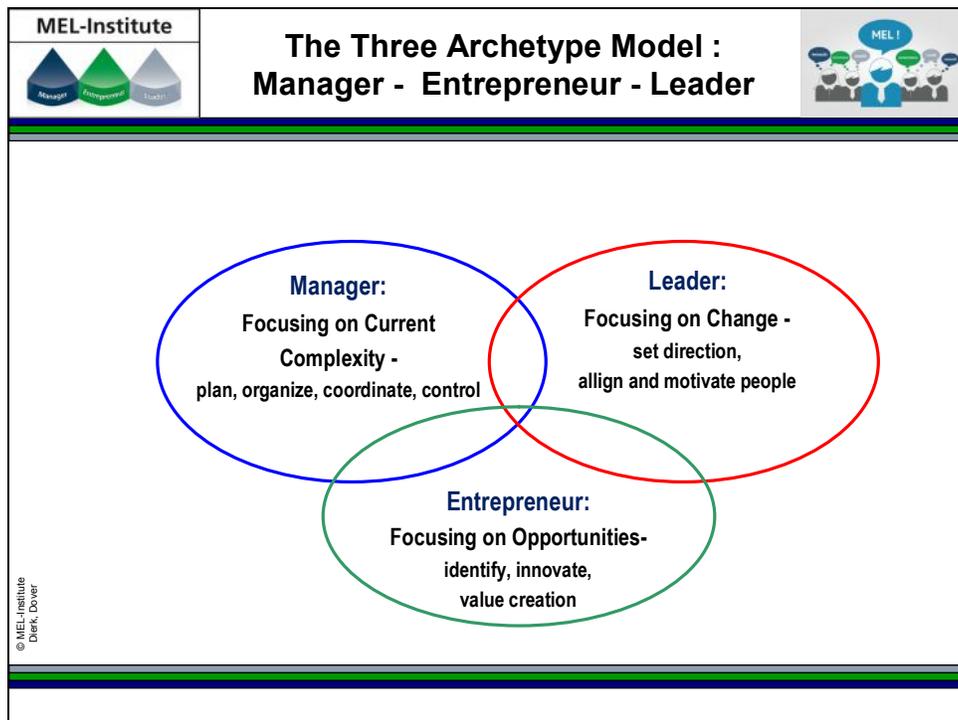


Idea Watch

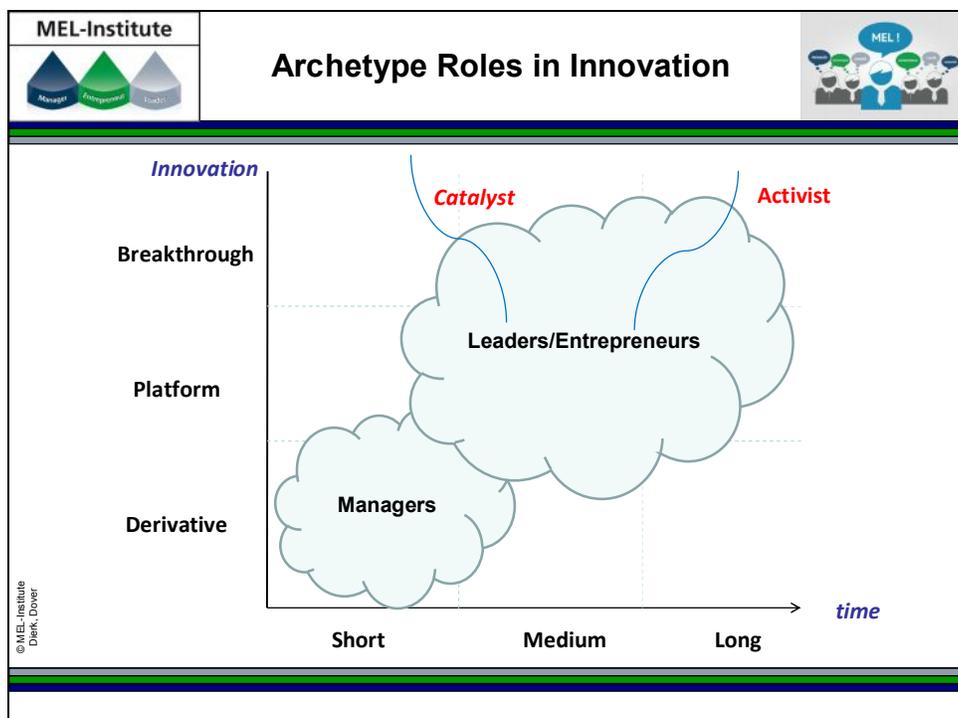
Is Your Boss Leading the Company Astray? Monitoring Executive Competencies is a “Must.”

A recent Schumpeter editorial in the Economist (“Going Off the Rails,” November 30, 2013) warned us to watch for signs of strange and revenue-damaging behavior by senior executives, especially at the top of the house. This fear of hubris, Napoleonic aggrandizement, divorce from market-place reality, or simply a diminution of interest or competence is far too-often overlooked, ignored or – even worse – recognized but tolerated (due to concern about dismissal, a false sense of loyalty, and such). There are many explanations for this – the person has been in the job too long (e.g., universities violate the 5-year Presidency rule at their peril), they may have been recruited for one set of skills (e.g., cost cutting) but other capabilities are now required (e.g., an acceleration in customer acquisition) or basically they were the appointed successor of a skilled and successful leader but without the requisite skills of the originator, a situation often found in successions within a family business. It is sometimes the case that such problems are obvious -- although dealing with them can still remain challenging, especially when ownership is involved – but the real difficulties emerge when decline of relevant capabilities slowly and invidiously emerge. It might be that market share slowly declines, innovation fails to keep pace with rivals, the exodus of strong executive talent accelerates, all while the CEO (and often his/her immediate acolytes – CFO, CTO, COO, etc.) continue to think highly of their own leadership skills. This *contretemps* – our grasp of an often changing market has weakened without us appreciating our growing shortcomings – is likely to spell at least decline and – more likely – dissolution of a business. A new tool, the MEL-Index, (www.mel-institute.com) offers a powerful yet easily administered and interpreted approach that can act as a diagnostic, early-warning system for identifying decision-making imbalance in the senior executive ranks. After a few words about the MEL-Index, we will illustrate its application with a few interesting examples.

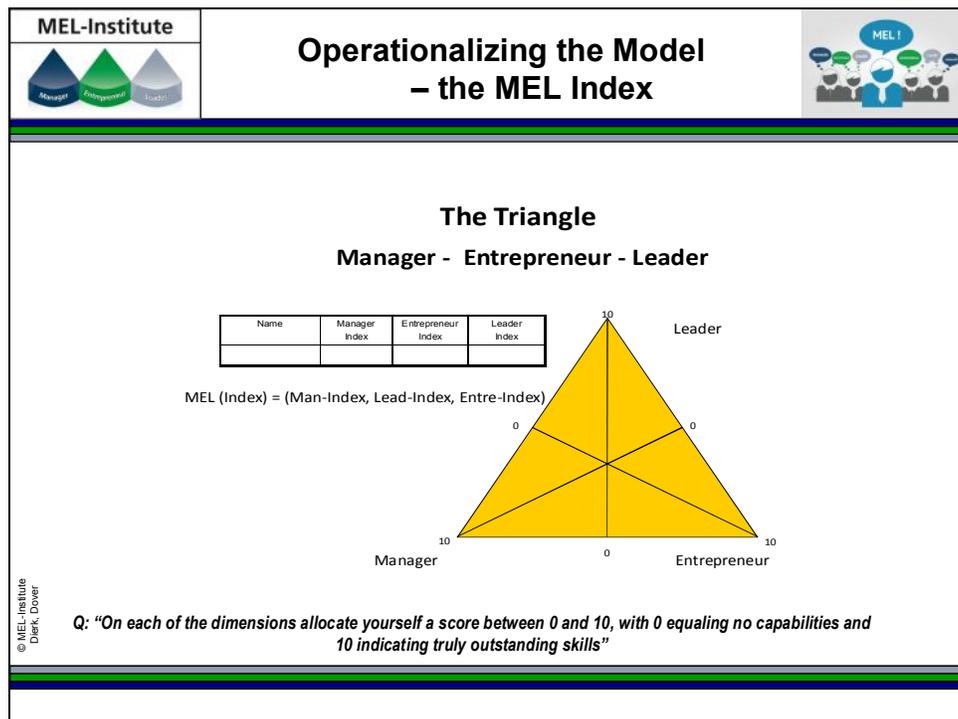
Much has been written about the “ambidextrous organization” in which a company must efficiently manage the present while carefully and sometimes painfully preparing for the future. Similarly, McKinsey have coined the concept of “performance and health” where management teams must not only improve corporate performance in the near term but also lay the foundations today for consistent and resilient growth in years to come. Companies like Digital, Polaroid and Kodak are recent cases of corporate giants that have either vanished or are much diminished by their failure to grasp these fundamentals. It is our belief that three basic archetypes – managers, entrepreneurs and leaders – must work effectively together to sustain innovation in the fast changing world in which most companies compete. Although definitions may vary slightly based on such factors as culture, industry type/status or ownership profile, we have broadly classified managers, entrepreneurs and leaders (MEL) as follows:



The interaction of these three archetypes becomes essential in the innovation process, both for short and longer term initiatives. This can be represented by the following simple schema. Note that the leader plays the essential role of facilitating/enabling the entrepreneur within organizations of all sizes and complexity.



If we accept these conceptual premises, then any organization will require an often-shifting balance of MEL capabilities to sustain performance over time. We can visualize a strong managerial emphasis in a stable, commoditized market while dynamic leadership-driven entrepreneurial facilitation is required in fast growth, rapidly changing markets. But how best to assess an individual or an organizational ability to perform these MEL tasks? We have developed an in-depth discussion schedule that taps into senior managements' views on the role the MEL archetypes play within their company, the capabilities required to fulfill these roles, and the perceived institutional success with which these roles/tasks are undertaken. However, in order to provide a quick yet visually powerful overview of MEL at work we will illustrate the summary question asked of participants at the end of the interview. It is shown below:



MEL capabilities are measured at the individual level (what do you think of your own capabilities?), at the peer executive level (e.g., what do you think of the CEOs MEL capabilities?) and at the institutional level (how would the company/business unit score on the *manager*, *entrepreneur* and *leader* dimensions?). Results can be used for a number of diagnostic purposes – How does the current balance of MEL skills “fit” with operational business objectives? How can an imbalance of required skills be best remedied (recruitment; training; reward systems, etc.)? and so on. Let’s extract a few examples from our growing database of “bosses behaving

badly” or –more gently – indicators that can aid senior executives fulfill their potential and better meet the needs of their prescribed jobs.

Delusional Dangers – we were working recently with a European producer of specialist leather accessories for automobiles and took the opportunity to apply the MEL Index to the top 20 or so executives in the company. The company, an SME with revenues of about €100 m, had been a family business for almost 200 years and was currently run by a descendent of the original founder. Recent results had not been favorable with the company losing market share due, in large part – according to executives just below the C-suite – to a significant competitive weakening of its innovation intensity. The CEO saw himself as a sound leader, a view not shared by most of his peers who viewed his strengths as more of a day by day micromanager. The ratings were similar for two other pivotal officers – the CFO and CTO. Both were seen as managerially adroit but less adept at leadership and entrepreneurial capabilities. This balance of skills seemed to greatly influence the adoption of a cautious and rigid innovation approach at the firm. Subsequent discussion by the senior management team revealed that the company’s top executives should be much more future oriented, exhibiting leadership and entrepreneurial skills that stimulate continuous innovation. The CEO and CFO were replaced in a move initiated by the head of the advisory board, a family member and a previous CEO (evaluated as a strong leader and entrepreneur). At the same time, two high-potential, middle managers with leadership orientation were promoted into the top team.

Managers Matter – a \$6b US mechanical and electrical construction company has been on a growth and consistent profitability track even since its inception in the mid 90’s. Much of this can be accounted for by an inspirational CEO and Chairman who can be best classified as “opportunity obsessed,” exemplified by his planning, operating and maintaining of sophisticated facility environment systems through both internal innovation and strategic acquisition. He is ably aided by a President and COO who is also perceived as entrepreneurially strong while, in addition, ranking highly on leadership capabilities (e.g., providing strategic guidance and direction to new product ideas). Their personalities and the firm’s strong financial results have enabled them to attract and maintain impressive talent for the top team. Their “problem” has become an interesting one – as the firm has continued to expand, the weight of decisions on the executive team has left them increasingly stretched. Moreover, the Chairman and President score on the MEL Index as relatively managerially weak. As any company grows the danger magnifies that a shortage of efficient managerial procedures can result from overconfidence and insensitivity in visionary leaders/entrepreneurs. The President seemed to have recognized this challenge and noted:

“I intend to be less quick to judgment. I have always had a low tolerance for non-leaders. I must appreciate the need for balance and use, for example, the CFO as a counterweight to my ideas.”

Situational Balance – the balance of MEL capabilities required of executive teams will, in large part, depend on the market and other situational forces facing the organization. There will be times when strong managerial capabilities need to dominate whereas in other settings leadership that facilitates entrepreneurial endeavor should prevail. An example from some recent research with a leading German manufacturer of electric connection and industrial automation technology shows how MEL needs differ as business settings change. We were asked to examine the MEL capabilities of the top executives within two of the company's five business units. BU A is the cash cow of the company with mainly mature, mechanical products that can be considered commoditized. As a consequence, BU A needs to be highly efficient in its processes which demands considerable Manager-skills. Accordingly, self-evaluation by executives revealed a strong, overall Manager-capability. However, the unit cannot stand still and seeks to expand production facilities to enter new markets in Asian and South American while maintaining success in its traditional markets in Europe and North America. Finding market opportunities for mature products requires a reasonable level of Entrepreneur capability (at least to produce incremental innovation). Previous work by the authors indicates that it is difficult – at least in the short or medium term – for individuals or organizational units to significantly shift from one MEL archetype to another, especially between the Manager and Entrepreneur roles. BU A personnel concluded it was better to recruit Entrepreneur talent from outside rather than try to convert/train existing personnel.

BU B is active in a technologically sophisticated electronic business area where the margins are much higher than in A. The main challenge for B is continued profitable growth (around 15%) at above both the corporate and industry average which makes stringent demands on strong Leadership and Entrepreneurial capabilities. Measurement of the MEL archetypes within the executive team showed a solid balance of personnel between Manager, Leader and Entrepreneur-orientation. Importantly, the BU Head was seen by his peers as having sound leadership and entrepreneurial proclivities. A major challenge for him, of course, is to fill future positions with the appropriate balance of people, given the units aggressive growth goals. Since our research was completed, BU B has continued to exceed its growth targets. This has been accomplished, in part, by some reorganization in which increased emphasis has been placed on training and hiring personnel with Leader and Entrepreneur abilities.

Keeping a Finger on the Pulse

As Schumpeter noted “The corner office is almost a factory for personal problems.” While it may be the case that senior executives have simply lost their grasp on the reality of the job, more often it is a situation of the “wrong person in the wrong job” or that the balance of capabilities among the top team is inappropriate to the current and upcoming challenges facing the organization. In order to effectively operate the “ambidextrous organization” we advise that a company a) undertake the industry/market due diligence to establish clear and well-communicated short and longer-term business objectives, b) devise the metrics to both assess company/product position (e.g., stage of product life cycle; innovation intensity) and business

performance (e.g., net income; relative market share) and c) determine the tasks required of a manager, entrepreneur or leader and then measure the competencies possessed on these archetypes by the senior group as a whole at this point in time. The sharing of these findings in a plenary session of the top team (and their direct reports) – or some similar interactive forum - can lead to deep diagnostic insights through the correlation of results with MEL capabilities and subsequent suggestion of actions for future training, recruitment and re-allocation of key personnel. Such periodic soundings of senior management can help company's justify the tough strategic and organizational adjustments required in a rapidly changing world.