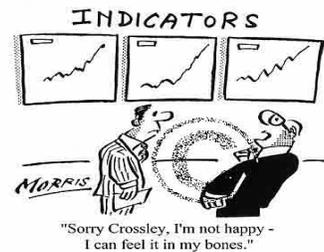


## LOSS OF INSTINCT & THAT GOOD OLD GUT FEELING

Lawrence Reiter

A. C. Macris



### OVERVIEW

The concept for this article came from a long time colleague, Larry Reiter. When Larry discussed his concept I immediately agreed with him and saw a connection to the leadership issues we have written so much about. It is important for our readers to understand that we are not suggesting that metrics and performance indicators are not necessary nor are we suggesting that these measures be given less credence; what we are suggesting is there is an over-reliance on them to the exclusion of good leadership and qualified experience of leaders. Once again, we understand the need for business decisions to have a Return on the Investment – the ever dominating ROI. One of the key points we do make is many times when improvement initiatives are started the time frame to realize results is further down the road than most analysts and ROI focused leaders are willing to tolerate. Yet there has been significant evidence that the real ROI for those companies that have the vision and leadership is highly rewarded when improvement

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It seems that every week we read or hear about another company in trouble and CEOs and Presidents who are being shown to the door. Does this trend reflect a change in the skill-set being used to fill the corner offices? Or, rather, does it reflect a change in the expectations of how chief executives should manage? In this article we will pose these questions and ask if there is an overdependence on metrics to the point that instinct is no longer followed and good leadership is ignored.

#### Can We Over Quantify?

Our culture seems to be entirely focused on metrics. There are myriad ways to look at a company's performance. Every aspect of a company can be measured and it seems that all decisions are made based on what the numbers indicate. We don't want to imply that measures are not important; they are. However, we question whether metrics are the answer to everything that arises in the life of a company. It appears, from personal experi-

ence and from following the business news, that metrics are everything and that any decision is made strictly based on the many and varied metrics that exist within any company. Leaders of corporations and their corporate boards of directors seem to be making key decisions based on metrics such as Return on Investment (ROI). We have become a data-driven society, especially within the business world. This emphasis is not unexpected, given the move into the "computer age" where data is easily generated and manipulated. We have so much data readily available. However, the strong leader knows how to use data, while at the same time still applying knowledge and instinct.

Although not the focus of this article, we cannot ignore the existence of those leaders who do use metrics and their instincts for the wrong reasons. Leaders such as those at Enron used and abused metrics and their instincts for negative reasons to build a paper empire. Such individuals will probably always exist but are

not the mainstream leaders on whom we are focusing.

In some cases, reliance on metrics may be missing the forest for the trees. Despite the refinement of ways to measure and the ability to crunch large complex algorithms easily, we contend that there are still many aspects of a corporation that can not be simply or correctly measured. For almost all companies the most valuable internal resource is the personnel. Clearly, employees implement the strategies and market and build the widgets or provide the services. Yet can we really measure the impact of decisions on the employees? Too often that impact is ignored or written off as non-critical because of the results of an attempted measure and yet the success or failure of a company is the result of both strategic decisions and the employees. We saw the impact of Al "Chain Saw" Dunlap on Scott Paper and Sunbeam-Oster where thousands of employees and the health of both companies were compromised by his actions. His 'booking prior to

**National Leadership Index  
2007 A National Study of  
Confidence in Leadership**

*Introduction—excerpted from the Center for Public Leadership, Kennedy School of Business, Harvard University*

The American people are alarmed about the quality of their leaders and concerned about the country's future, yet optimistic that things can improve. This national study of confidence in leadership, our third, reveals that the leadership crisis we first identified in our 2005 report continues—and, in the eyes of Americans, is deepening. More than three quarters of those surveyed now believe there is a leadership crisis in this country, up from 69% in 2006 and 65% in 2005. Fully half of all Americans, when asked how much confidence they have in their leaders, answer “not much” or “none at all.” The message is clear: Americans want more from their leaders—and fast. Americans feel strongly that our country must soon have better leadership if we are to thrive in the future.

Only 14% of our survey respondents currently believe the country is moving in the right direction, while 48% believe we are moving in the wrong direction. Bottom line—79% believe the United States will decline as a nation unless we get better leaders.

delivery' at Sunbeam showed great performance metrics. However, his methods to increase shareholder value eventually led to his downfall but only after 18,000 people lost their jobs.

From personal experience, we have seen cases where promising programs such as Business Process Improvement are rejected or terminated in early stages because at the beginning there are no hard measures and no clear ROI. We have seen both mild and wild successes when executives have gone with their gut and continued to support such programs. When the plug is pulled because the internal program leader or outside consultant cannot give expectations of ROI, the company loses a big opportunity both to improve its processes and to show it values its employees by giving them a chance to improve how they do their work.

The impact on morale and the company culture are critical aspects that cannot be accurately measured. Yes, there are culture surveys and other measures of company “happiness” but they are not accurate or are subject to much interpretation, minimizing the actual results. One example was a company where the employees read an article stating that their company was selected as one of the top places to work in the state. Great news, except that morale was very low, key people were leaving and many others were looking to leave. Many departments had severe command and control management styles which stifled creativity. This company was not a horrible place to work but certainly was not a top place to work.

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### Where are our leaders?

Both growing up and starting out in our business careers we watched corporate leaders who were revered for their business savvy. These leaders certainly and carefully used performance measures but also used their industry knowledge and their instincts. They had an understanding and respect for financial measures but also had instinct. Did Lee Iacocca have a Chrysler employee cut the roof off of a car because he had detailed ROI numbers on potential convertible sales? No, he had a gut instinct that the American car-buying public was ready to buy convertibles. These leaders tended to remain in one industry and developed knowledge of that industry that served them well in their decision making.

It appears today that business leaders are selected more on perceived analytical skills and expectations that what works in one industry will work in another. How often have we seen someone with success in one industry or with one company be tapped to lead another company in a completely different industry? And how often does this lead to failure in the new company? What are some of the factors that are in play in this situation?

Perceived analytical skills making the individual desirable to a board of directors because of a focus on metrics

No knowledge of the culture of the new company or industry

In a new industry, a lack of understanding of the new industry.

While our premise in this discus-

sion is the extreme focus on decision-making by metrics, we assert that knowledge of industry and company culture are equally significant factors in the success of corporate leaders. Either of these two can lead to major problems and have devastating results on the company.

We have seen so many examples in recent years of executive failures – Enron, Hewlett-Packard, Boeing and more. All were failures in strategic decisions, many of which were based on what apparently were sound metrics, but which clearly did not give a complete picture. What was the impact on the human capital of the company? This is too frequently discounted or ignored. Arguably, as noted above, the most important resource in most companies is the employee – the human capital. These are the people who create, build, deliver, service and market the products of the company. These are the people who best understand the inner workings of the company and are normally the last people who are consulted about how to improve or the impact of strategic decisions.

Now, we don't mean to imply that every executive should consult with the troops about every decision. Obviously that approach is impractical and could lead to paralysis. But without understanding the culture and the nature of the employees, how can a strategic decision fall in line with the culture of the organization that must support it? Noel Tichy and Warren Bennis, in their new book [Judgment: How Winning Leaders Make Great Calls](#), note that “If leaders don't make smart judgment calls about the human beings on their teams, or if they manage them

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poorly, then there is no way they can set a sound direction and strategy for the enterprise, nor can they effectively deal with crises.”

We have seen so many examples of leadership failures in corporate America and in non-public enterprises. The average “life span” seems to be relatively short to the point that Dennis Orme of the Leadership Success Institute refers to CEOs as the “18 month club,” poking fun at the typical CEO tenure. However, most do appear to have nice golden parachutes. As reported in *US News and World Report's* November 15, 2007 issue, a survey by the Center for Public Leadership showed over 75% of those surveyed felt that the nation is going through a leadership crisis. Furthermore, 67% feel that today’s leaders pale in comparison with those of 20 years ago. Only 9% expressed confidence in Congress and in Wall Street. These are very glum numbers for a nation leading the free world. The only bright spot was that 59% felt that America would have better leaders 20 years from now – 20 years from now!

### A Way to Make a Difference

In the Update of January, 2006 we presented a new way to think about leadership – Contextual Leadership. While not a panacea, it might be a way to reorient leaders. In Contextual Leadership, it is suggested that leadership is comprised of four dimensions – Attributes, Competencies, Experience and Context. Contextual leaders are those who can:

- Recognize and understand the culture of the organization

- Use their Attributes and apply their Experience and Competencies in an enlightened and effective manner to achieve positive results

- Not just blindly do what may have worked for them before in some other context.

How often are these – and in particular the third bullet – the root cause of executive failures? What worked well in one industry (or context) may not work in another industry. With the movement of executives from industry to industry, this distinction is key. The skills may be basically the same but the context changes. Why is it assumed that someone successful – say in big-box home building supplies—would automatically be successful running an automotive company, or a successful banker would be automatically successful in healthcare, or a successful submarine captain would automatically be successful directing a large commercial nuclear facility? Certainly, there are similar examples where an individual was successful after a major contextual change. However, there are also many instances where the shift was unsuccessful.

How can this concept of Contextual Leadership be applied? Let us first look briefly at the four dimensions of leadership mentioned above.

**Attributes** – a quality or characteristic of an individual. These are not precisely measurable. Examples:

- Ethical behavior
- Integrity
- Vision
- Professionalism

- Strategic thinking
- Risk taking
- Common sense

**Experience** – the ability to respond or react to a set of events within the industry environment. Developed through observation and participation in multiple leadership positions with both successes and some failures.

**Competencies** – skills and knowledge. Skills can be taught and practiced while knowledge is gained through education and on-the-job training. Examples:

- Business knowledge
- Motivation
- Delegation
- Negotiation
- Emotional Intelligence
- Team building

**Context** – knowing how to use the right tools for a particular job. Examples of various contexts:

- For-profit business
- Non-profit business
- Military
- Religious
- Political
- Volunteer

Each context has unique characteristics and unique cultures that require different leadership skills and knowledge. Even within one large context – such as for-profit business – each industry and each company has a different context. For a successful transformation from one company to another an executive needs to be

able to recognize the differences, understand the impact of the differences and adjust accordingly. One size does not fit all! Success in one company or one industry or one context does not ensure success in another. For instance, a successful military officer who has gained success in a very strong Command and Control environment and moves into an industry where the culture is a more participatory management style or where he must deal with a large board of directors will have to make significant changes in leadership style to have any hope of continued success.

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There are five components to making the transition to Contextual Leadership. These are:

- Commitment to this new paradigm for leadership and working to develop that commitment through all levels of the organization
- Education in the culture of the organization, in leadership attributes and again driven through all levels of the organization
- Enlightenment and a willingness to recognize one's strengths and weaknesses and use that to understand culture and become contextual
- Teamwork to involve the organization in making needed changes and developing new skills
- Role Models help the executive and all levels of the organization see what must be done and how to do it.

### Conclusion

Are we seeing a leadership crisis in our country and in our industries? Surveys are indicating that this is the case. The headlines of our business publications all too frequently are reporting on executive and management failures in our major companies. We are suggesting that a part of this disturbing trend is due to an over-reliance on leaders who focus on metrics at the expense of trusting instinct in making key decisions.

In a data-driven world there is tendency to believe that the data tells it all. One of the phenomena we may be seeing is more reliance on data at the expense of leadership and instinct. Instinct is not a mystical thing; it is embodied in business knowledge, competencies, attributes and experience. It is a self-awareness and acceptance that the leadership position carries

with it responsibilities beyond just numbers on a page or performance metrics printed on charts. To turn this leadership crisis around, leaders must not only monitor traditional metrics, but they must learn how to bring their best abilities and experience to their company, its directors and employees in the right context with a high degree of leadership skill. They must develop knowledge of the industry and the culture of the company and use these with appropriate metrics to provide effective leadership.

### INTRODUCTION OF OUR CO-AUTHOR LAWRENCE REITER

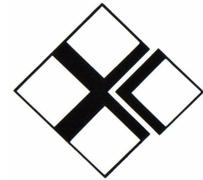
Mr. Lawrence Reiter is a long time colleague. We met at Public Service Electric and Gas Company in the early 1990s. Larry was conducting Process Improvement analysis as a PSE&G employee while I was part of a consulting team assisting the Chief Nuclear Officer in analyzing the organizational and functional structure of the PSE&G Nuclear Department. Larry's experience includes over 20 years of experience in supervising, managing, consulting and leading organizations in varied industries.

- Implemented Total Quality Management initiatives.
- Developed, led and facilitated Process Improvement teams.
- Developed and facilitated Total Quality and team skills training.
- Led new and diverse organizations.
- Developed and managed Operating and Capital budgets in excess of \$5 million annually.

I was so pleased when Larry initiated the idea of a joint article where we developed his concept of the over use of metrics at the expense of good old gut feeling with the work I have been doing in the area of Contextual Leadership. I thank Larry for his contributions and support.

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(continued from page one) initiatives are seen to completion. To realize these more time consuming improvements takes faith and strong intestinal fortitude on the part of sponsoring leaders. We liken this to foundation building –



A. C. MACRIS  
CONSULTANTS

PO BOX 535  
MYSTIC, CT 06355

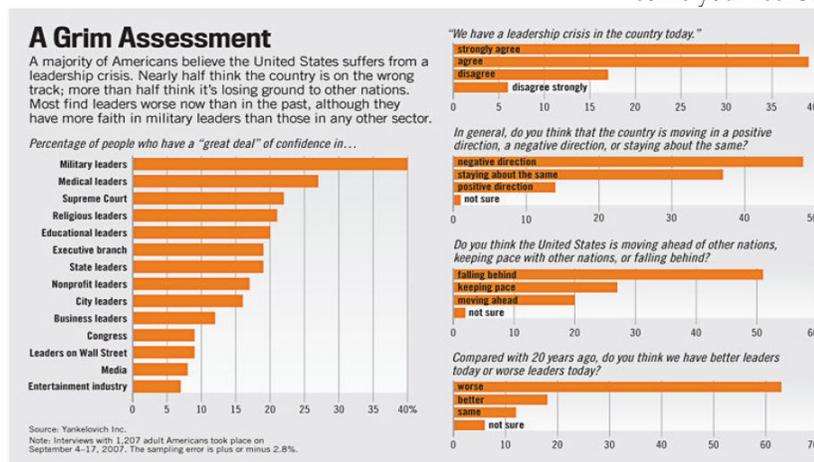
860.572.0043  
ACMPC@ACMACRIS.COM  
WWW.ACMACRIS.COM

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WWW.ACMACRIS.COM

(OVERVIEW continued)

– not too much visual progress, it can be messy and difficult work, it certainly isn't the attractive part of a structure, and progress can be slow and meet unknown challenges, but when done correctly and to completion the resulting structure is sound, strong and meets the intended needs. Without this foundation it is easy to imagine the outcome.

We hope you enjoy the article and as always welcome your feedback.



This chart was excerpted from the US News and World Report web site, 11/19/2007