CHIEF EXECUTIVE
PRINT · EVENTS · ONLINE

Issue Date: November/December 2009, Posted On: 11/25/2009

Lessons From Team Fumbles

How senior leadership teams can make—or break—an organization.
BY SUSAN LUCIA ANNUNZIO

The colossal business failures of the past few years underscore the fact that the conduct of a company's leadership team is directly correlated with the organization's long-term performance. Once-venerable institutions such as Bear Stearns, Lehman Brothers, Merrill Lynch and Royal Bank of Scotland paid the ultimate price for the behaviors of their leadership teams.

Merrill Lynch & Co. offers an illustrative case. It has been widely reported that former CEO Stanley O'Neal, who was dumped in October 2007, thwarted debate, ignored feedback from other firm leaders and fired people whose views didn't mesh with his own. These behaviors sent a loud message to the rest of the company that differences of opinion would not be tolerated. Observers pointed out that the breathtaking losses suffered by the firm (later taken over by Bank of America) might have been minimized had O'Neal not marginalized or fired those who tried to warn him about overexposure to credit risk in the subprime market.

A similar situation played out at HBOS, a U.K. banking and insurance group taken over by Lloyd's Banking Group in January after a near collapse. Paul Moore, the former head of group regulatory risk for HBOS, was fired in 2005 after warning the bank's board about the danger of lending money "to people who have no jobs, no provable income and no assets."

In written testimony before the Commons Treasury Committee submitted in February 2009, Moore said, "Anyone whose eyes were not blinded by money, power and pride, who really looked carefully, knew there was something wrong…But sadly, no one wanted or felt able to speak up for fear of stepping out of line with the rest of the lemmings who were busy organizing themselves to run over the edge of the cliff behind the Pied Piper CEOs and executive teams."

By firing Moore, the HBOS leadership team made clear what would happen to people who raised a red flag. Had they chosen to send a different message, the bank might still exist as an independent entity today.

The demise of Bear Stearns, as recounted in Kate Kelly's 2009 book, *Street Fighters*, can be tied to a variety of destructive behaviors. Among them were: a bizarre combination of dictatorial behavior and detachment on the part of former CEO Jimmy Cayne; the rejection of the philosophy espoused by a previous CEO, Alan Greenberg, which Kelly described as "cutting losses early, saving money on paper clips and envelopes and guarding religiously against outsized risk," and a culture that rewarded loyalty and punished dissent.

The single biggest mistake the Bear Stearns leadership team made was its refusal to face harsh realities. The leadership was presented with multiple opportunities to cut losses and change course. For years, executives cautioned of coming problems. One mid-level executive worked for three years early in the decade on a plan to better evaluate risk, which CFO Sam Molinaro supported. Cayne summarily dismissed the detailed plan as too complicated.

Some warning signs flashed brighter than others. As Kelly reported, two Bear hedge funds had failed in

2007when the subprime mortgage crisis began to heat up. The firm carried an enormous portfolio ($30 billion) in risky mortgages. It was hemorrhaging clients. Yet top leaders dismissed several opportunities to raise capital as late as January and February of 2008. Company leaders steadfastly refused to remove the blinders.

Filtering from the Top

During more than 20 years of working with top leaders at a wide range of companies, I have observed that what goes on in the C-suite sends shock waves throughout the organization. Behaviors that originate with the CEO and his direct reports filter down, where they are repeated and magnified. And just as business failures can be traced back to the conduct of the leadership team, so can business success. High-performing leadership teams breed high-performance companies.

MANAGEMENT

NetApp, a Fortune 1000 network storage solutions business based in Sunnyvale, Calif., is a stellar example. NetApp displaced Google at the top of this year's Fortune 100 Best Companies to Work For list. Founded in 1992, the company has about 8,000 employees throughout the world and boasts customers that include Oracle, Yahoo, Apple, SAP, Southwest Airlines and the U.S. Marine Corps. Revenues grew from less than $1 billion in 2003 to $3.5 billion in 2009.

NetApp credits its success to the environment it has carefully built within the senior leadership team and throughout the company. Every four to six weeks, the five top leaders get together to take the pulse of their business, the market and the economy. They meet over dinner, learning from one another and making sure they agree on the company's direction. Attended by the CEO, vice-chairman, president and two executive vice presidents, these meetings supplement daytime business review sessions, which sometimes include other executives.

There's no hierarchy at NetApp's senior leadership meetings, nor do the participants worry about stepping into someone else's territory. Candor is a key company value. The participants often disagree with one another. They hash out the issues and once they make a decision, they move ahead. There are no "meetings after the meeting."

These behaviors are engrained in the company's culture. Vice Chairman Tom Mendoza recalls the time a new employee made a point at an executive staff meeting that then-CEO Dan Warmen hoven strongly disagreed with. The young man respectfully challenged the CEO by putting forth facts to support his own position. The two hashed it out and the meeting moved on. Mendoza and other senior executives were impressed by the man's behavior. "He was terrific," Mendoza recalls.

Lessons from High-Performing Senior Teams

- Treat people with respect
- Heed early warning signs
- Confront harsh realities
- Debate vigorously
- Ban "meetings after the meeting"
- Learn from one another
- Find opportunities in challenging times
- Make proactive, fact-based decisions
- Balance long-term and short-term needs
- Do what's honorable

NetApp expects employees to take risks. As Mendoza puts it, “If you don’t take a risk, you just took a risk. If you don’t make a decision, you’ve made a decision.”

As the extent of the current economic crisis was becoming apparent, NetApp turned its attention to how to emerge as a stronger company, as it had done after severe challenges in the past. As a result, senior leaders decided to lay off 6 percent of the staff. Consistent with their commitment to treat people with respect, they immediately took to the road. They told employees how and why they came to the decision and answered their questions as fully as possible. They declined to have laid-off employees escorted to the door—a humiliating exercise that was occurring throughout the country.

“I got about 70 e-mails from people thanking me for the way they were treated,” Mendoza recalls. “They said ‘I love this company. I wish it didn’t have to happen, but I wish you well.’ ”

Setting the tone

Like at NetApp, the leaders of Google deliberately set out to create a culture of high performance. In their IPO filing with the Securities and Exchange Commission, founders Sergey Brin and Larry Page began: “Google is not a conventional company.” They were not referring solely to the now-famous Google work environment, which includes free food and roller hockey twice a week in the parking lot of the Mountain View, Calif., headquarters. Rather, they were signaling that they intended to set the tone for how the company would operate.

By flattening the organization and modeling open communication and camaraderie, Brin and Page showed employees how they expected them to interact. They also provided a model for employees to approach their work. “A management team distracted by a series of short-term targets is as pointless as a dieter stepping on a scale every half hour,” they wrote. The leadership team exemplified its commitment to the long term by encouraging Google engineers to spend 20 percent of their time on projects that interest them, regardless of how long they might take to come to fruition. Half of new product launches have originated from the “20-percent time,” Marissa Mayer, Google’s vice president of search products and user experience, has told reporters.

The best leadership teams naturally and often unconsciously learn from one another. In their 2008 book, *Senior Leadership Teams*, authors Ruth Wage man, Debra Nunes, James Burrus and J. Richard Hackman reported on their research into what is required for leadership teams to perform superbly. Based on data from120 teams around the world, the authors found, “The best teams are continually being coached—and are coaching themselves —to evolve, learn and grow. They learn from their leader, each other, and their experiences.”

The single biggest mistake the Bear Stearns leadership team made was its refusal to face harsh realities.

NetApp co-founder and Executive Vice President Dave Hitz, whose background was engineering, credits Mendoza with teaching him a simple algorithm to solve every problem: Who owns the problem? Do I trust them? How do I find an owner I trust? As the company grew, Hitz realized that Mendoza’s approach was more powerful and scalable than trying to solve the problem himself.

The authors of *Senior Leadership* Teams noted that even in the best teams “team growth and development are largely informal and ongoing, so subtle that, at times, an outsider might miss them.” Imagine the effectiveness of teams that *deliberately* optimize their own performance. By assessing their values and goals, as well as the way they function, leadership teams can determine whether they need to change. Nevertheless, despite the serious ramifications of their conduct, few leadership teams recognize or acknowledge the impact of their own behavior.

The senior leaders of Unite Group PLC, the U.K.’s top developer and manager of student accommodations, decided to address their own performance head on. Unite, a FTSE 200 company, created a written charter for the leadership team that lays out the values, behaviors and expectations for individual team members and the team as a whole. The team published the charter and asked to be held accountable for living up to it, especially during challenging times.

According to Unite CEO Mark Allan, the process of developing the charter is more important than the document itself. “When you go through that exercise, it gives a shared reference point to hold colleagues to account,” he says. “We believe that the way the leadership team behaves is the way the rest of the organization will behave.”

Because of its work to develop and live up to its charter, Unite was better prepared than most companies to address the difficult challenges brought on by the economic downturn. Rather than making decisions out of fear, the leadership team looked for the opportunities raised by the changing market. It has concentrated on connecting the company’s values to its commercial performance and new business imperatives. “It would have had a hugely negative impact if we had not been able to address difficult issues so robustly,” Allan says.

Winning without Fear

Hard times are a fertile breeding ground for fear-based behavior. During such times, leaders often obsess about what they have to lose, rather than think rationally about what steps they need to take to win. In contrast, high-performing leadership teams commit to proactive, fact-based decision-making rather than reactive, emotion-driven decision- making. They balance the needs of the short and the long term.

As reporters continue to dissect what went wrong with the world’s financial system, publishing books such as Street Fighters: The Last 72 hours of Bear Stearns, the Toughest Firm on *Wall Street; Fool’s Gold: How the Bold Dream of a Small Tribe at J.P.Morgan was Corrupted by Wall Street Greed and Unleashed a Catastrophe and Dumb Money: How our Greatest Financial Minds Bankrupted the Nation,* readers will learn a great deal about the confluence of greed, hubris, lax regulation and bad luck that led to the global financial meltdown. But readers would do well to learn another lesson: The outcome might have been different had the senior leadership teams of the felled companies welcomed dissent and debate, upheld values such as honesty and decency, and paid attention to the people within their own companies who saw the dangers ahead.

Susan Lucia Annunzio is president and CEO of The Center for High Performance, an adjunct professor of management at the University Of Chicago Booth School Of Business and author of *Contagious Success, eLeadership*, and *Communicoding*.