Boards Need Truth

(Whether They Want It or Not)

By Michael Beer

"Every institution is vulnerable, no matter how great," renowned business management consultant Jim Collins writes in his 2009 book *How the Mighty Fall—And Why Some Companies Never Give In.* "No matter how much you've achieved, no matter how much power you've garnered, you are vulnerable to decline. There is no law of nature that the most powerful will inevitably remain at the top. Anyone can fall and most eventually do."

But why? Nearly every organization is grappling now with huge strategic challenges that may demand reimagining the very purpose, identity, strategy, business model, and structure of the enterprise. Under normal circumstances, most corporate efforts to transform fail. It almost always happens because the organization isn't aligned with senior management's new direction and senior management doesn't realize it. There is a good reason for this lack of understanding, but that disconnect can be destructive. The COVID-19 crisis brings an additional element of urgency to transform in an environment that is even less forgiving of failure. There is, however, a way out of this trap, but it calls for the board to encourage—even command—the CEO to lead a companywide honest conversation about how and why the company is misaligned.

To illustrate how inattention to misalignments can be damaging, recall how employees at both Wells Fargo & Co. and The Boeing Co. knew that their companies had policies that were creating great danger for themselves (not to mention the financial or physical well-being of customers), but had no safe or even effective way to wake up top management. Wells Fargo has already lost approximately $100 billion in market value—a loss for which its board was rightly held accountable. Boeing's costs attributable to the 737 MAX failure are so far reported to be $19 billion.

While strategy, leadership, culture, ethics, morale, technology, structure, and service are contributing factors, they are seldom the root cause of corporate failures. Rather, it is the reluctance of boards to see CEOs solicit honest, potentially embarrassing feedback from lower levels about flaws in the company's system of organizing, managing, and leading. This reluctance has several sources: a natural unwillingness to hear bad news, an unwillingness to tell the bosses what they don't want to hear, and a lack of knowledge of any established, repeatable process by which such a companywide conversation can be conducted safely but constructively.

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Decades of research by myself and colleagues have shown that a structured process we call the "strategic fitness process" has enabled courageous leaders to learn the truth and to take action that saved them and their businesses. There are many ways to lead honest conversations, but boards should insist that, whatever the method, CEOs embrace the underlying principles we derived from our research *(see sidebar, below right)*.

This research analyzed the barriers to effective strategy execution reported to senior management by task forces commissioned to interview employees at lower levels (that is, below senior management), in two dozen companies in diverse industries ranging from medical devices, high tech, and pharmaceutical, to hotels, toys, and banking. While every company's or unit's problems are distinct, there are almost always six common underlying deficiencies at work. We came to call these the "silent killers" because, like hypertension and high cholesterol to a person's physical health, they can proceed undetected until they eventually produce drastic or fatal effects. The silent killers are what tend to come out in a companywide honest conversation—but not otherwise. Addressing them honestly, our research finds, improves organizational and leadership effectiveness and enables a company to avoid performance disasters in the making.

The Silent Killers

The task forces reported to senior management that while employees at lower levels felt that the company's personnel were committed and capable, they also were frustrated by a common set of problems that prevented the company from carrying out its strategy and living out its values. These problems are the six silent killers. They are interrelated and mutually reinforcing, and they are known and discussed at lower levels where it is safe to do so, but are rarely fed back to the CEO and the leadership team, let alone the board, where they could actually be solved. What are these silent killers?

1. Unclear strategy, conflicting priorities, and unclear values. When a company fails to articulate its values and how those beliefs underpin how the company achieves its goals, it's like allowing a London fog to set in and obstruct activity. At Boeing, for example, the priority of creating software that met the highest engineering standards conflicted with meeting deadlines and financial goals.

2. An ineffective senior team. The individuals may be highly effective, but they are not seen as a collaborative and effective team committed to the company's priorities and values.

3. A leader whose management style is top-down or hands-off. These leadership styles are both means by which people avoid uncomfortable conflict. Using these approaches makes it impossible for top management to come to grips with many serious threats.

4. Poor coordination and collaboration among businesses, functions, or regions. Every leader we studied promoted collaboration, but few were aware of how their own leadership style, corporate culture, and management practices undermined it. One Hewlett-Packard Co. general manager, for example, fearing conflict over strategy and priorities, avoided holding regular senior team meetings that would have brought out sharp differences among the participants. The avoidance of these meetings undermined the coordination needed to develop new products. In addition, required changes in organizing, managing, and leading that would have promoted collaboration did not occur, and expected growth and profit did not materialize.

5. Inadequate leadership development. Senior teams concerned about their own fiefdoms typically do not invest enough time and money in developing a corporate talent management system.

Principles for Leading Honest Conversations

The following are the eight principles that senior leaders can employ—and that boards can readily oversee—to ensure that honest, collective, and public conversations are conducted unhampered in order to uncover the truth about the state of play within an organization.

1. Have the senior leadership team initiate the conversation.

2. Focus the conversation on the strategic, organizational, and cultural issues that matter most.

3. Iterate between the senior team advocating where it wants to take the organization and inquiring into the organization's strengths and barriers to success.

4. Implement rules of engagement to make it safe to share the whole truth.

5. Reflect on the truth, diagnose root causes of problems, and develop a systemic action plan for change that will realign the organization with your leadership team's espoused strategy and cultural values.

6. Advocate the action plan and then launch an inquiry into the strengths and faults of that plan.

7. Make the leadership team accountable to the lower levels of the organization that provided the feedback both for listening accurately and for planning to take transformative action.

8. Repeat the process periodically to generate continuous organizational learning that will improve the quality of the organization.

During his Senate testimony in October 2019, then-Boeing CEO Dennis Muilenburg looks back toward people holding photographs of family members who died in two 737 MAX crashes.

6. Organizational silence. The difficulty lower levels have in speaking truth to power about embarrassing silent killers makes it impossible to transform them even under normal circumstances. Problems fester and eventually explode. In the many organizations we studied, employees reported—often emotionally—that they knew about these silent killers well before a crisis hit.

What makes these problems deadly is that they go undetected by the topmost levels of the organization. People at lower levels, for example, may be well aware that they can't carry out senior management's strategic objectives due to turf battles between units. The unit managers know, too, but they don't want to confess their own ineffectiveness to top management. Top management might know, but they don't want to confess their own ineffectiveness to each other. The board may have no idea at all.

Why Truth Cannot Speak to Power

Top management consists of people, and people respond defensively to feedback that is embarrassing. This tendency is exacerbated by power differentials. CEOs have the authority, money, and decision-making rights that make it easy to avoid embarrassing truths. Moreover, the widely accepted and acclaimed model of leadership that demands a person always be strong and decisive makes it seem like a mistake for leaders to make themselves vulnerable by asking those below them for the truth.

If you were a salesperson at Wells Fargo, would you tell those at the top that their aggressive sales goals and incentives were forcing employees like you to open fake accounts? Not likely, because you would have seen people who did speak up berated for not being team players, sidelined, or fired. You might also fear the uncomfortable emotions aroused by honesty; most of us shy away from making coworkers angry or upset. And to top it off, most people in this situation do not think anything will change even if they do speak up—so why risk it? This hopelessness comes from the near impossibility of truth to speak to power.

What about suggestion boxes, hotlines, ombudspersons, and anonymous employee surveys? Boeing and Wells Fargo had such mechanisms. But their very anonymity proves what top management doesn't really want to hear—the only safe way to say anything is from behind a screen. Moreover, none of these mechanisms directly involves the CEO. If leaders want to make honest conversations effective, they have to make it known to everyone that they want the truth, tell their organization what they plan to change as a result of the feedback, and then when changes are made, share how employees' honesty made a difference.

Thus, the natural reluctance of top leaders to hear embarrassing truths requires a forcing mechanism. Someone with enough authority has to insist that CEOs lead the honest, collective, and internally public conversations they would much rather avoid. The stakes are too high to let CEOs essentially sit on a grenade.

Corporate Stewardship Demands Honest Conversations

When individual board members of "Enterprise Inc." began hearing from lower levels that the CEO was ineffective, the board asked the chief executive to hire a consultant to get help. The CEO ended up in my office and agreed to lead an honest conversation using the strategic fitness process. He decided that when the conversation had been completed, he would report to the board what he had learned and what he planned to change. He asked me to be at that board meeting as an honest broker, but I never heard another word about it. A year later, I received a call from a board member. The board was hearing from key people that little change had occurred despite a very positive and energizing honest conversation. Would I share with the board what I had learned about the effectiveness of the company and its CEO? Of course, I could not—that would violate the consultant-client relationship.

But this was not really a matter of the fine print in a consulting contract. The real problem was that the board had not taken responsibility for the health of the company. Rather, it had largely avoided an embarrassing confrontation by making the CEO responsible for reforming himself. But he didn't. Key people began to leave and precious time and undoubtedly profits were lost. This was a failure of corporate stewardship.

Boards can become much better stewards of a company's future when honest conversations become the norm. In this case, the honest conversation that I facilitated showed the silent killers at work and suggested how they could be addressed.

Remember that the silent killers aren't just any and every problem. They are deficiencies in the fundamental organizational and leadership capabilities that a company needs to carry out its strategy. Thus, they undermine the company's profitability and reputation and may threaten its survival. Regardless of whether or not the CEO wanted to turn over the rocks in his company, the Enterprise Inc. board had the means—and was therefore responsible—to learn about how the killers were at work within the company. The same could be said of the boards of Boeing, Wells Fargo, and so many others that have gotten into deep trouble that could have been avoided.

Research by my colleagues and myself provides empirical evidence that when boards ask senior managers to lead honest conversations in their organization and holds them accountable for responsive changes, organizational effectiveness and performance improve. Becton Dickinson and Co. CEO Vincent A. Forlenza, who led a highly successful corporate transformation between 2010 and 2020, asked his key business unit, regional, and functional leaders to lead honest conversations about the effectiveness of their units. This gave unit leaders vital knowledge about what was working and what was not, and gave Forlenza and his senior team the insights they needed to ensure a successful transformation. This practice has become the norm at Becton Dickinson. Both Forlenza and his predecessor, Edward J. Ludwig, voluntarily reported what they learned to the board. That honesty has contributed in many ways to the company's considerable success.

Frederick J. Lynch, CEO of Masonite International Corp., went one step further. He invited board members to attend a meeting of his top 200 people at which he shared the feedback he had received from a companywide honest conversation and what he planned to change. The board chair told Lynch that this level of openness convinced the board that they would never be blindsided.

Effective leaders are purpose-driven, putting the organization ahead of their own interests and comfort. They are secure enough to ask those over whom they have authority for the truth and to respond nondefensively and constructively. And if the CEO—or a candidate for CEO—resists or refuses? That tells you that they lack some essential leadership characteristics.

Honesty is the best policy in everyday life. It is also the best policy in corporate life. But it won't happen there by itself.

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Silent Killers Checklist (check all that apply)

Unclear Strategy and Values, Too Many Priorities, and Conflicting Priorities

- ☐ Our strategy may be well-developed on paper but hasn't been translated into a simple, logical, and broadly understood story for how the business will win.
- ☐ We have a lack of clearly defined and articulated values to guide organizational behavior.
- ☐ Because functions and businesses each champion their own priorities, we face conflicting priorities, conflicts over resources, and poor execution of our strategy.
- ☐ People feel overloaded with everything being labeled a priority.

Ineffective Leader

- ☐ Our leader tends to get lost in the operational details and works "one level below his or her pay grade."
- ☐ Our leader is not visible. He or she spends relatively little time communicating overall strategy or direction or forcing constructive debate to resolve contesting views.
- ☐ Our leader does not confront issues or people directly to resolve festering conflicts.

Ineffective Senior Team

- ☐ The senior team is ineffective and not really a team.
- ☐ Our senior team operates a hub-and-spoke model. Our leader meets with team members individually to review the results of their function, business, or region. The whole team rarely meets to review the business together.
- ☐ Most of our meeting time is spent on information sharing and updates on short-term operational details rather than confronting and resolving tough strategic issues.
- ☐ We have little constructive conflict in meetings.
- ☐ The real decisions get made outside the room.

Poor Coordination or Teamwork Across Silos

- ☐ The organization we have does not work effectively.
- ☐ It is painfully hard to execute on cross-functional, business, or geographic initiatives, often even despite good personal relationships.

Excerpted from *Fit to Compete: Why Honest Conversations About Your Company's Capabilities Are the Key to a Winning Strategy*, by Michael Beer (Harvard Business School Publishing, 2020)