisons, which few home secretaries had done before him. As First Lord of the Admiralty from 1911 to 1915, he visited more ships and naval facilities than any First Lord before or since. Between 1911 and the outbreak of World War I, Churchill made 26 trips on the Admiralty yacht *Enchantress*, visiting more than 50 ships as well as numerous harbor and shipyard facilities. His habit of arranging interviews with junior officers and enlisted personnel was not always welcomed by the top brass, but it served Churchill's purpose of gathering information through nonbureaucratic channels and forming his own view of the details of operations. "He had a yarn with nearly all the lower deck men of the ship's company," the *Daily Express* newspaper wrote of a submarine visit in 1912, "asking why, wherefore, and how everything was done. All the sailors 'go the bundle' on him, because he makes no fuss and takes them by surprise. He is here, there, everywhere." As minister of munitions during World War I, Churchill went to France so often – 13 times over the last year of the war – that he eventually established an office for himself in Paris.

As prime minister he visited munitions and aircraft factories, shipyards, airfields, radar stations, command posts, front-line coastal defenses, and everything in between. In addition, his foreign travels added up to more than 200,000 miles by the end of the war. His travels stand in sharp contrast to those of his predecessors. Herbert Asquith in World War I never visited his French allies or the commanders and troops in France. Neville Chamberlain during the first year of World War II made very few visits to the allies in France, and paid few visits to war-making facilities on the home front. Churchill's trips, on the other hand, had the tonic effect of rallying morale wherever he went, as well as providing him a window on the war not available from 10 Downing Street.

*"[Politics is] the habit of saying smooth things and uttering pious platitudes and sentiments to gain applause, without relation to the underlying facts....Tell the truth."*

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### Face Bad News Squarely and Candidly

Throughout his career, Churchill always believed that bad

news should be faced directly and acknowledged candidly to the public. His father's famous motto had been "Trust the people." Churchill would echo this sentiment at many points in his career. In this respect Churchill once again ran against the grain of ordinary political practice, which he once aptly described as "The habit of saying smooth things and uttering pious platitudes and sentiments to gain applause, without relation to the underlying facts." On the contrary, Churchill advised, "Tell the truth to the British people. They are a tough people, a robust people. They may be a bit offended at the moment, but if you have told them exactly what is going on you have insured yourself against complaints and reproaches which are very unpleasant when they come home on the morrow of some disillusion." It was a mistake, he often argued, "to shrink from stating the true facts to the public."

This is an aspect of Churchill's realism, which was always in equipoise to his idealism and optimism. When faced with mounting criticism about the poor progress of the war in early 1942, Churchill demanded a formal vote of confidence debate in the House of Commons to force the issue. "It is because things have gone badly, and worse is to come," he said, "that I demand a Vote of Confidence." Churchill prevailed, by a vote

of 464 to 1. Churchill would confront two more confidence motions in the House during the course of the war, each time winning by large margins precisely because of his candor and forcefulness.

He also liked to deliver bad news personally, not only war news to the House of Commons, but to the Allies as well. One of the toughest moments of the war for him was when it became apparent that a second front against the Germans in France could not be opened up in 1943, as had been promised to Marshall Stalin. Churchill decided to go to Moscow to tell Stalin personally: "It was like taking a lump of ice to the North Pole," Churchill said.



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For a link to order *Churchill on Leadership*, visit [tcajournal.com](http://tcajournal.com).



Coffee House (Brian Laurich)



John D. Anderson

These three characteristics are essential for leading the pack in trying times. Are you...

...READY FOR THE HILL?



Chateau Chantal, Old Mission Peninsula, MI II (Phil Fisher)

**I** CONSIDER MYSELF VERY FORTUNATE to work with a number of talented CEOs and executive teams. Sharing in their experiences and strategic thinking continually challenges me with new insights on what works. The last couple years have been tough, but watching my clients weather the economic storm has brought me to the realization that going forward, business success will depend on one's strength in three distinct areas:

- A problem solving *approach*
- Interpersonal communication skills
- Emotional maturity

Simple? Yes, they are. You've heard them before? I'm sure you have. You and your employees already exhibit them? Perhaps, but let's look at each on a deeper level. They seem pretty obvious to me, as well, but I have found that there is always room to improve on each.

#### A PROBLEM SOLVING APPROACH

As an advisor, I frequently find teams who *address* and *analyze* problems yet are reluctant to hold one another accountable for *solving* problems. These teams consist of bright people, and in most cases, they enjoy addressing organizational issues. After all, that's why they work in leadership positions. However, when it comes to investing the necessary time to tear apart an issue, consider multiple points of view, and garner the collective wisdom of the entire leadership team to implement a solution, they frequently fall short. I suspect several reasons for this:

- Pressure – real or perceived – to solve the problem quickly

- Discomfort with conflict
- A desire to “look good,” not wanting to admit that their idea is flawed or a project has failed.
- Reluctance to “go deep” and address the root issue
- Distraction due to the daily tactical demands of the business

Solving problems takes time. Executive teams must prioritize and protect time weekly and monthly to conduct “deep dives” on important but not time-sensitive issues. Invariably, these discussions generate conflict that is uncomfortable for some or all team members. Especially if there are lingering personal issues from prior disagreements, the natural tendency is to quickly address the current problem and move on before it becomes awkward. The tragedy is that the point at which the team feels this awkwardness is typically the closest they come to identifying and taking real steps to actually solve the root problem.

Here are some practical suggestions to help you and your team solve the actual problem rather than just address it:

1. Deliberately create a “container” (physically and mentally) in which you focus solely on the problem at hand. Daily huddles and weekly meetings are great times to identify problems, but you must reserve adequate time to drill down on *one issue* if you ever hope to solve it.
2. Before entering the session, mentally prepare yourself for constructive conflict. Titles, personal feelings, and biases must be checked at the door. Your purpose is to use the collective intelligence of the executive team to solve *that one* issue, and any conflict should be related



to *that* issue, not personal qualities or abilities. If one team member had all the answers, you would not need to meet. This is not a “me” problem; it’s a “we” problem.

3. Stick to the subject. Straying off on various tangents will only raise additional issues that distract from the matter at hand. Once a problem is identified and defined, set aside a minimum of 20 minutes to focus on it before moving on. If you cannot commit 20 minutes to it, then you should probably table it for a later meeting.
4. At the conclusion of the problem solving meeting, the CEO must ask, “Have we done our best work?” and, “Can you all support this solution?” If anyone gives a “no” to either question, you need to further discuss it now or schedule another “container” when you can. You are *not* seeking consensus; you are seeking honest debate followed by agreement to support the final decision, regardless of who initially agreed or disagreed with the idea.

### INTERPERSONAL COMMUNICATION

It’s been said that communication is 7% words, 38% voice quality, and 55% non-verbal cues.\* Perhaps that explains the problem with e-mail, which consists only of words (the lowest-impact component of communication), but smuggles in loads of unintended non-verbal cues. E-mail and texting are very useful tools, but they have significantly damaged our ability to communicate effectively. I know several business leaders who believe they can manage behavior and drive results via e-mail, but the results are almost always disastrous for the team.

I am not saying that there is no room for e-mail correspondence; it works well for sharing facts and data. If, however, you ever feel any emotion while writing, you should consider stopping and arranging a face-to-face meeting or at least a phone call. If you must send the e-mail, have someone else read it first. If neither of those options is available, then consider not sending the e-mail. Even this article, for example, will be read, revised, and reread multiple times before you ever read it.

The foundation of effective interpersonal communication – written or spoken – is trust. (Read more in *The Five Dysfunctions of a Team* by Patrick Lencioni.) Trust enables two people to vigorously discuss and debate issues without fear of offense or retribution. When trust is absent, the truth is buried. People mentally bury their ideas and concerns rather than risk offense to a colleague. The obvious result is poor decisions with disrespect as a byproduct.

Business leaders must diligently work to improve their own interpersonal communication skills and designate time and money for employees to do the same. One simple discipline that will go a long way toward accomplishing this is prioritizing regular one-on-one dialogs with direct reports and, if possible, all employees. They are hired to do the work of the company; the leader’s job is to ensure that they have the tools and a culture to do it well, and that begins with good communication.

### EMOTIONAL MATURITY

Imagine your executive team biking along a flat road or slightly downhill grade. The less capable riders are able to draft the stronger riders in front of them and keep up fairly well. Now imagine the same team riding uphill. The weaker riders can no longer coast or pedal easily just by drafting the leaders. They must dig deep to conquer the hill, largely of their own strength. For the leader to drop back to assist a lesser rider will cost the team the momentum necessary to reach the summit.

Think about the “uphill” we hit in 2008. We likely still have a long way to go. Are you prepared for the hill? Do you *love* the hill? Great riders love the hill because it is here that the more prepared, conditioned, and emotionally mature riders pull away from the pack. The hills are where Lance Armstrong has proven his greatness time and time again.

Emotional maturity is tough to define, but I think of it as the ability and the will to weather a storm without straying from the goal or getting discouraged. It’s the intense personal commitment to grow in all aspects of one’s life. Like core values, it is deeply rooted in one’s life experiences. It includes an awareness of one’s place in his surroundings, his identity, and his purpose. I believe emotional maturity directly correlates to effective problem solving and interpersonal communication. Emotional maturity begins with holding oneself accountable to personal goals, even if nobody else cares.

Emotional maturity is often reflected in specific daily and weekly disciplines to build physical, mental, and spiritual strength. These disciplines might include regular exercise, daily journaling, inspirational reading, and surrounding oneself with equally committed and disciplined individuals.

### ESSENTIAL SKILLS FOR TRYING TIMES

I have worked with organizations that struggle with one or all three of these characteristics, yet still succeed. However, as we continue to struggle through trying times, I’m concerned that those who do not possess these behaviors will find themselves gasping for breath as the stronger riders speed ahead. It is imperative for today’s leaders to begin exercising all three disciplines and pushing their organizations to do the same.



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For a complimentary reprint of this article, visit [tcajournal.com](http://tcajournal.com).

\*Mehrabian, A. (1968). “Communications Without Words,” *Psychology Today*, 2 (9), 53-55

## EXECUTIVE INTERVIEWS

# Keeping CORE VALUES

# Alive

Three exemplary CEOs talk about how they nurture the heart and soul of their organizations.

**C**ORE VALUES have become so integral to the business lexicon that their existence is almost taken for granted. Go to the website of just about any small or midsize business, and you will likely find a page dedicated to core values.

It is precisely because they are so common, however, that business leaders must be especially diligent to keep them from becoming stagnant. What can CEOs and executive teams do to reinforce these fundamental principles and continually align their organizations around them?

*The CEO Advantage Journal* asked this question to three CEOs of midsize organizations. These leaders have helped their organizations grow despite a tough economy, and they credit much of their success to the focused alignment that their core values provide. Their ideas and experiences should be of value to other executives looking for ways to keep their core values truly core.



**Aaron Chernow**  
*Chief Executive Officer*  
**Resource**

[www.smartworkforce.com](http://www.smartworkforce.com)

## About Resource

For over 35 years, Resource has focused on becoming a global leader in providing recruiting and learning solutions across a wide range of industries. Today, Resource has more than 550 consultants and 100 clients nationwide. Headquartered in Troy, Michigan, Resource has satellite offices in Dallas, Texas, and Weston, Florida.

## Resource's Core Values

- **People People**  
Maintaining a relationship based on a personal need to help and serve others.
- **Details, Details, Details**  
Providing a safe environment to uncover what matters most to those you serve—attention to the details that truly matter are imperative to your success.
- **Positive Enthusiasm**  
You attract success to you and those around you by believing “I can.”
- **Persistence**  
Possessing the inner drive to position oneself to overachieve daily.
- **Family Centric**  
Valuing those around us as a source and beneficiary of our success.
- **Integrity**  
Treat all with dignity, honesty and respect and you shall receive it in kind.

### Why is it so important to clearly articulate your core values?

They align our organization. In 2000, we were only a small group of individuals struggling to establish some consistent growth. We went on a hiring binge looking for individuals that we thought could help grow the company. Over time, we found that we were dealing more with personnel issues than business issues. So the challenge was to find the right kind of people. That's when we first developed our core values. We needed something to help us identify individuals who were in alignment with who we are. Initially, our values were a hiring tool, but they have morphed into something so much more.

We look at core values like a song. They mean something different to each individual, but all within the range of the song.

### What are some ways that you reinforce your core values within your organization?

They're proudly posted when you walk in. They're on our website, our mouse pads, our coffee mugs. People understand how important they are when

they see them all over the workplace.

We reward people based on core values. Our “employee of the month” is given to someone who uniquely demonstrated one of our six core values. We have a quarterly “grinder award,” which goes to someone who has displayed the core value of persistence throughout that quarter. In addition, we publish weekly “core values stories” where employees recognize something they have seen in a coworker. We get good participation on that from throughout the company.

### You have multiple office locations. How do you ensure consistency in values throughout your company?

That has been a challenge for us. We try to leverage technology to help with that. For example, we post the “core values stories” on the intranet for everyone to see. Recently, we've done this in the form of video. That gives a face to the story. When people see someone telling the story, I think they more strongly identify with the behavior that is being celebrated. We actually had a contest around this where a winner in each branch office got a flip phone.

### What else have you done to keep core values alive?

Based on our own experience, we have developed a screening process that determines how well a potential hire identifies with your core values. In addition to helping *us* attract the right individuals, we also teach this process to our clients.

### What impact have core values had for Resource during a down economy?

This has been a tough year for us, but we have found that employees who have a good understanding of our core values also understand their role within the company and what they must do to help us be successful. That is so important when times are tough, and it has helped us keep the right people on board. Those who are not aligned with our core values quickly stand out.

It seems that some organizations have given up on their core values in tough times. I guess those values were not really core. If they were, those companies would walk the walk and talk the talk, no matter what the economy is doing.

Our actions have remained consistent with our core values, and our people rec-

ognize that. It's really helped them attach more strongly to our purpose. Purpose and core values blend together to create the energy here, and that energy has created a reprieve for our people from what's going on outside.

**Do you have a favorite story about an employee who exemplified these core values?**

I have a million of them! Perhaps our most important value during this economic downturn has been persistence: possessing the inner drive to overachieve

daily. I have so many stories of people who have really dug deep to understand their strengths and weaknesses and worked to get better. That's the proud story of the year. Many people have worked through their blind spots.



## Alex Bardi

*Co-Founder, President,  
and CEO*

## Bardi Heating and Air Conditioning

[www.bardi.com](http://www.bardi.com)

**How did you develop your list of core values?**

I've always had them personally, so it was pretty easy to translate them to my business. My direct reports know that whatever it takes, you always do the right thing. That's the foundation of our core values: always, always do the right thing. Even if you mess up, admit your mistake and fix it. Running away just multiplies the problem.

Our second value is to honor family. I've got four children, so we've built our business around family responsibilities. We're very cognizant that family comes first.

Our third value is respect for the individual. I've always encouraged treating others like you want to be treated. Even in a bad situation when you have to terminate someone (and I've done my share of that), I always treat them with respect and dignity. That

## About Bardi Heating and Air Conditioning

Bardi is a family-owned business serving Atlanta since 1989. Originally known for commercial HVAC installation and service, the company expanded into residential service at the request of clients. Based in Norcross, Georgia, Bardi has been recognized as one of the top small businesses in Gwinnett County.

### Bardi's Core Values

- **Honesty**  
Always, always, always do the right thing.
- **Family Oriented**  
Family comes first over business.
- **Respect for the Individual**  
Treat others like you want to be treated.
- **Positive "Can-Do" Attitude**  
"Can't" is not in our vocabulary at Bardi.

simple Christian principle has served me well over the years in both my personal and business life.

Our fourth value is a positive can-do attitude. I surround myself with people who get it done. One of my favorite expressions is, "Can't is not in our vocabulary at Bardi." It may sound corny, but when you build a culture around that attitude, it's pretty amazing what you can accomplish.

**How do you communicate your core values?**

We have them plastered everywhere, and managers always remind their teams of them. When we give out bonuses, we ask people what they did to exemplify core values.

**How has the economic downturn affected your business?**

We're actually growing despite this

economic climate, and I think our core values have a lot to do with it. Our customers know that we'll do the right thing and make them happy whether or not it's our fault. I tell my clients, "We're gonna screw up. I employ human beings. They're superstars, but they do make mistakes." What differentiates us from our competition is that we'll come back, figure out the problem, and solve it.

**What else do you do to keep core values alive?**

We've got what we call the "wheel of fortune." It's a big spinning wheel with prizes like \$5, \$10, \$50, one day off with pay, etc. Whenever a manager sees someone going out of his way to help a customer or live out our core values, he asks that person to spin the wheel. It builds a lot of energy and enthusiasm for doing the right thing and has really changed our culture. Everyone wants



to spin the wheel! Money is great, but people want to be recognized in front of their peers.

**It sounds like you've built a lot of momentum.**

That's definitely true. When the economy first started going south, I told our people that we will not participate in a down economy. Everyone bought into that, and the positive attitude keeps our momentum on track.

**Do you have a favorite story about these core values in action?**

Actually, I have two. Recently, we put "Can't is not in our vocabulary" to the test with a school renovation. Our major competitor said it couldn't be completed in the ten weeks before school started. We didn't buy into that and got the opportunity to prove it. It was a gigantic project, and we devoted forty men to work seven days a week. It was a grueling and exhausting ten weeks, but we lived up to our word and pulled it off.

But it's not just the big jobs that are important to us. We have a guarantee that if you don't like our work, we'll remove the system and return your money. In twenty years of business, we only had to do that once until a year ago when we had a residential customer who was not satisfied. We bit the bullet and lived up to our creed to "always, always do the right thing." A few months later, that customer called and asked us to fix a friend's problem. That's when you know that doing the right thing really is the right way to conduct your business.



## Ruddy Polhill

*Co-Founder, President,  
and CEO*

## HealthCare Partners

[www.hcpmed.com](http://www.hcpmed.com)



## Rhonda Polhill

*Co-Founder, Vice  
President of Sales*

### *About HealthCare Partners*

Based in the Atlanta area, HealthCare Partners provides quality contract physicians to commercial, correctional, and government facilities nationwide and internationally. The company has experienced growth each year since its founding in 1996.

### *HealthCare Partners's Core Values*

- **Integrity**  
Doing the right thing no matter what the cost.
- **Passion**  
An intense emotional drive in your approach.
- **Empowerment**  
Stepping outside yourself to add value to others and help them find their own personal power.
- **Respect**  
Approaching everyone in a manner that when you leave, they have retained or enhanced their level of dignity.
- **Constant and Never-Ending Improvement**  
Seeking personal growth and progress in every endeavor.
- **Compassion**  
Caring about others so much that you seek to understand and help them.
- **Gratitude**  
A sincere appreciation, being mindful of all you are thankful for and showing it.
- **Humor**  
Incorporating fun and lightheartedness through laughter and playfulness.
- **Team Focus**  
Putting the needs of team before the needs of self.

**How did you identify your organization's core values?**

About five years ago, we spent a day off-site to go through a process of developing them. Actually, we didn't develop them; we *discovered* them. We got everyone in

the company in a room, and we spent about three hours calling out every value that we thought applied to us personally or to the company. That resulted in about 300 words. Then, we eliminated multiple words that meant the same thing. From there, we went

through the grueling process of getting them down to just a few. We tried hard to get four or five, but we finally decided that we really needed to keep the nine that we currently have.

Once we had the words, we tried to define them in a way that anyone can understand what they mean to us. For example, “passion” might mean different things to different people. We want to be clear about what *we* mean by passion.

These mini-definitions bring them to life for us. Again, it’s not like we just created a bunch of words to try to live up to. We simply discovered what we thought we already were. Thus, our culture naturally supports our values. We talk about them. We live them.

**What is one unique way that you keep employees focused on your core values?**

In our monthly company-wide meetings, we have someone tell a specific story about how another employee demonstrated one of our values that month. That is one way we keep people talking and thinking about them.

**What are the most important benefits of clearly articulating your core values?**

One major benefit is found in our hiring. We talk about those monthly stories in the interview process, and we make sure that prospects line up with our values before we hire them. It’s a cliché, but it’s true: you can teach skills, but you can’t teach values; you either have them or you don’t. We have found that those who share our values will more easily integrate into our culture and be successful. They might also be successful somewhere else, but at our company, core values alignment is the natural ingredient of success. Our values drive our culture.

**What else do you do to reinforce your core values?**

We are in the business of caring for patients, so one of our values is compassion. Each year, we do our own variation of Oprah’s reality TV series, the Big Give. We split our employees into four teams and give each team \$1,000 of seed money. We then choose four

charities to support; two are selected by us as the owners, and we survey our doctors and employees for the other two. Each team’s objective is to multiply the seed money to maximize the support for their charity. They meet the charities, identify their greatest needs, and respond. They volunteer, give referrals, connect the charity to important contacts – whatever is needed to maximize the use of the seed money. At the end of the program, we show a documentary video of each team’s experience. Everyone is in tears. It’s an incredibly moving experience.

Each time we begin this program, the general attitude is, “Yes, we’re compassionate, but we’re too busy for this.” But when you give, you receive so much more. Through the couple months of this program, we watch our employees transform as this value of compassion becomes more real to them.

This project also reinforces the value of teamwork. We pick the teams with purpose, connecting people from different areas of the company who normally do not work together.

Someone once asked, “How does this make money?” We can’t measure the value of it, but we know it has built our culture. We often say internally, “We’re trying to create something special in the marketplace.” Another tagline that we discovered is, “We care for you so you care for others.” This is part of our mission; it goes beyond making money.

**How else do you keep core values alive?**

We’re about to move into a new office, and we are planning to post our values and purpose all over. Another idea we have is to have them pop up on the screen anytime someone logs on to our intranet.

It is one thing to have a boss hold you accountable, but it’s more powerful when your peers do it. For example, people think integrity is a given, but when somebody says, “If we do this, nobody outside the organization will know,” someone inevitably responds, “Yeah, but *we* will know.” Once that happens a couple times, our people know that integrity is something we actually live. Our core values have empowered

*all* of us to call someone out who is going against what we stand for.

**How has the economic downturn affected your business?**

There is still demand for our service, but clients are stingier with their money. Still, we have been blessed with tremendous growth in the last two years. We’re not necessarily that smart, but we are executing well.

**What has your rapid growth taught you about your core values?**

Knowing who we are and publishing it has drawn people to us. It’s not about us as owners; it’s the whole team. People say that our culture is what people want to be around – it’s what they hope they are signing up for when they accept the job. This has been a blessing because we’ve added more people this year than ever before. Eight of our 30 employees were added this year. Our core values have been a tremendous tool to communicate who we are. Of course, they never really know until they actually work here, but our retention is high. We’ve had only one person leave us this year. That is not typical in our industry.

**Do you have a favorite story about an employee who exemplified these core values?**

(Rhonda): Ruddy won’t say this, but I will. A CEO of a competitor who has been in our industry for a long time recently told one of our employees, “I don’t trust anyone in our industry except for Ruddy Polhill.”

(Ruddy): He must not know me very well! There are plenty of people who deserve that compliment. It does feel good to receive feedback – especially from a competitor – that we are living that core value of integrity. I am thankful for my team.

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# The New Normal

by Troy Schrock and Scott Bahr

*If you and your organization have been waiting for the economy to return to normal, your wait is over.*

**W**HAT IS A “NORMAL” ECONOMY?

On any given day, factories manufacture, trucks deliver, retailers sell, and consumers buy. Employees drive to work, restaurants serve them lunch, and mechanics service their cars. Travelers park their cars, clerks check their bags, and pilots fly them to their destination. Some rent a car. Others hail a cab. Most check in to a hotel. Students ride the bus to school, teachers teach, and janitors clean. Families dine out, catch a movie, or watch a ballgame.

All in a day's work. All in a day's play. This is the “normal” economy.

On any given day, one factory schedules an extra shift while another lays off workers. One trucking company works overtime to deliver a huge order while another sends drivers home until the next call comes in. One retailer extends its hours while another closes its doors. Some office employees go out to lunch while others pack their own lunches to save a few bucks. One week, airlines are overbooked; the next week, they can't fill their planes. One business traveler enjoys a four-star room; others double up to satisfy tighter corporate budgets. Some school districts build to ease overcrowding while others lay off teachers, bus drivers, and janitors due to declining enrollment. Sports arenas that used to sell out now lower ticket prices to attract attendance.

Some incomes rise; some fall. Someone is promoted; someone else is laid off and enrolls for a second degree. One



Big Rock Point (Phil Fisher)

company expands; another company folds.

This is the “normal” economy.

“Normal” does not mean zero unemployment, perpetual sales, and ever-increasing stock value. Not only is that not normal, it's not desirable. If everyone were always employed and sales guaranteed, you would still be driving to work in a horse-drawn buggy. Actually, you probably would not be driving to work at all. Instead, you would be tending your family farm, returning at sundown to a small, unheated log cabin and reading by candlelight. After all, in this imaginary world of full employment and perpetual sales, buggy builders, farmers, and can-

dle makers need to make a living. Such a society cannot afford innovation, for innovation replaces old markets with new markets, and the transition requires some adjustment in attitudes and expectations. Buggy builders go out of business, but car manufacturers grow. Candle sales suffer, but electrical industries flourish.

“Normal” economies are full of disruption, and disruption is the catalyst for growth. Healthy economies don't fear the disruption; they embrace it. They don't fight the disruption; they exploit it. They don't see the disruption as an obstacle; they see it as an opportunity. In a healthy economy, new resources are constantly discovered or developed,



and changing resources generate new needs which demand new resources. The disruptions caused by the “new” and the “better” drive innovation, advance economies, and build wealth.

Some would try to squelch disruption in pursuit of so-called “stability,” but economic stability is static, and static economies are impoverished economies. Economic disruption is dynamic, and dynamic economies are prosperous economies.

At first, it may seem that a disruption is the root cause of something that is out of order, but economically, a disruption is the *result* of something being out of order. For example, if consumers want widgets faster than companies can make them, a disruption in price – an increase, in this case – will rectify the situation. If a company makes a product which nobody wants, the market will force that company out of business. Such disruptions are what University of Missouri-St. Louis Professor Lawrence H. White calls “regulation by profit and loss.”<sup>21</sup> They are the means by which natural market forces allocate resources to where they are most needed. Thus, when people move from one school district to another, the old district may lose a teacher while the new district gains a teacher. The economic message to the former is not, “Your services are no longer needed,” but rather, “Your services are needed somewhere else.”

This natural ebb and flow of the free market may not feel good in the short term, but it is the best thing for everyone in the long term. Historically, American workers and entrepreneurs have quickly adjusted, identified areas of need, and seized the opportunities in a continually changing economic landscape. As a result, our economy has grown from a few pilgrims trading food and furs with the Indians to the largest and most prosperous economy the world has ever seen.

As business leaders, disruptive change is the reality to which we are accustomed. Indeed, it’s the reality that supports our business model. At its core, business is the practice of capitalizing on economic disruptions – the vehicle through which economic needs are met. We are com-

fortable with it. We thrive off it.

It’s normal.

## ECONOMIC SHOCKS

Our responses to normal economic disruptions should be considered standard operating procedure. We know things will change. We know we will have to innovate. We know we will have to adjust. Companies who survive and thrive anticipate disruption and prepare to profit from it.

However, we are occasionally hit with an event so unexpected and so significant that it shifts the assumptions by which we have been operating. A major war, a terrorist attack, a sharp increase in the price of a common commodity, a natural disaster, a major shift in government policy – these events are more than market disruptions. They are economic shocks, and they affect everyone in every industry.

Shocks rattle our worlds for awhile and prompt some fundamental changes, but even they don’t derail our economy for long. We find ways to adjust, and soon, things are back to “normal.” For example, a sudden increase in gas prices usually ignites a strong emotional reaction. Drivers get angry and the stock market may slide for a few days, but we adjust. Individuals and businesses restructure their budgets and modify their habits to accommodate the change. If these adjustments decrease overall demand for gas, prices gradually return to “normal” levels. Free market regulation has done its work again, using price to allocate resources and prompt us to adapt our lifestyles according to availability and need.

A shock may hurt initially, but the economy continues to hum. After all, shocks are just big disruptions, and we’re used to disruptions. They’re normal.

## THE SUPER SHOCK ECONOMY

When multiple shocks happen in a short period of time, they amplify the impact of each, triggering more and more shocks in a tidal-wave type effect. These super shocks are more than just big disruptions;

they’re game changers. Long-term consumer and investor patterns shift, systems and structures must be revamped, and entire industries collapse under the weight of the changes.

In the last decade, the American economy has been hit with a super shock. We’ve had the bursting of the tech bubble, the 9/11 attacks, major accounting scandals, extraordinarily damaging hurricanes that directly hit oil refineries and nearly wiped out a major city, the bursting of the housing bubble, volatile gas prices, the credit crunch, major bankruptcies in the financial sector, and a domestic automotive industry fighting for its life. These shock factors, among others, have produced a tangled web of economic stimuli that is difficult to unravel. As Warren Buffett wrote in his 2002 letter to Berkshire Hathaway shareholders, “History teaches us that a crisis often causes problems to correlate in a manner undreamed of in more tranquil times.”<sup>22</sup>

Still, at the risk of oversimplifying, we would like to suggest three major trends that exacerbate the super shock economy in which we now find ourselves. Two have been building for years, one is just now emerging, and all three are sure to continue for years to come.

## THE BUBBLE FLOW

Before we feel too sorry for ourselves, we should recognize that a major contributor to the super shock economy is our own success. After years of worldwide economic growth and innovation, a large amount of capital has accumulated, and it needs somewhere to go. With today’s technology, it can move very quickly, and due to instant mass communication of new information, it often does. Furthermore, much of this capital is pooled into large investment funds, meaning relatively few money managers decide where much of our capital goes.

Together, these factors drive bubbles. A particular investment area shows promise and quickly attracts large amounts of capital. This sudden supply of money drives up short-term valuations and prices, attracting more capital



from smaller investors and eventually drawing individual investors. As investors scramble to cash in on the “hot investment,” they tend to exercise less due diligence in making their decisions. After all, speed is the first priority when an investment is hot and information is plentiful. Later investors are typically less sophisticated and somewhat ignorant of the true grade of their investments. In fact, the large investors, who have the technical resources to recognize a bubble faster than individual investors, might be on to the next wave before individual investors realize what is happening.

We saw this with the tech bubble. As the internet emerged in the mid-1990s, investors whipped themselves into a speculative fervor and threw money at any business idea with an “e-” prefix. When actual profits failed to materialize, capital flowed to the next hot investment:

real estate. The euphoric rise and catastrophic fall of the housing market is well documented, and when this bubble burst, capital flowed into commodity markets. The price for a barrel of crude oil had already increased significantly to meet skyrocketing world demand, but from February to July 2008, it shot up another 50%. Stunned by high fuel costs, consumers and businesses cut back on consumption, causing the price of oil to drop 77% from its peak by the end of the year.

The bubble trends of recent years are certainly not new, but their scale is unprecedented. As the amount of capital has increased, the size of the bubbles and the amplitude of the economic swings have also increased. Thus, events that would have barely registered decades ago now constitute legitimate economic shocks.

## GOVERNMENT INTERVENTION

The most powerful and damaging shock may be our change in economic approach. Rather than *react* to disruptions, we’re now trying to *prevent* them through policy.<sup>3</sup> Government intervention quickly changes the rules by which everyone plays. Instead of responding to the natural forces of supply and demand (which are understandable if not always predictable), consumers, retailers, manufacturers, and service providers now respond to the judgment of legislators. Consequently, resources are allocated according to popular ideology rather than market-driven need. The resulting uncertainty can handcuff the economy, bringing the entire system to a standstill.

Though we may manipulate the rules of *our* game, however, we cannot change the natural laws of reality. Supply and

Elberta, MI (Phil Fisher)



demand still exist. Prices must still cover costs. Profitability is still the lifeblood of economic activity. If we cap prices below fair market value, consumers will pay less, but only while supplies last, and they won't last long if suppliers can't make money producing them. If we lower loan requirements,

**Today's recipe for success is the same as it has always been: look at current economic trends, identify new market needs, and innovate products and services to meet those needs.**

spending may increase, but so will loan defaults. If we legislate what car companies can make, costs will increase, consumer satisfaction will decrease, and less people will be able to afford a car.

So we can change the structural landscape through banking policy or government regulations, but these rules merely determine how expensive it is to play the game, and the cost to play greatly affects how businesses and individuals operate. Some may even choose not to play.

## RETIREMENT OF BABY BOOMERS

Over the last century, the retirement rate has risen, the average age of retirement has declined, and life expectancies have increased dramatically. If the current trends continue, today's 20-year-old can expect to spend one-third of his life in retirement. Economically-speaking, that's one-third of life as a non-producing consumer.

Now the baby boomer generation is beginning to retire. In his book *Age Power*, Dr. Ken Dychtwald likens the baby boomers to a tsunami. The only warning people get of a coming tidal wave is when the coastal waters begin to suck away from the shoreline. Suddenly, the massive wall of water slams the shore, destroying everything in its path. We're about to be hit by the economic tidal wave of retiring baby boomers, and our economic and social systems will be crushed by this onslaught of consumers on a small producing population.<sup>4</sup>

Unless workers begin adjusting their retirement expectations, we are quickly approaching a time when consumers will far outnumber producers. Just as this model is untenable for General Motors, it will be untenable for our society.

## THE NEW "NORMAL"

We do not wish to sound depressing; we *do* wish to frankly assess economic reality. Such realism is the bedrock of innovation. Today's recipe for success is the same as it has always been: look at current economic trends, identify new market needs, and innovate products and services to meet those needs. We must not be intimidated by the pace of change or the magnitude of market swings. Great leaders and great companies continue to play, and they play to win. We need them to win. Their victories are the counter shocks that dissipate the super shocks

and get everyone moving in the right direction again.

Anyone "waiting out" the volatility of the market will be waiting for a long time. The massive bubble flow swings will continue their way through different market sectors, extending the wild ride for our investment portfolios. Hurricanes will again strike oil rigs and affluent coastal areas, and the volatility of the OPEC region will consistently fuel speculation and fluctuation of oil prices.

As painful as the thought may be, we are likely to endure more terrorist strikes. Government intervention will always be a threat, and for the foreseeable future, a reality. Finally, global interconnectedness and the increasing economic influence of Asian nations will keep us vulnerable to a broader range of shock factors than previous generations encountered. In short, the super shock economy is far from over, and it may never end.

What is a "normal" economy?

This is.



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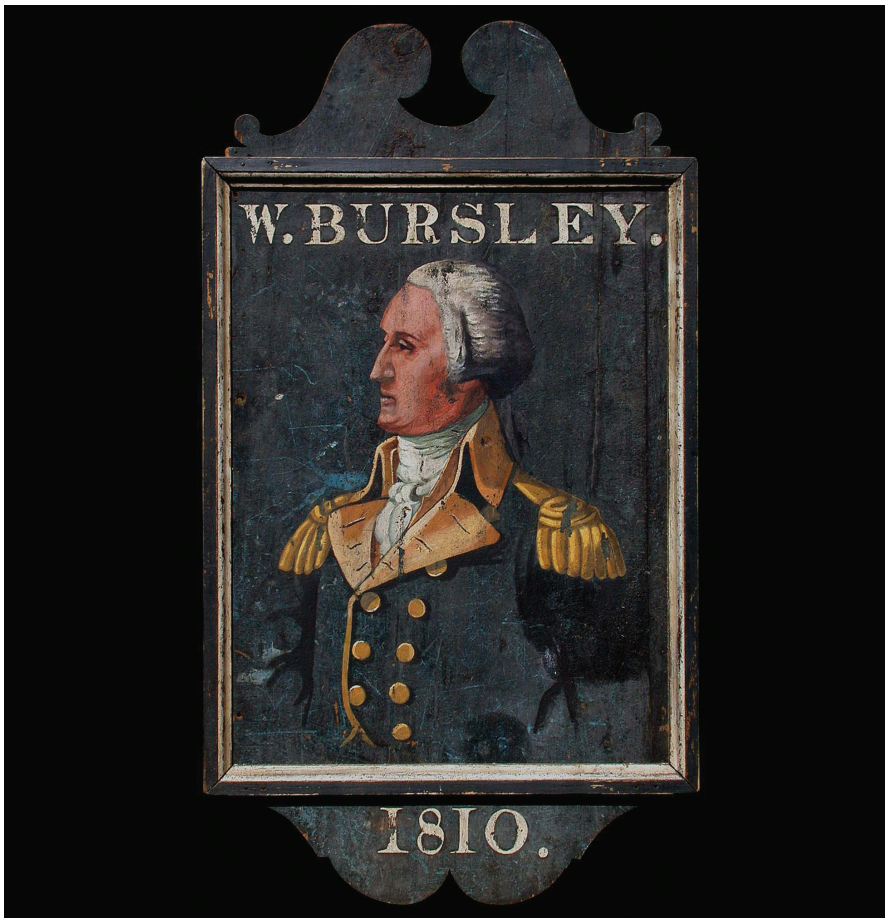
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  2. View this letter at <http://www.berkshirehathaway.com/letters/2002pdf.pdf>.
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  4. Dychtwald, Ken. *Age Power*. New York: Penguin Putnam, 1999, p. 57.
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W. BURSLEY, GEORGE WASHINGTON, BRIAN LAURICH

## ABOUT THE ARTISTS:

### Cover

**Phil Fisher's** watercolors and oils reveal his fondness for his native Florida, as well as scenes from Italy, San Miguel, Mexico; the Bahamas, New England, and Northern Michigan. He and his wife, who is also an artist, own and operate the Phil Fisher Gallery/Studio in Naples, Florida.

(SEE ARTIST PROFILE ON PAGE 28.)

### Back Cover

**Brian Laurich** creates historically accurate sign designs on actual period wood, incorporating the original painted surfaces to achieve maximum realism. His clients include historical landmarks, museums, interior designers, restaurants, homeowners, and other artists. He and his family live in Woodsboro, Maryland.

(SEE ARTIST PROFILE ON PAGE 29.)