Smart Power Personified

THE OCCUPY WALL STREET MOVEMENT. Donald Trump's unexpected presidential victory. The popularity of the TV show *Undercover Boss*. The stunning pay gap between CEOs and front-line workers. What do these things have in common?

They are evidence of the increasing disconnect between people at the top and people at the bottom — or even the middle — of society. When transferred to a corporate environment, they are evidence of a misuse of power and, frankly, a lack of leadership. By contrast, 'smart power' seeks to minimize the distance between the top and bottom ranks of an organization in the service of greater cohesion and superior performance.

Let's be clear: this is not a Marxist, anti-capitalist screed arguing for total equality of all employees. CEOs bear an enormous burden. They carry broader responsibilities and toil for longer hours than most employees, and therefore, should be better compensated than the average worker. But it's precisely the higher salaries, along with the isolation fostered by the perks and benefits of the office, that compromise a CEO's leadership. Smart power involves fighting that isolation and creating greater bonds and identification between the top and bottom of a hierarchy.

Most CEOs would never admit to being elitists, deserving of special treatment just by virtue of their title. And yet, many CEOs, wittingly or unwittingly, behave in that manner due to the nature of the office. It's not just the 350-to-1 ratio of CEO-to-unskilled worker pay in the U.S., either—the perks and benefits of the office fundamentally change behavior and undermine the ability to exercise smart power.

As **Warren Buffett** wrote in his 2010 shareholder letter,

> **Winston Churchill** once said, "You shape your houses and then they shape you." That wisdom applies to businesses as well. Bureaucratic procedures beget more bureaucracy, and imperial corporate palaces induce imperious behavior.... At Berkshire's 'World Headquarters', our annual rent is $270,212. Moreover, the home-office investment in furniture, art, Coke dispenser, lunch room, high-tech equipment — you name it — totals $301,363. As long as Charlie and I treat your money as if it were our own, Berkshire's managers are likely to be careful with it as well.

Legendary management consultant **Russell Ackoff** alluded to the same phenomenon in a 1994 panel discussion on the legacy of **W. Edwards Deming** when he pointed out that there is a fundamental disconnect between what corporate executives preach and what they practice:

> A corporation says that its principle value is maximizing shareholder value. That's nonsense. If that were the case, executives wouldn't fly around on private jets and have Philippine mahogany-lined offices and the rest of it. The principle function to those executives is to provide themselves with the quality of work life that

they like. And profit is simply a means which guarantees their ability to do it. . . . If we are going to talk about values, we've got to talk about what the values are in action, not in proclamation.

You can see this kind of behaviour in the old **General Motors**. Prior to its bankruptcy in 2009, GM executives kept themselves in almost total isolation from front-line workers: they ate catered meals in a private dining room and used a special elevator that took them directly from the garage to their offices on the 14th floor. It's probably unnecessary to mention that entrance to that floor was by invitation only.

It is this distance between the CEO bubble and the daily life of ordinary workers that leads to the popularity of television shows like *Undercover Boss*. The premise — force a CEO to do the menial work of the lowest-paid frontline workers and film it — is a magnificent exercise in *schadenfreude*. Viewers revel in the CEO's struggles with the job, and gloat at his or her epiphany that the work is both really hard and poorly paid. It feeds into the perception that there's a fundamental inequality in the workplace (and society at large), and that compensation isn't appropriately calibrated to the work that ordinary people do.

When power is used poorly, it exacerbates the distance between the top and the bottom. When it is used wisely, it diminishes that distance to the benefit of both the workers and the organization. Controlling executive pay, perks, and benefits is one way to demonstrate smart power. **Ken Iverson**, the late (and legendary) CEO of **Nucor** exemplified this approach. In his book, *Plain Talk*, he writes:

> Inequality runs rampant in most business corporations. I am referring now to hierarchical inequality which legitimizes and institutionalizes the principle of 'We' vs. 'They'. The people at the top of the hierarchy grant themselves privilege after privilege, flaunt those privileges before the men and women who do the real work, then wonder why employees are unmoved by management's invocations to cut costs and boost profitability. When I think of the millions of dollars spent by people at the top of the hierarchy on efforts to motivate people who are continually put down by that hierarchy, I can only shake my head in wonder.

To fight this inequality, Iverson installed pay-for-performance bonuses for frontline workers, not just executives. He insisted that in bad times, top management takes a pay cut before anyone else — a practice that's common at many large Japanese companies. Moreover, all executives flew economy class on business trips and rented regular cars. Everyone in the organization even had the same insurance plans.


IMAGE: GETTY IMAGES

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Bob Chapman, the CEO of **Barry-Wehmiller**, embraces a form of smart power that he calls 'people-centric leadership'. As with Iverson's insistence that top management take pay cuts before workers, Chapman believes that everyone in Barry-Wehmiller is part of a family that thrives together and struggles together. In 2008, the company suffered a 40 per cent drop in customer orders. Most leaders would deal with the downturn by laying-off workers. Not Chapman. He had everyone share the burden: he suspended the company's 401K match, and asked all workers — including management — to take four weeks of unpaid time off. Chapman describes the result this way:

> The reaction was extraordinary. Some team members offered to take double furloughs, stepping up to 'take the time' for their co-workers who could not afford the loss of pay. Many associates welcomed the time off, scheduling it so they could spend the summer home with children or participate in special volunteer projects.
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> Our business emerged from the downturn well ahead of the curve and, once orders picked back up, our performance increased faster than ever before. Why? Because our actions during a time of great distress didn't damage the cultural fabric of the company — like layoffs so often do — but rather, strengthened it. Our decision to use furloughs to save jobs made our associates proud and profoundly touched by the realization that they worked for a company that truly cared about them. Even though they had lost out on one-twelfth of their income, they embraced the furlough program because it meant saving someone else's job.

It's true that Iverson and Chapman — and all CEOs, for that matter — make more money than frontline workers. But workers don't object to pay differentials; rather, they object

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to differences that seem both obscene and unwarranted. Indeed, respondents in a study by **Sorapop Kiatpongsan** and Havard Business School Professor **Michael Norton** show that people feel the 'ideal' pay gap between CEOs and unskilled workers should be from 2 to 1 (Denmark) up to 20 to 1 (Taiwan).

At **Costco**, former CEO **Jim Sinegal** made $325,000 a year. His successor, **Craig Jelinek** earned $650,000 in 2012, plus a $200,000 bonus and stock options worth about $4 million, based on the company's performance. By contrast, **Walmart** CEO **Mike Duke**'s 2012 base salary was $1.3 million; he was also awarded a $4.4 million cash bonus and $13.6 million in stock grants.

Smart power isn't all about foregoing money, however. It means learning and appreciating the work that gets done at the front lines—and not just when the Undercover Boss cameras show up. In my experience, that is most effectively done by adopting the philosophy that **Toyota** calls *genchi genbutsu*, or 'go and see'.

'Go and see' is fundamental to the philosophy of lean and continuous improvement that has made Toyota the most successful automaker in the world. It means that executives (and anyone, for that matter) must go to where the work is done and see for themselves what's happening. When leaders do this on a regular basis, they close the distance between their offices and the shop floor, and they build a foundation of trust and understanding that leads to superior performance.

Art Byrne, former CEO of **Wiremold**, understands how essential it is for executives to participate in the daily work processes of the front lines. In 10 years under his leadership, Wiremold quadrupled sales, raised gross profit from 38 to 51 per cent, and increased the value of the company by nearly 2500 per cent. But he didn't do it through empty slogans issued from the executive suite or motivational posters tacked to the walls. He did it by 'going and seeing', by joining with his workers on the front lines. Byrne says that "You can't just send a memo. You've got to lead it. Show them by example, do it on the shop floor."

John Toussaint, the former CEO of **Thedacare**, a community-owned health system, said much the same thing. Despite eye-popping increases in the cost of medical care, Toussaint dramatically improved hospital performance during his eight-year tenure, doubling revenue and operating margin, all while receiving numerous awards for quality of patient care. When asked why other hospitals struggle to follow Thedacare's lead, Toussaint replied:

> The biggest mistake that is made is that the senior leaders or the CEO delegates this work to somebody from a department or a [six sigma] black belt and says, 'Here, you just go do lean. And then come back and report to me.' This is about everyone's engagement, from the CEO to the front line nurse and everyone in between.

That doesn't mean that the CEO has to clean and oil the drill press, or empty bedpans in the ICU everyday—although once in awhile, it wouldn't be a bad idea. All employees understand that CEOs have their own responsibilities. But first-hand experience with the jobs that employees do on a regular basis provides executives with a different kind of authority: smart power.

In closing

In *Leaders Eat Last*, **Simon Sinek** points out that if you go to any Marine Corps mess hall, you will see the Marines lined up in rank order, with the most senior person at the back of the line and the most junior person at the front. The order represents the belief that it's the leader's job to ensure people's safety and performance.

This belief is at the core of smart power in the corporate world, as well. It's the understanding that the CEO actually works for the employees — not the other way around. The traditional trappings of power — high salaries, extraordinary perks and benefits, a disconnect from the daily work of the organization — all serve to obscure that fundamental understanding, and weaken the bonds between the top and bottom of a hierarchy. So, give up the trappings of privilege, and reap the benefits of smart power. **RM**

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