CHAPTER 1

The Gap Nobody Knows

The CEO was sitting in his office late one evening, looking tired and drained. He was trying to explain to a visitor why his great strategic initiative had failed, but he couldn't figure out what had gone wrong.

"I'm so frustrated," he said. "I got the group together a year ago, people from all the divisions. We had two off-site meetings, did benchmarking, got the metrics. McKinsey helped us. Everybody agreed with the plan. It was a good one, and the market was good.

"This was the brightest team in the industry, no question about it. I assigned stretch goals. I empowered them—gave them the freedom to do what they needed to do. Everybody knew what had to be done. Our incentive system is clear, so they knew what the rewards and penalties would be. We worked together with high energy. How could we fail?

"Yet the year has come to an end, and we missed the goals. They let me down; they didn't deliver the results. I have lowered earnings estimates four times in the past

nine months. We've lost our credibility with the Street. I have probably lost my credibility with the board. I don't know what to do, and I don't know where the bottom is. Frankly, I think the board may fire me."

Several weeks later the board did indeed fire him.

This story—it's a true one—is the archetypal story of the gap that nobody knows. It's symptomatic of the biggest problem facing corporations today. We hear lots of similar stories when we talk to business leaders. They're played out almost daily in the press, when it reports on companies that should be succeeding but aren't: Aetna, AT&T, British Airways, Campbell Soup, Compaq, Gillette, Hewlett-Packard, Kodak, Lucent Technologies, Motorola, Xerox, and many others.

These are good companies. They have smart CEOs and talented people, they have inspiring visions, and they bring in the best consultants. Yet they, and many other companies as well, regularly fail to produce promised results. Then when they announce the shortfall, investors dump their stocks and enormous market value is obliterated. Managers and employees are demoralized. And increasingly, boards are forced to dump the CEOs.

The leaders of all the companies listed above were highly regarded when they were appointed—they seemed to have all of the right qualifications. But they all lost their jobs because they didn't deliver what they said they would. In the year 2000 alone, forty CEOs of the top two hundred companies on *Fortune*'s 500 list were removed—not retired but fired or made to resign. When 20 percent of the most powerful business leaders in America lose their jobs, something is clearly wrong. This trend continued in 2001 and will clearly be in evidence in 2002.

In such cases it's not just the CEO who suffers—so do

the employees, alliance partners, shareholders, and even customers. And it's not just the CEO whose shortcomings create the problem, though of course he or she is ultimately responsible.

What is the problem? Is it a rough business environment? Yes. Whether the economy is strong or weak, competition is fiercer than ever. Change comes faster than ever. Investors—who were passive when today's senior leaders started their careers—have turned unforgiving. But this factor by itself doesn't explain the near-epidemic of shortfalls and failures. Despite this, there are companies that deliver on their commitments year in and year out—companies such as GE, Wal-Mart, Emerson, Southwest Airlines, and Colgate-Palmolive.

When companies fail to deliver on their promises, the most frequent explanation is that the CEO's strategy was wrong. But the strategy by itself is not often the cause. Strategies most often fail because they aren't executed well. Things that are supposed to happen don't happen. Either the organizations aren't capable of making them happen, or the leaders of the business misjudge the challenges their companies face in the business environment, or both.

Former Compaq CEO Eckhard Pfeiffer had an ambitious strategy, and he almost pulled it off. Before any of his competitors, he saw that the so-called Wintel architecture—the combination of the Windows operating system and Intel's constant innovation—would serve for everything from a palm-held to a linked network of servers capable of competing with mainframes.

Mirroring IBM, Pfeiffer broadened his base to serve all the computing needs of enterprise customers. He bought Tandem, the high-speed, failsafe mainframe manufacturer, and Digital Equipment Company (DEC) to give Compaq serious entry into the services segment. Pfeiffer

moved at breakneck speed on his bold strategic vision, transforming Compaq from a failing niche builder of high-priced office PCs to the second-biggest computer company (after IBM) in just six years. By 1998 it was poised to dominate the industry.

But the strategy looks like a pipe dream today. Integrating the acquisitions and delivering on the promises required better execution than Compaq was able to achieve. More fundamentally, neither Pfeiffer nor his successor, Michael Capellas, pursued the kind of execution necessary to make money as PCs became more and more of a commodity business.

Michael Dell understood that kind of execution. His direct-sales and build-to-order approach was not just a marketing tactic to bypass retailers; it was the core of his business strategy. Execution is the reason Dell passed Compaq in market value years ago, despite Compaq's vastly greater size and scope, and it's the reason Dell passed Compaq in 2001 as the world's biggest maker of PCs. As of November 2001, Dell was shooting to double its market share, from approximately 20 to 40 percent.

Any company that sells direct has certain advantages: control over pricing, no retail markups, and a sales force dedicated to its own products. But that wasn't Dell's secret. After all, Gateway sells direct too, but lately it has fared no better than Dell's other rivals. Dell's insight was that building to order, executing superbly, and keeping a sharp eye on costs would give him an unbeatable advantage.

In conventional batch production manufacturing, a business sets its production volume based on the demand that is forecast for the coming months. If it has outsourced component manufacturing and just does the assembling, like a computer maker, it tells the component suppliers what volumes to expect and negotiates the

prices. If sales fall short of projections, everybody gets stuck with unsold inventory. If sales are higher, they scramble inefficiently to meet demand.

Building to order, by contrast, means producing a unit after the customer's order is transmitted to the factory. Component suppliers, who also build to order, get the information when Dell's customers place their orders. They deliver the parts to Dell, which immediately places them into production, and shippers cart away the machines within hours after they're boxed. The system squeezes time out of the entire cycle from order to delivery—Dell can deliver a computer within a week or less of the time an order is placed. This system minimizes inventories at both ends of the pipeline, incoming and outgoing. It also allows Dell customers to get the latest technological improvements more often than rivals' customers.

Build-to-order improves inventory turnover, which increases asset velocity, one of the most underappreciated components of making money. Velocity is the ratio of sales dollars to net assets deployed in the business, which in the most common definition includes plant and equipment, inventories, and accounts receivable minus accounts payable. Higher velocity improves productivity and reduces working capital. It also improves cash flow, the life blood of any business, and can help improve margins as well as revenue and market share.

Inventory turns are especially important for makers of PCs, since inventories account for the largest portion of their net assets. When sales fall below forecast, companies with traditional batch manufacturing, like Compaq, are stuck with unsold inventory. What's more, computer components such as microprocessors are particularly prone to obsolescence because performance advances so rapidly, often accompanied by falling prices. When these PC mak-

ers have to write off the excess or obsolete inventory, their profit margins can shrink to the vanishing point.

Dell turns its inventory over eighty times a year, compared with about ten to twenty times for its rivals, and its working capital is negative. As a result, it generates an enormous amount of cash. In the fourth quarter of fiscal 2002, with revenues of $8.1 billion and an operating margin of 7.4 percent, Dell had cash flow of $1 billion from operations. Its return on invested capital for fiscal 2001 was 355 percent—an incredible rate for a company with its sales volume. Its high velocity also allows it to give customers the latest technological improvements ahead of other makers, and to take advantage of falling component costs—either to improve margins or to cut prices.

These are the reasons Dell's strategy became deadly for its competitors once PC growth slowed. Dell capitalized on their misery and cut prices in a bid for market share, increasing the distance between it and the rest of the industry. Because of its high velocity , Dell could show high return on capital and positive cash flow, even with margins depressed. Its competition couldn't.

The system works only because Dell executes meticulously at every stage. The electronic linkages among suppliers and manufacturing create a seamless extended enterprise. A manufacturing executive we know who worked at Dell for a time calls its system "the best manufacturing operation I've ever seen."

As this book goes to press, the merger between Compaq and Hewlett-Packard, proposed in mid-2001, is still up in the air. No matter: Alone or in combination, nothing they do will make them competitive with Dell unless they come up with an equal or better build-to-order production model.

The chronic underperformers we've mentioned so far

have lots of company. Countless others are less than they could be because of poor execution. The gap between promises and results is widespread and clear. The gap nobody knows is the gap between what a company's leaders want to achieve and the ability of their organization to achieve it.

Everybody talks about change. In recent years, a small industry of changemeisters has preached revolution, reinvention, quantum change, breakthrough thinking, audacious goals, learning organizations, and the like. We're not necessarily debunking this stuff. But unless you translate big thoughts into concrete steps for action, they're pointless. Without execution, the breakthrough thinking breaks down, learning adds no value, people don't meet their stretch goals, and the revolution stops dead in its tracks. What you get is change for the worse, because failure drains the energy from your organization. Repeated failure destroys it.

These days we're hearing a more practical phrase on the lips of business leaders. They're talking about taking their organizations to the "next level," which brings the rhetoric down to earth. GE CEO Jeff Immelt, for example, is asking his people how they can use technology to differentiate their way to the next level and command better prices, margins, and revenue growth.

This is an execution approach to change. It's reality-based—people can envision and discuss specific things they need to do. It recognizes that meaningful change comes only with execution.

No company can deliver on its commitments or adapt well to change unless all leaders practice the discipline of execution at all levels. Execution has to be a part of a company's strategy and its goals. It is the missing link between aspirations and results. As such, it is a major—

indeed, *the* major—job of a business leader. If you don't know how to execute, the whole of your effort as a leader will always be less than the sum of its parts.

EXECUTION COMES OF AGE

Business leaders are beginning to make the connection between execution and results. After Compaq's board fired Pfeiffer, chairman and founder Ben Rosen took pains to say that the company's strategy was fine. The change, he said, would be "in execution. . . . Our plans are to speed up decision-making and make the company more efficient." When Lucent's board dismissed CEO Richard McGinn in October 2000, his replacement, Henry Schacht, explained: "Our issues are ones of execution and focus."

Clients of high-level headhunters are calling and saying, "Find me a guy who can execute." Writing in IBM's 2000 annual report, Louis V. Gerstner said of Samuel Palmisano, the man who would succeed him, "His real expertise is making sure we execute well." Early in 2001 the National Association of Corporate Directors added "execution" to the list of items that directors need to focus on in evaluating their own performance. Directors, the group says, have to ask themselves how well the company is executing and what accounts for any gap between expectations and management's performance. Very few boards now ask these questions, the group noted.

But for all the talk about execution, hardly anybody knows what it is. When we're teaching about execution, we first ask people to define it. They think they know how, and they usually start out well enough. "It's about getting things done," they'll say. "It's about running the

company, versus conceiving and planning. It's making our goals." Then we ask them *how* to get things done, and the dialogue goes rapidly downhill. Whether they're students or senior executives, it is soon clear—to them as well as to us—that they don't have the foggiest idea of what it means to execute.

It's no different when execution is mentioned in books, newspapers, or magazines. You get the impression (implicitly), that it's about doing things more effectively, more carefully, with more attention to the details. But nobody really spells out what they mean.

Even people who pinpoint execution as the cause of failure tend to think of it in terms of attention to detail. Ben Rosen used the right word in his remarks, for example, but if he understood what execution actually requires, Compaq's leadership never got the message.

To understand execution, you have to keep three key points in mind:

- *Execution is a discipline, and integral to strategy.*
- *Execution is the major job of the business leader.*
- *Execution must be a core element of an organization's culture.*

Execution Is a Discipline

People think of execution as the tactical side of business. That's the first big mistake. T actics are central to execution, but execution is not tactics. Execution is fundamental to strategy and has to shape it. No worthwhile strategy can be planned without taking into account the organization's ability to execute it. If you're talking about the smaller specifics of getting things done, call the process

implementation, or sweating the details, or whatever you want to. But don't confuse execution with tactics.

Execution is a systematic process of rigorously discussing hows and whats, questioning, tenaciously following through, and ensuring accountability. It includes making assumptions about the business environment, assessing the organization's capabilities, linking strategy to operations and the people who are going to implement the strategy, synchronizing those people and their various disciplines, and linking rewards to outcomes. It also includes mechanisms for changing assumptions as the environment changes and upgrading the company's capabilities to meet the challenges of an ambitious strategy.

In its most fundamental sense, execution is a systematic way of exposing reality and acting on it. Most companies don't face reality very well. As we shall see, that's the basic reason they can't execute. Much has been written about Jack Welch's style of management—especially his toughness and bluntness, which some people call ruthlessness. We would argue that the core of his management legacy is that he forced realism into all of GE's management processes, making it a model of an execution culture.

The heart of execution lies in the three core processes: the people process, the strategy process, and the operations process. Every business and company uses these processes in one form or the other. But more often than not they stand apart from one another like silos. People perform them by rote and as quickly as possible, so they can get back to their perceived work. Typically the CEO and his senior leadership team allot less than half a day each year to review the plans—people, strategy, and operations. Typically too the reviews are not particularly interactive. People sit passively watching PowerPoint presentations. They don't ask questions.

They don't debate, and as a result they don't get much useful outcome. People leave with no commitments to the action plans they've helped create. This is a formula for failure. You need robust dialogue to surface the realities of the business. You need accountability for results—discussed openly and agreed to by those responsible—to get things done and reward the best performers. You need follow-through to ensure the plans are on track.

These processes are where the things that matter about execution need to be decided. Businesses that execute, as we shall see, prosecute them with rigor, intensity, and depth. Which people will do the job, and how will they be judged and held accountable? What human, technical, production, and financial resources are needed to execute the strategy? Will the organization have the ones it needs two years out, when the strategy goes to the next level? Does the strategy deliver the earnings required for success? Can it be broken down into doable initiatives? People engaged in the processes argue these questions, search out reality, and reach specific and practical conclusions. Everybody agrees about their responsibilities for getting things done, and everybody commits to those responsibilities.

The processes are also tightly linked with one another, not compartmentalized among staffs. Strategy takes account of people and operational realities. People are chosen and promoted in light of strategic and operational plans. Operations are linked to strategic goals and human capacities.

Most important, the leader of the business and his or her leadership team are deeply engaged in all three. *They* are the owners of the processes—not the strategic planners or the human resources (HR) or finance staffs.

Execution Is the Job of the Business Leader

Lots of business leaders like to think that the top dog is exempt from the details of actually running things. It's a pleasant way to view leadership: you stand on the mountaintop, thinking strategically and attempting to inspire your people with visions, while managers do the grunt work. This idea creates a lot of aspirations for leadership, naturally. Who wouldn't want to have all the fun and glory while keeping their hands clean? Conversely, who wants to tell people at a cocktail party, "My goal is to be a manager," in an era when the term has become almost pejorative?

This way of thinking is a fallacy, one that creates immense damage.

An organization can execute only if the leader's heart and soul are immersed in the company. Leading is more than thinking big, or schmoozing with investors and lawmakers, although those are part of the job. The leader has to be engaged personally and deeply in the business. Execution requires a comprehensive understanding of a business, its people, and its environment. The leader is the only person in a position to achieve that understanding. And only the leader can make execution happen, through his or her deep personal involvement in the substance and even the details of execution.

The leader must be in charge of getting things done by running the three core processes—picking other leaders, setting the strategic direction, and conducting operations. These actions are the substance of execution, and leaders cannot delegate them regardless of the size of the organization.

How good would a sports team be if the coach spent all his time in his office making deals for new players, while

delegating actual coaching to an assistant? A coach is effective because he's constantly observing players individually and collectively on the field and in the locker room. That's how he gets to know his players and their capabilities, and how they get firsthand the benefit of his experience, wisdom, and expert feedback.

It's no different for a business leader. Only a leader can ask the tough questions that everyone needs to answer, then manage the process of debating the information and making the right trade-offs. And only the leader who's intimately engaged in the business can know enough to have the comprehensive view and ask the tough incisive questions.

Only the leader can set the tone of the dialogue in the organization. Dialogue is the core of culture and the basic unit of work. How people talk to each other absolutely determines how well the organization will function. Is the dialogue stilted, politicized, fragmented, and butt-covering? Or is it candid and reality-based, raising the right questions, debating them, and finding realistic solutions? If it's the former—as it is in all too many companies—reality will never come to the surface. If it is to be the latter, the leader has to be on the playing field with his management team, practicing it consistently and forcefully.

Specifically, the leader has to run the three core processes and has to run them with intensity and rigor.

LARRY: When I appoint a new business manager, I call her into the office to discuss three issues. First, she is to behave with the highest integrity. This is an issue where there are no second chances—breach the rule, and you're out. Second, she must know that the customer comes first. And finally I say, "You've got to understand the three processes, for people, strategy, and operations, and you've

got to manage these three processes. The more intensity and focus you put on them, the better you make this place. If you don't understand that, you've got no chance of succeeding here."

Companies that do these processes in depth fare dramatically better than those that just *think* they do. If your company doesn't do them in depth, you aren't getting what you deserve out of them. You put in a lot of time and effort and don't get useful output.

For example, everyone likes to say that people are the most important ingredient in their success. But they often hand off the job of assessing people and rewarding them to the HR staff, then rubber-stamp the recommendations at their reviews. Far too many leaders avoid debating about people openly in group settings. That's no way to lead. Only line leaders who know the people can make the right judgments. Good judgments come from practice and experience.

When things are running well, I spend 20 percent of my time on the people process. When I'm rebuilding an organization, it's 40 percent. I'm not talking about doing formal interviews or selecting staff; I mean really getting to know people. When I go out to visit a plant, I'll sit down for the first half hour with the manager. We'll have a discussion about the capability of his people, looking at who is performing well and who needs help. I'll go to a meeting of the whole staff and listen to what they have to say. Then I'll sit down after the meeting and talk about my impressions of the people and write a letter confirming the agreements made at the meeting. And I'll assess people's performance not just at our formal reviews but two or three times a year.

When we were putting these processes into place at

AlliedSignal, one guy—a pretty good guy—said to me at a meeting, "You know, I've got to go through this people ritual again this year." I said, "That's the dumbest comment I've ever heard, because you tell the world how little you know about your job. If you really feel that way, you've got to do something else, because if you're not going to get good at this, you can't be successful." I didn't say it in front of everybody, but I thought to myself, *That just tells me maybe I've got the wrong guy.*

But he didn't do that again. I don't think he ever came to love the people process, but he did it, and he got something out of it. He got to know his staff and made it better.

Leaders often bristle when we say they have to run the three core processes themselves. "You're telling me to micromanage my people, and I don't do that," is a common response. Or, "It's not my style. I'm a hands-off leader. I delegate, I empower."

We agree completely that micromanaging is a big mistake. It diminishes people's self-confidence, saps their initiative, and stifles their ability to think for themselves. It's also a recipe for screwing things up—micromanagers rarely know as much about what needs to be done as the people they're harassing, the ones who actually do it.

But there's an enormous difference between leading an organization and presiding over it. The leader who boasts of her hands-off style or puts her faith in empowerment is not dealing with the issues of the day. She is not confronting the people responsible for poor performance, or searching for problems to solve and then making sure

they get solved. She is presiding, and she's only doing half her job.

Leading for execution is not about micromanaging, or being "hands-on," or disempowering people. Rather, it's about active involvement—doing the things leaders should be doing in the first place. As you read on, you'll see how leaders who excel at execution immerse themselves in the substance of execution and even some of the key details. They use their knowledge of the business to constantly probe and question. They bring weaknesses to light and rally their people to correct them.

The leader who executes assembles an architecture of execution. He puts in place a culture and processes for executing, promoting people who get things done more quickly and giving them greater rewards. His personal involvement in that architecture is to assign the tasks and then follow up. This means making sure that people understand the priorities, which are based on his comprehensive understanding of the business, and asking incisive questions. The leader who executes often does not even have to tell people what to do; she asks questions so they can figure out what they need to do. In this way she coaches them, passing on her experience as a leader and educating them to think in ways they never thought before. Far from stifling people, this kind of leadership helps them expand their own capabilities for leading.

Jack Welch, Sam Walton, and Herb Kelleher of Southwest Airlines were powerful presences in their organizations. Just about everybody knew them, knew what they stood for, and knew what they expected of their people. Was it because of their forceful personalities? Y es, but a forceful personality doesn't mean anything by itself.

"Chainsaw Al" Dunlap, the celebrated and outspoken champion of savage cost-cutting, had a forceful personality—and he wrecked the companies he was supposedly turning around.

Are leaders like Jack, Sam, and Herb good communicators? Again: yes, but. Communication can be mere boilerplate, or it can mean something. What counts is the substance of the communication and the nature of the person doing the communicating—including his or her ability to listen as well as to talk.

Maybe such people are good leaders because they practice "management by walking around." We've all read the stories about Herb or Sam popping up on the front lines to chat with baggage handlers or stockroom clerks. Sure, walking around is useful and important—but only if the leader doing the walking knows what to say and what to listen for.

Leaders of this ilk are powerful and influential presences because they *are* their businesses. They are intimately and intensely involved with their people and operations. They connect because they know the realities and talk about them. They're knowledgeable about the details. They're excited about what they're doing. They're passionate about getting results. This is not "inspiration" through exhortation or speechmaking. These leaders energize everyone by the example they set.

In his last year as GE's CEO, Jack Welch—as he had done for twenty years in the job—spent a week of ten-hour days reviewing the operating plans of the company's various units. He was intimately involved in the back-and-forth dialogue. Even at the end of his career, Jack wasn't presiding. He was leading by being actively involved.

Execution Has to Be in the Culture

It should be clear by now that execution isn't a program you graft onto your organization. A leader who says, "Okay, now we're going to execute for a change" is merely launching another fad of the month, with no staying power. Just as the leader has to be personally involved in execution, so must everyone else in the organization understand and practice the discipline.

Execution has to be embedded in the reward systems and in the norms of behavior that everyone practices. Indeed, as we will show in chapter 4, focusing on execution is not only an essential part of a business's culture, it is the one sure way to create meaningful cultural change.

One way to get a handle on execution is to think of it as akin to the Six Sigma processes for continual improvement. People practicing this methodology look for deviations from desired tolerances. When they find them, they move quickly to correct the problem. They use the processes to constantly raise the bar, improving quality and throughput. They use them collaboratively across units to improve how processes work across the organization. It's a relentless pursuit of reality, coupled with processes for constant improvement. And it's a huge change in behavior—a change, really, in culture.

Leaders who execute look for deviations from desired managerial tolerances—the gap between the desired and actual outcome in everything from profit margins to the selection of people for promotion. Then they move to close the gap and raise the bar still higher across the whole organization. Like Six Sigma, the discipline of execution doesn't work unless people are schooled in it and practice it constantly; it doesn't work if only a few people in the system

practice it. Execution has to be part of an organization's culture, driving the behavior of all leaders at all levels.

Execution should begin with the senior leaders, but if you are not a senior leader, you can still practice it in your own organization. You build and demonstrate your own skills. The results will advance your career—and they may just persuade others in the business to do the same.

WHY PEOPLE DON'T GET IT

If execution is so important, why is it so neglected? To be sure, people in business aren't totally oblivious to it. But what they're mostly aware of is its absence. They know, deep down, that something is missing when decisions don't get made or followed through and when commitments don't get met. They search and struggle for answers, benchmarking companies that are known to deliver on their commitments, looking for the answers in the organizational structure or processes or culture. But they rarely apprehend the underlying lesson, because execution hasn't yet been recognized or taught as a discipline. They literally don't know what they're looking for.

The real problem is that *execution* just doesn't sound very sexy. It's the stuff a leader delegates. Do great CEOs and Nobel Prize winners achieve their glory through execution? Well, yes, in fact, and therein lies the grand fallacy.

The common view of intellectual challenge is only half true. What most people miss today is that intellectual challenge also includes the rigorous and tenacious work of developing and proving the ideas. Perhaps it's the result of the TV generation's upbringing, believing a mythology in which ideas develop instantly into full-blown outcomes.

There are different kinds of intellectual challenges. Conceiving a grand idea or broad picture is usually intuitive. Shaping the broad picture into a set of executable actions is analytical, and it's a huge intellectual, emotional, and creative challenge.

Nobel Prize winners succeed because they execute the details of a proof that other people can replicate, verify, or do something with. They test and discover patterns, connections, and linkages that nobody saw before. It took Albert Einstein more than a decade to develop the detailed proof explaining the theory of relativity. That was the execution—the details of proof in mathematical calculations. The theorem would not have been valid without the proof. Einstein could not have delegated this execution. It was an intellectual challenge that nobody else could meet.

The intellectual challenge of execution is in getting to the heart of an issue through persistent and constructive probing. Let's say a manager in the X division plans an 8 percent sales increase in the coming year, even though the market is flat. In their budget reviews, most leaders would accept the number without debate or discussion. But in an execution company's operating review, the leader will want to know if the goal is realistic. "Fine," she'll ask the manager, "but where will the increase come from? What products will generate the growth? Who will buy them, and what pitch are we going to develop for those customers? What will our competitor's reaction be? What will our milestones be?" If a milestone hasn't been reached at the end of the first quarter, it's a yellow light: something's not going as planned, and something will need to be changed.

If the leader has doubts about the organization's capacity to execute, she may drill down even further. "Are the right people in charge of getting it done," she may ask,

"and is their accountability clear? Whose collaboration will be required, and how will they be motivated to collaborate? Will the reward system motivate them to a common objective?" In other words, the leader doesn't just sign off on a plan. She wants an explanation, and she will drill down until the answers are clear. Her leadership skills are such that everyone present is engaged in the dialogue, bringing everyone's viewpoint out into the open and assessing the degree and nature of buy-in. It's not simply an opportunity for her managers to learn from her and she from them; it's a way to diffuse the knowledge to everyone in the plan.

Suppose the issue is how to increase productivity. Other questions will be asked: "We have five programs in the budget, and you say we're going to save at least a couple million dollars on each one. What are the programs? Where is the money going to be saved? What's the timeline? How much is it going to cost us to achieve it? And who is responsible for it all?"

Organizations don't execute unless the right people, individually and collectively, focus on the right details at the right time. For you as a leader, moving from the concept to the critical details is a long journey. You have to review a wide array of facts and ideas, the permutations and combinations of which can approach infinity. You have to discuss what risks to take, and where. You have to thread through these details, selecting those that count. You have to assign them to the people who matter, and make sure which key ones must synchronize their work.

Such decision making requires knowledge of the busi-

ness and the external environment. It requires the ability to make fine judgments about people—their capabilities, their reliability, their strengths, and their weaknesses. It requires intense focus and incisive thinking. It requires superb skills in conducting candid, realistic dialogue. This work is as intellectually challenging as any we know of.

Leadership without the discipline of execution is incomplete and ineffective. Without the ability to execute, all other attributes of leadership become hollow. In chapter 2 we demonstrate, through the stories of four businesses and their leaders, why execution makes all the difference in the world.

CHAPTER 2

The Execution Difference

Every great leader has had an instinct for execution. He has said, in effect, “Unless I can make this plan *happen,* it’s not going to matter.” But the selection, training, and development of leaders doesn’t focus on this reality. Judging from our observations, a high proportion of those who actually rise to the top of a business organization have made their mark—their personal “brand”—as high-level thinkers. They are the kind of people who get caught up in the intellectual excitement of each new big idea that comes out and adopt it with enthusiasm. They are articulate conceptualizers, very good at grasping strategies and explaining them. This, they know, is what it takes to get ahead. They aren’t interested in the “how” of getting things done; that’s for somebody else to think about.

Judging a person’s intelligence is easy for people who hire and promote others; it’s harder to research a person’s track record and gauge their know-how about getting things done, particularly when the performance is the

result of many people working together. But the intelligent, articulate conceptualizers don't necessarily understand how to execute. Many don't realize what needs to be done to convert a vision into specific tasks, because their high-level thinking is too broad. They don't follow through and get things done; the details bore them. They don't crystallize thought or anticipate roadblocks. They don't know how to pick people for their organizations who can execute. Their lack of engagement deprives them of the sound judgment about people that comes only through practice.

THE TROUBLE WITH JOE

Joe, the CEO whose downfall we described in chapter 1, is a typical leader who didn't know how to execute. Let's take a closer look at his story, along with those of two prominent CEOs whose companies failed to execute the leaders' grand visions.

You'll recall that Joe couldn't understand why his people hadn't delivered the anticipated results. He'd brought in a top consulting firm to design a new strategy. He made several acquisitions and had a great relationship with Wall Street. Based on his deal-making skills and acquisitions, the company's price/earnings ratio shot up in less than two years. Joe's strength lay in marketing and customer contacts, but he also had a good, close relationship with his CFO. Joe set stretch goals, and the CFO handed the numbers down to the operating people. No micromanager, Joe left the details of implementation to his direct reports, including the executive vice president for the North American business unit and his director of pro-

duction. But Joe stayed on top of the quarterly numbers. If they came up short, he was on the phone immediately with the people in charge, telling them in the strongest terms possible that they needed to shape up. The quarterly reviews were less than civil.

By the standards of conventional management analysis, Joe did all the right things. By the standards of execution, he did almost nothing right. The gap between goals and outcome reflected a chasm between Joe's ambitions and the realities of the organization. In fact, the goals he set had been unrealistic from day one.

A major problem was that the company's plant could not build enough of the product because its managers were 12 months behind schedule in implementing a process-improvement plan that was 12 months behind schedule. Joe didn't know that. Though he chewed his executives out when they didn't make their numbers, he never asked *why* they didn't make them. An execution-savvy leader would have asked that right away. Then he would have focused on the cause—after all, you don't fix a problem just by looking at its outcome. Was the installation of the process on schedule? he would have asked. Did the executive vice president and his director of operations know the reasons, and what are they doing about it?

Like many CEOs, Joe believed it was the production director's job to ask such questions, and the executive vice president's job to make sure they were asked. But (again, like many CEOs) Joe hadn't picked the right people for the right jobs. Neither man was much on execution. The executive vice president was a ticket puncher who moved almost every three years from one job to another. The production director was a highly intelligent finance guy who came from a consulting firm and was regarded as a "hi-po"—a high-potential candidate to succeed the CEO

in five years. But he didn't understand operations at all and was acerbic. The plant managers reporting to him didn't respect him.

If the leaders had had an open dialogue with the manufacturing people, they might have learned about the manufacturing obstacle, but that wasn't in their makeup. They just handed the numbers down. Furthermore, while stretch goals can be useful in forcing people to break old rules and do things better, they're worse than useless if they're totally unrealistic, or if the people who have to meet them aren't given the chance to debate them beforehand and take ownership of them.

How would Joe have behaved differently if he had had the know-how of execution? First, he would have involved all the people responsible for the strategic plan's outcome—including the key production people—in shaping the plan. They would have set goals based on the organization's capability for delivering results. Organizational capability includes having the right people in the right jobs. If the executive vice president didn't know how to get things done, Joe would long ago have coached him on what he needed to do and helped him learn how to execute. If he still wasn't making progress, the only option left would have been to replace him (as the new CEO who took over did). Second, Joe would also have asked his people about the *hows* of execution: how, specifically, were they going to achieve their projected demand on a timely basis, their inventory turns, and cost and quality goals? Anybody who didn't have the answers would have to get them before the plan was launched.

Third, Joe would have set milestones for the progress of the plan, with strict accountability for the people in charge. If they were installing a new process to improve yields, for example, Joe would have made an agreement

with them that the project would be X percent completed by Y date, and that Z percent of the people would be trained in the process. If the managers couldn't meet the milestones, they would have told him, and he would have helped them take corrective actions. Fourth, Joe would have set contingency plans to deal with the unexpected—a shift in the market, say, or a component shortage, or some other change in the external environment.

Joe was very bright but he didn't know how to execute. The people who hired him saw nothing in his record to indicate he'd fail—because they did not use execution as a selection criterion. His reputation for deal making and for making savvy acquisitions had earned him the job.

When the board fired him, it brought in a management team that knew how to execute. The new CEO came from manufacturing. He and his team reviewed and discussed the hows with plant managers, set milestones, and followed through with discipline and consistency to review them.

THE EXECUTION GAP AT XEROX

The people at Xerox who hired Richard C. Thoman saw no reason why he'd fail either. Thoman was one of the most thoughtful people to head a major American company in recent years, and a highly respected strategist. When Xerox hired him as COO in 1997, he was one of Louis V. Gerstner's protégés at IBM, where he'd been CFO. Thoman was brought in to bring change. While COO, he launched numerous cost-cutting initiatives, including layoffs and cuts in bonuses, travel, and perks. He also laid the groundwork for a new strategy. After the

board elevated him to CEO in April 1999, he set out to transform Xerox from a products and services company into a solutions provider, combining software, hardware, and services to help customers integrate their paper documents and electronic information flows, organizing partnerships with companies such as Microsoft and Compaq to build the systems.

It was a stirring vision for a company that badly needed one. At the 1999 annual meeting, Thoman told stockholders the company was "poised on the threshold of another period of great success," and predicted that earnings for the year would grow in the mid- to high teens. Investors shared the optimism, bidding the stock price up to record highs.

But the vision was disconnected from reality. Execution had been a problem for decades, and Thoman bit off more than Xerox could chew. For example, in an early step in the company's efforts to refocus itself, he launched two mission-critical initiatives, both of which were gut-wrenching. One aimed to consolidate the company's ninety-some administration centers, which handle accounting, billing, and customer service scheduling and calls, into four. The second would reorganize Xerox's roughly 30,000-person sales force, shifting about half from a geographical focus to an industry focus.

Both moves were necessary and important. The administrative consolidation would cut costs and improve efficiency, and the sales reorganization would pave the way for the intense focus on providing customers with solutions, not just hardware—the core of the new strategy. But by the end of the year, Xerox was in chaos.

In the administrative transition, invoices languished, orders got lost, and service calls went unanswered. Sales representatives had to spend much of their time straight-

ening out the mess, just as they were trying to adapt to a new organization and new way of selling. They also had to build new relationships with customers, since so many had been reassigned to new ones—which, not incidentally, alienated many customers who had been loyal for years.

Morale dropped. Cash flow from operations went negative, and investors began to worry about Xerox's financial viability. The stock price plunged from the sixty-four-dollar range to seven dollars. The company was forced to sell some of its business to meet cash needs. In May 2000, Thoman was summoned to Chairman Paul Allaire's office and told he was out of the job.

What went wrong? While launching two such enormous initiatives at the same time was an execution error—either one alone would have placed a strain on the organization—the problems ran deeper. Thoman's critics argued that he was too aloof to connect with the people who had to execute the changes. But Xerox's clubby culture did not take kindly to an outsider, and as Thoman has pointed out, he did not have the authority to appoint his own leadership team. Especially when a business is making major changes, the right people have to be in the critical jobs, and the core processes must be strong enough to ensure that resistance is dissolved and plans get executed. Both of these building blocks were missing.

OUT OF TOUCH AT LUCENT

Hopes were high when Lucent Technologies named Richard McGinn a CEO in 1996. A strong marketer, McGinn was personable and adept at explaining the com-

pany's bright prospects to the investment community. He promised investors dazzling growth in revenues and earnings. Given the climate of the times and seen from an altitude of 50,000 feet, the promises looked credible to the board and to investors. The combination of Western Electric and Bell Labs spun out of AT&T, Lucent would in 1997 concentrate on the booming telecommunications equipment market, from consumer telephones to network switching and transmission gear. With Bell Labs, it had an R&D resource that nobody else could match.

But McGinn had difficulty getting things done inside the company. "We got ahead of our capacity to execute," said Henry Schacht, who came back from retirement to replace McGinn after he was fired in October 2000. The collapse of the telecommunications bubble eventually took down almost every player, but Lucent's decline began even before that. The company fell sooner, harder, and farther than its competitors.

In a technological marketplace moving at Internet speed, McGinn did not change the slow-moving and bureaucratic Western Electric culture. Lucent's structure was cumbersome, and its financial control system was woefully inadequate. For example, executives couldn't get information about profit by customer, product line, or channel, so they had no way of making good decisions about where to allocate resources. McGinn's people asked him in vain to fix this situation. He failed to confront nonperforming executives or replace them with people able to act as decisively as their counterparts at competitors such as Cisco and Nortel.

As a result, Lucent consistently fell short of technical milestones for new product development, and it missed the best emerging market opportunities. The company spent an enormous amount to install SAP, enterprise soft-

ware that connects all parts of the company through a standard software platform, but the money was largely wasted because the company didn't change work processes to take advantage of it.

Lucent did meet its financial targets during the first two years, surfing on its customers' unprecedented wave of capital investment. But these early revenue gains came largely from Lucent's old voice-network switch business—a business with unsustainable growth prospects. Even before the wave broke, the company was struggling to deliver on McGinn's commitments.

A leader with a more comprehensive understanding of the organization would not have set such unrealistic goals. The hottest demand was for products Lucent didn't have, including the routers that guide Internet traffic and optical equipment with high capacity and bandwidth. Bell Labs was working on both of these products, but was painfully slow to develop and introduce them.

The missed opportunities in routers and optical gear are widely perceived as strategic errors. In fact, they show how execution and strategy are intertwined. In 1998 Lucent talked with Juniper Networks about acquiring it but then decided to develop routers in-house. But one part of execution is knowing your own capability. Lucent didn't have the capability to get its products to market fast enough. At the very least, good execution would have kept growth projections from getting so far out of hand when the company didn't have a presence in one of the hottest growth markets.

Similarly, the strategic error in optical gear originated with poor execution—in this case, the failure to understand changes in the external environment. As early as 1997, Lucent engineers were pleading with senior management to let them develop fiber optic products. But the

leadership was used to listening its biggest customers—AT&T, its former parent, and the Baby Bells —and those customers had no interest in optical gear. This is a classic case of the so-called innovator's dilemma—companies with the greatest strength in a mature technology tend to be least successful in mastering new ones. But the innovator's dilemma itself has an execution solution that isn' t generally recognized. If you're really executing, and you have the resources, you are listening to tomorrow's customers as well as today's and planning for their needs. Nortel was hearing the same arguments from its big customers, but it saw the emerging needs and organized itself to supply them.

Second, in the mad rush to grow revenues, Lucent set out in too many directions at once. It added myriad unprofitable product lines and acquired businesses it couldn't integrate—or even run, especially in the many cases where leaders of the acquired companies left because they couldn't abide the bureaucratic culture. Costs ran wild. The three dozen acquisitions, along with a roughly 50 percent increase in the workforce to some 160,000, led to redundancies, excess costs, and lowered visibility.

The endgame began well before the telecommunications market imploded. Under pressure to meet unrealistic growth projections, people left to their own devices did anything they could. Salespeople extended extraordinary amounts of financing, credit, and discounts to customers. They promised to take equipment that customers couldn't later sell. Some recorded products as being sold as soon as they were shipped to distributors. The result was a ravaged balance sheet. In 1999, for example, while revenues grew 20 percent, accounts receivable rose twice

as fast, to over $10 billion. The company also amassed a huge amount of debt, largely from financing its acquisition binge, that put it near bankruptcy. It forced Lucent to sell businesses at fire-sale prices. The situation became so serious that the company flirted with losing its independence through its relationship with the French company Alcatel.

During the tech boom, neither industry people nor investors imagined that business could possibly drop so sharply. A leader skilled in execution would have probed his organization to get a realistic assessment of its market risks. According to published accounts, McGinn did not do so. And during his last year in office, he clearly was completely out of touch. Several times he had to revise financial estimates downward. To the very weekend when the board fired him, he insisted Lucent was dealing with its problems.

In a postmortem, the *Wall Street Journal* reported:

> *People familiar with the company say several executives told Mr. McGinn as long as a year ago that the company needed to drastically cut its financial projections because its newest products weren't ready yet and sales of older ones were going to decline.*
>
> *"He absolutely rejected" the advice, says one person familiar with the discussion. "He said the market is growing and there's absolutely no reason why we can't grow. He was in total denial."*
>
> *Indeed, in a recent interview, Mr. McGinn said that during Lucent's spectacular rise to stardom in the years after its spinoff from AT&T, he never gave much thought to how or whether the company might fall from grace.*

EXECUTING AT EDS

Now let's look at a formerly troubled company whose new CEO brought the discipline of execution. EDS had a lot in common with Xerox when Dick Brown took the helm in January 1999. EDS created its field, computer services outsourcing, and had been successful for decades. Then the information technology market changed, and EDS didn't. Competitors like IBM grabbed the growth. Revenues were flat, earnings declining, and the stock price sinking.

Like Thoman, Brown came from another industry—in his case, telecommunications. He'd previously turned around Cable & Wireless, the British telecommunications giant. At EDS, he faced a deeply embedded culture in need of fundamental change, one that was indecisive and lacking accountability, along with an organizational structure that no longer fit the needs of the marketplace. Two more parallels: not long after arriving, Brown set goals for revenue and earnings growth so ambitious that most people in the company thought them impossible to meet. And he subjected the company to a massive reorganization.

There the similarities end. Brown is deeply execution-oriented, and there was never any doubt who was in charge. While he points out that the transformation of EDS is still a work in progress, he successfully changed the fundamentals of the company in two years. He infused it with an energy and focus it hadn't experienced since its early days, and he met his profit and growth goals.

Brown's vision was that EDS could grow strongly and profitably by meeting the fast-growing new needs for information technology services. These services range from digitization within companies to virtual retailing and electronic integration, where companies work with suppliers,

clients, and other service providers as if they were one integrated business. Keeping abreast of the changes was a big challenge for even the best corporate IT department and a serious problem for companies with limited resources.

Brown saw that EDS had the core competencies to serve these markets. These resources ranged from expertise in providing the most routine operational services at low cost to strategic consulting at the highest levels through its consulting firm, A.T. Kearney, acquired in 1995. Its people's breadth and depth of technical expertise and experience in solving clients' problems was a vast reserve of intellectual capital. One good thing about the EDS culture was a powerful can-do spirit. What one executive called "a belief we could do things for clients that seemed impossible" was the legacy of founder Ross Perot.

But EDS was trapped in its old structure and culture. Its forty-odd strategic business units (SBUs) were organized along industry lines, such as communications, consumer goods, and state health care. They divided the company into a confederation of fiefdoms, each with its own leaders, agenda, staffs, and sometimes policies. These fiefdoms rarely worked together, and the new marketplace opportunities were falling between the stools. How would Brown apply the company's intellectual capital to the new environment? EDS would need a new organizational structure, but first Brown had to change the culture to one of accountability and collaboration.

Brown jumped out onto the playing field. First, he got to know the company intimately, traveling around the globe for three months, meeting people at all levels formally and informally to talk and listen. In weekly e-mails that he sent to the whole organization, he not only told employees what he was thinking but also asked them to respond and make suggestions.

His candid and down-to-earth messages weren't simply communications—they were a tool for changing attitudes. They made the company's goals, issues, and new leadership style clear to the employees everywhere. And they put pressure from below on managers to explain priorities and open up their own dialogues.

Brown increased the quality and flow of information in other ways, too. For example, sales figures, which had formerly been compiled quarterly, were now reported daily, and for the first time the top 150 or so senior leaders were given the company's vital information, from profit margins to earnings per share.

Starting at the highest levels, Brown created new ways to drive accountability and collaboration. In the monthly "performance call," for example, he, his COO, and his CFO began hosting Monday-morning conference calls of the company's roughly top 150 leaders. These calls are essentially an ongoing operating review, in which the company's performance for the previous month and the year to date is compared with the commitments people have made. The calls provide early warning of problems and instill a sense of urgency. People who fall short have to explain why, and what they are going to do about it.

In the early days, when Brown was building the new culture of execution, the calls also served to reinforce the new standards of accountability. "The point I tried to make is that when you sign up for what used to be a budget item, you are committing for your team and each other," he says. "The rest are depending on you. It added a layer of weight and responsibility that was missing before."

The calls have brought a new reality to discussions of EDS operations. The talk is straightforward, even blunt, designed to elicit truth and coach people in the behavior

Brown expects of his managers. "Intense candor," Brown calls it, "a balance of optimism and motivation with realism. We bring out the positive and the negative." The calls can be uncomfortable for those in the negative column. In front of their peers, executives have to explain why and what they're doing to get back on track. "If your results are negative enough," adds Brown, "we'll talk after class." Such talks involve a series of questions and suggestions about what actions the executive plans to take to get back to performing on plan.

But neither the calls nor the "after class" discussions are scold sessions. As one senior executive (who has been with EDS since the beginning) says, "It's done in a positive and constructive way, not to embarrass. But just by the fact that it happens, human nature says you want to be one of the ones doing well."

The talk isn't always about numbers. At one of the first meetings, Brown recalls, "one of the executives made the statement that he was worried about growing anxiety and unrest in his organization, worried about rapid and dramatic change. His people were asking, 'Are we moving too fast, are we on the threshold of being reckless? Maybe we should slow down, take it easy, reflect a bit.' "

Brown turned the issue around—not incidentally, creating a forceful coaching lesson. "I jumped all over that. 'This is a test of leadership,' I said. 'I would like anybody on this call who is really worried about where we are going and worried about the fact that we will probably fail, tell me so right now. Don't be afraid to say you are. If you think we're making a big mistake and heading for the reef, speak up now.'

"No one did. So I said, 'If you're not worried, where's the worry coming from? I'm not worried, and you're not worried. Here's where it is: some of you say one thing,

and your body language says another. You show me an organization that's wringing its hands, listening to rumors, anxious about the future, and I will show you leadership that behaves the same way. People imitate their leaders. If your organization is worried, you've got a problem, because you said you're not.'

"And I put it right back on that. 'Here's your test of leadership; now calm your organization, give them information; strike right at the heart of their worries. I can't believe that their worry is fact-based. I believe their worry is ignorance-based. And if that's the case, it's your fault.' "

Brown organized a series of two-day meetings for the top 150 executives, exposing them for the first time to the to the details of the company's plans, critical issues, and finances. "I want you to see the business from my level," he told them at the first one. "It engages you in what we're doing. It will focus you on the most critical issues we face." The meetings also gave diverse people practice in working together, not only at the meetings but throughout the year. "Know each other so when we collaborate and work together, we've got a face with a memo or an e-mail or a name," he said. "We're on the same team, and we can only get there working together."

People selection got intense attention. Brown removed scores of underperforming executives. Under new leadership, the HR department (renamed Leadership and Change Management) developed a compensation system that linked rewards to performance, along with a Web-based set of evaluation tools to help line executives sharpen their assessments of their people. Also added were extensive training courses for leaders at all levels, targeted to specific organizational needs. Leaders who

couldn't handle all the changes either got coaching or were removed.

Brown himself ordered an analysis of the sales staff's performance and found, among other things, that 20 percent of the salespeople had sold nothing at all for the previous six months. He said to his sales executives, "What are you going to do about these people—and about their supervisors?" The 20 percent were replaced.

In its total impact on the company, Brown's reorganization was far bigger and more complex than the one that brought Xerox to its knees. Brown essentially turned EDS upside down. The SBUs were rolled into a new organization of four lines of business (LOBs) centered on broad market segments. E Solutions would offer a complete range of services for the "extended enterprise," linked electronically with suppliers and clients, from supply chain networks to Internet security. Business Process Management would provide businesses and governments with administrative and financial processing and client relationship management. Information solutions would sell IT and communications outsourcing, managed storage, and management of desktop systems. And A.T. Kearney would specialize in high-end consulting, along with executive search services. (EDS has since added a fifth LOB, PLM Solutions, which offers digitized product life cycle management—from development to collaboration with suppliers—for manufacturing companies.)

The new structure was more than a way to divide up business according to markets. It was designed so that EDS could fully leverage its intellectual capital for the first time, drawing on people from all parts of the company to provide solutions for clients. Collaboration among the lines of business would enable EDS to bring every client a

value proposition based on its full "end-to-end" capability—from business strategy consulting to process redesign and management to Web hosting. It wouldn't work unless the people from the old business units learned not only their new jobs but also new ways of working together. At the same time, they were under orders to raise productivity at a 4 to 6 percent annual rate, making about $1 billion a year available for reinvestment or the bottom line. Moreover, the speed of new product introduction and delivery could not slacken.

The radical overhaul succeeded because Brown put its design in the hands of the people who would have to make it work. A team of seven executives was assembled from different disciplines and regions to come up with the new model. Meeting regularly with Brown, his COO, and the CFO, they produced the model in ten weeks of seven-day-a-week effort.

Simply in terms of the demands it made of EDS leaders, the new organization could not have been more different from the old one. In the past, the heads of business units were focused solely on the success of their part of the company. The new model, however, was designed to maximize results for the company as a whole, requiring close collaboration among all of the businesses. For most of the executives, the experience was their first taste of such teamwork. It wasn't always easy. Here's what one member had to say about the process:

> *"We were seven people from different backgrounds with different views and different opinions. Some were more sales-oriented, some more delivery-oriented, some internationally focused, some very industry-knowledgeable. And we had to agree up*

front that the model we produced was one that we all completely bought into.

"Getting there was really hard. I can tell you we had lots of fights among ourselves. We stormed out of the building and didn't like each other some days. Compromise is difficult for me. I'm a very strong, opinionated person. There were lots of times when I was really frustrated. And there were days when I would leave our meetings, and I'd get in my car, and I would literally think, 'We're destroying this company.' I've got twenty years in the company; it's family to me, and I love it here. I couldn't stand to think that we were destroying it.

"It takes some, I guess, emotional and mental processing to make such a radical change, to understand that 'Hey, what we did before doesn't always have to be the way we do it in the future, and you just have to be open to it.' And at the end we became personally close because we had to wrestle through all the points together. So it truly, truly was a good developmental experience."

While all this was going on, Brown sharpened the company's focus on the quality of service it delivered to its clients, which had slipped over the years. "Service excellence" became not only a mantra, but also an objective figuring in the performance rewards of all client-facing executives and LOB presidents. Today 91 percent of EDS clients rate their service either "good" or "excellent."

The results are evident in EDS's performance. At the end of 2001, the company had achieved record revenues and solid market share gains, and chalked up eleven consecutive quarters of double-digit growth in operating margins

and earnings per share. Its stock price was up some 65 percent from the time Brown took the job. After the executive session of the December 2001 board meeting, each EDS director approached Brown, and one by one told him they hadn't expected him to succeed in transforming the culture in less than three years, while at the same time delivering the stellar top- and bottom-line performance he'd achieved.

Each of the previous three companies we've talked about was once an icon of American business. Xerox, Lucent (as Western Electric and Bell Labs), and EDS created their industries, led them for years, and once were the companies against which competitors benchmarked themselves. Today two are struggling to recapture a small fraction of their former glory, while the third has regained its luster and aims to lead its industry once again. The difference? Execution.

The discipline of execution is based on a set of building blocks that every leader must use to design, install, and operate effectively the three core processes rigorously and consistently. Chapters 3 to 5 distill our observations about these building blocks: the essential behaviors of the leader, an operational definition of the framework for cultural change, and getting the right people in the right jobs.

PART II

THE BUILDING BLOCKS OF EXECUTION

CHAPTER 3

Building Block One: The Leader's Seven Essential Behaviors

What exactly does a leader who's in charge of execution do? How does he keep from being a micromanager, caught up in the details of running the business? There are seven essential behaviors that form the first building block of execution:

- *Know your people and your business.*
- *Insist on realism.*
- *Set clear goals and priorities.*
- *Follow through.*
- *Reward the doers.*
- *Expand people's capabilities.*
- *Know yourself.*

KNOW YOUR PEOPLE AND YOUR BUSINESS

Leaders have to *live* their businesses. In companies that don't execute, the leaders are usually out of touch with the

day-to-day realities. They're getting lots of information delivered to them, but it's filtered—presented by direct reports with their own perceptions, limitations, and agendas, or gathered by staff people with their own perspectives. The leaders aren't where the action is. They aren't engaged with the business, so they don't know their organizations comprehensively, and their people don't really know them.

LARRY: Suppose a leader goes to a plant or business headquarters and speaks to the people there. He is sociable and courteous. He shows superficial interest in his subordinates' kids—how well they're doing in school, how they like the community, and so on. Or he chats about the World Series, the Super Bowl, or the local basketball team. He may ask some shallow questions about the business, such as "What's your level of revenue?" This leader is not engaged in his business.

When the visit is over, some of the managers may feel a sense of relief, because everything seemed to go so well and pleasantly. But the managers who are any good will be disappointed. They'll ask themselves, *What was the point?* They had prepared for tough questions—good people like to be quizzed, because they know more about the business than the leader. They'll feel frustrated and drained of energy. They didn't get a chance to make a good impression on the leader—and the leader certainly didn't make a good impression on them.

And of course, the leader hasn't learned anything. The next time he makes prognostications about the company, the press or the securities analysts may be awed, but the people in the business will know better. They'll ask each other, "How on earth could he say those things so confidently when he doesn't have a clue about what's happen-

ing down here?" It's kind of like the American politicians who used to visit Vietnam, look around a bit, talk to the top brass in the military command, review some statistics, and then proclaim that the war was being won and they could see the light at the end of the tunnel. Right!

When I go to a plant, it's because I've heard some things about the manager, and I need to confirm what I've heard about her. If I've heard she's effective, I'm going to try to reinforce her abilities. I'll have an in-depth discussion. I know she's going to do some good things, but I may leave her with a couple of thoughts she didn't have. If I've heard she's ineffective, I'll be making a decision about whether she can do the job or not. And I want to see what kind of a team she has, so I may just poke around at questions to get a clearer and more informed impression.

Next I meet with as many people in the plant as I can. I spend half an hour taking them through a slide presentation about where the company is. Then I take questions for an hour. I can sense from the questions and the dialogue how well the manager normally communicates with her workforce. If nobody asks me questions, I know this is not an open community. If people are afraid to ask me a tough question like "What's your bonus going to be this year?" I know this isn't going to be a free exchange.

The union leader's there too. He hears my story and asks if there will be any more layoffs. My answer is, "We haven't decided that. Customers help decide whether or not a plant stays open. In this case we had to become cost competitive—and fast. That means plant productivity has to dramatically improve." The point is that when you probe, you learn things and your people learn things. Everybody gains from the dialogue. And you dignify the leadership at the plant level by allowing them to expound on the business.

Here's a typical example of such a trip. A few months after I returned to Honeywell, I went to a plant in Freeport, Illinois, that makes sensors. It was an old Honeywell business, not on the cutting edge of contemporary practices, except that it had a very productive Six Sigma effort and a very productive digitization effort. Nobody had asked the leadership to institute these things. They just decided they were the right things to do. The manager who ran the plant was very smart.

"Your organization looks fine," I told him, but there were problems too. We talked in depth about his staff. "How long have these people been here or in the same job?" I asked. Too many of them had been there too long. "These are good people," I said, "but let's move them, promote them, so you can bring in some others once in a while to get some new insights. You've got to bring in some other people once in a while to get fresh thoughts, or you're always basically washing yourself in the same dishwasher. In other words, you've listened to all of the ideas of the people in the place, and you miss out on the fresh perspective of newcomers."

Then I asked why his quality staff reported to manufacturing. "That's like putting the fox in charge of guarding the chicken coop," I said. "I want quality to be analyzing manufacturing." Then I asked, "Why isn't the business development man here? You want to do some acquisitions, and he's off doing something else today, but he really should be here talking with me." He gave me a lame answer. Then he took me through the products that the plant produces and did a nice job.

But he had missed his forecast. "We didn't see the downturn coming," he said. When I asked him why, he wasn't sure—he told me he used a system based on the industrial production index, which has a 74 percent cor-

relation with his business. I probed and found out that it was 74 percent in hindsight—it's not predictive. We talked about it a bit, and he agreed he'd try to find something that would be more helpful. But less than the index itself, I was interested in the way he *thought* about how it predicted the revenues in his business.

Then I talked to his staff along with him. When I met with him again afterward, I said, "You've got nine plants for a $600 million business. You've got to have fewer." He knew that, but now he had to decide which ones to close. Also, the plants made everything needed to produce the products. "You've got to outsource some of this stuff to other companies who can do it more cost-effectively," I told him. "And by the way, decide what to outsource before you decide which plants to close, because we want to know what the final footprint will look like."

People in the meeting had told me they had made some technological breakthroughs. But they didn't have a patent attorney, so I asked who protected the intellectual property. I asked about e-auctions—and told the manager that he had to be buying some stuff that way these days; it was less expensive. He admitted they were behind the curve there. Finally, the company had a hodgepodge of systems (a common problem, by the way). I told him he had to make these systems talk to each other without spending a fortune. He told me he'd figure out how.

Here's the good news, though. I was trying to revive the company's Six Sigma program, which had been let go in my absence. But this manager's Six Sigma program was right on top of things. It needed a little work, but he had plenty of black belts—people with the highest expertise in the discipline. His people were working on the right projects, and they had all the right metrics for customers. His digitization effort was very nice too. And again, he did

it all with no influence from headquarters. That was impressive.

Here's what we both came away with about how to make the business better. He had to get some mix in people so they didn't all go brain-dead talking to each other. He could not have so many plants. He had to do more outsourcing to get his costs competitive. He had to protect his intellectual property—that was our competitive advantage. He needed to start using e-auctions so he could purchase in a more intelligent way. And he had to figure out how best to integrate his systems.

I left him with a few critical challenges, but he was a very impressive guy in a bad year. He was doing the right things, and he knew what to do about what he hadn't done.

What did the visit accomplish?

RAM: First, both parties came away with a clear agreement about what the manager needed to do to make the business better. Second, it was a great coaching exercise. Larry's tough questions got the manager to see the realities of his business more clearly and connected them with the external environment. The manager and his people saw the CEO-level view of competitive advantage. And the dialogue schooled them in how to think about the business in a more rigorous and analytical way. Third, Larry encouraged and motivated the plant team, creating energy. This is the modus operandi of a consistent process that makes a company more competitive.

The key word is "consistent." Leaders who are connected have distilled the challenges facing the business

unit they are visiting into a half dozen or fewer fundamental issues. These challenges do not change much over short periods of time, and the way leaders like Larry master the total company is through a short list that cut across multiple business units.

Being present allows you, as a leader, to connect personally with your people, and personal connections help you build your intuitive feel for the business as well as for the people running the business. They also help to personalize the mission you're asking people to perform. Dick Brown's personal connections at all levels of the organization at EDS fostered a degree of commitment and passion that simply wouldn't have existed otherwise. We know of no great leaders, whether in business, politics, the military, religion, or any other field, who didn't have these personal connections.

LARRY: As a leader, you have to show up. You've got to conduct business reviews. You can't be detached and removed and absent. When you go to an operation and you run a review of the business, the people may not like what you tell them, but they will say, "At least he cares enough about my business to come and review it with us today. He stayed there for four hours. He quizzed the hell out of us." Good people want that. It's a way of raising their dignity. It's a way of expressing appreciation and a reward for their extensive preparation.

It's also a way to foster honest dialogue, the kind that can sometimes leave people feeling bruised if they take it personally. But the dialogue should not be mean-spirited. Let's assume you have a heated debate with somebody. You disagree with what he's doing, but then you both resolve it one way or another. You can write the man a note and say, "Great discussion yesterday about the

growth plan for your group. Appreciate your setting forth your views and your candor and insistence that we confront reality." You're not going home mad, and you don't want him going home mad. You're trying to promote the ability to intellectually debate important points. It doesn't matter who wins or loses. The fact that the debate happened and a resolution occurred is good in itself.

At Honeywell, after I do a business review, I write the leader a formal letter summarizing the things he agreed to do. But then I also write a personal note to the leader and say, "Gary, nice job yesterday . Productivity is not up to standards, and you need to work on it. Otherwise things are going great." It's just a note, takes five minutes. But those cards are all over the company—people show them around, and they save them.

If a manager is having trouble, you don't want to threaten to fire him—you want to help him with his problem. The personal connection makes that easier too. So you keep working on the personal connection every way you can. And then when he calls you up one day and says, "I've got another offer to go to another company," you know him; he knows you. And you say, "Well, Sam, why do you want to do that? You're doing well here. You've got a good future," and so on. Most times you can keep them. Absent that personal connection, you're just a name.

Making a personal connection has nothing to do with style. You don't have to be charismatic or a salesperson. I don't care what your personality is. But you need to show up with an open mind and a positive demeanor. Be informal, and have a sense of humor. A business review should take the form of a Socratic dialogue, not an interrogation. All you've got to prove is that you care for the people who

are working for you. Whatever your respective personalities are, that's the personal connection.

The personal connection is especially critical when a leader starts something new. The business world is full of failed initiatives. Good, important ideas get launched with much fanfare, but six months or a year later they're dead in the water and are abandoned as unworkable. Why? Down in the organization, the managers feel that the last thing they need is one more time-consuming project of uncertain merit and outcome, so they blow it off. "This too will pass," they say, "just like the last bright idea of the month." Result: the company wastes time, money, and energy, and the leader loses credibility , usually without realizing that the failure is a personal indictment.

The leader's personal involvement, understanding, and commitment are necessary to overcome this passive (or in many cases active) resistance. She has not only to announce the initiative, but to define it clearly and define its importance to the organization. She can't do this unless she understands how it will work and what it really means in terms of benefit. Then she has to follow through to make sure everyone takes it seriously. Again, she can't do this if she can't understand the problems that come with implementation, talk about them with the people doing the implementing, and make clear—again and again—that she expects them to execute it.

RAM: In the mid-1990s, a friend told Jack Welch about a new methodology for making a quantum increase in inventory turns in manufacturing operations. Relatively

few business leaders back then understood what a powerful tool faster inventory turnover was for generating cash and increasing return on investment. GE, the friend said, could generate cash if it could increase its inventory turns across the company. He gave Welch the name of a leading practitioner of this methodology, Emmanuel Kampouris, the CEO of American Standard. At that time—in the mid 1990s—American Standard had achieved in some plants as high as forty inventory turns compared to the average of four at most companies.

Welch was excited by the idea, but he was not content to get just the concept—he wanted to understand the workings personally. Rather than sending some of his manufacturing people out to investigate it, he paid a visit to Kampouris and spent several hours with him.

Then he followed through to learn the hows at ground level. He accepted an invitation to speak at American Standard. During the dinner that followed, he sat between two of Kampouris's plant managers, one from Brazil and one from the U.K., whose plants had achieved annual inventory turns of 33 and 40, respectively. Welch spent the whole evening questioning them closely about the details—the tools, the social architecture, how they overcame resistance to the new methodology.

Didn't the chairman of GE have better things to do with his time? Absolutely not! By involving himself deeply and personally with the subject, Welch learned what it would take to execute such an initiative at GE. He learned what skills and attitudes would be required of people, and what resources would be needed. Thus he was able to get the necessary changes rolling quickly throughout his huge company. By the time Welch retired in 2001, inventory turns had doubled, to 8.5.

INSIST ON REALISM

Realism is the heart of execution, but many organizations are full of people who are trying to avoid or shade reality. Why? It makes life uncomfortable. People don't want to open Pandora's box. They want to hide mistakes, or buy time to figure out a solution rather than admit they don't have an answer at the moment. They want to avoid confrontations. Nobody wants to be the messenger who gets shot or the troublemaker who challenges the authority of her superiors.

Sometimes the leaders are simply in denial. When we ask leaders to describe their organization's strengths and weaknesses, they generally state the strengths fairly well, but they're not so good on identifying the weaknesses. And when we ask what they're going to *do* about the weaknesses, the answer is rarely clear or cohesive. They say, "We have to make our numbers." Well, of course you have to make your numbers; the question is *how* you are going to make your numbers.

Was it realistic for A T&T to acquire a bunch of cable businesses it didn't know how to run? The record shows it wasn't. Was it realistic for Richard Thoman to simultaneously launch two sweeping initiatives at Xerox without being able to install the critical leaders? Clearly not.

How do you make realism a priority? You start by being realistic yourself. Then you make sure realism is the goal of all dialogues in the organization.

LARRY: Embracing realism means always taking a realistic view of your company and comparing it with other companies. You're always keeping an eye on what's hap-

pening in companies around the world, and you're measuring your own progress, not internally, but externally. You don't just ask, "Have I made progress from last year to this year?" You ask, "How am I doing vis-à-vis other companies? Have they made a lot more progress?" That's the realistic way to look at your station.

It's shocking to see how many people don't want to confront issues realistically. They're not comfortable doing it. When I took over at AlliedSignal, for example, I got two different pictures from our people and our customers. While our people were saying that we were delivering an order-fill rate of 98 percent, our customers thought we were at 60 percent. The irony was, instead of trying to address the customer's complaints, we seemed to think we had to show that we were right and they were wrong.

At the roundtables I hold when I go out to visit facilities, I ask people, "What are we doing right in this business, and what are we doing wrong in this business?" Then I'll ask, "What do you like about Honeywell, and what don't you like?" Some people just have gripes, while others go after me personally. But most have good information and insights. I make notes and take them up afterward with the manager.

When I visit management classes at the training center, I talk for ten minutes, answer questions for a half an hour or so, and then go around shaking hands with everyone and asking them the same questions I ask at the roundtables. And so people leave with the understanding that realism matters. They go back and tell their bosses, "Well, you know, I saw Bossidy. I told him what was wrong." And their bosses will know that I know.

Learning takes place on both sides. I may learn, for example, that lack of collaboration between two busi-

nesses prevents generation of new revenue from customers. Or that an important initiative is not getting a high enough priority in some business units. On the other side they find out about the company as a whole—where I see real progress and where I'm dissatisfied.

SET CLEAR GOALS AND PRIORITIES

Leaders who execute focus on a very few clear priorities that everyone can grasp. Why just a few? First, anybody who thinks through the logic of a business will see that focusing on three or four priorities will produce the best results from the resources at hand. Second, people in contemporary organizations need a small number of clear priorities to execute well. In an old-fashioned hierarchical company, this wasn't so much of a problem—people generally knew what to do, because the orders came down through the chain of command. But when decision making is decentralized or highly fragmented, as in a matrix organization, people at many levels have to make endless trade-offs. There's competition for resources, and ambiguity over decision rights and working relationships. Without carefully thought-out and clear priorities, people can get bogged down in warfare over who gets what and why.

A leader who says "I've got ten priorities" doesn't know what he's talking about—he doesn't know himself what the most important things are. You've got to have these few, clearly realistic goals and priorities, which will influence the overall performance of the company.

For example, Lucent's main goal in 2002 is to survive until demand for its products comes back. Its debt is so

high that its debt rating has been lowered, and it has come close to violating covenants with lenders. So Lucent's first priority is to conserve cash. This translates into keeping receivables and inventories to a minimum, selling assets that are not really needed, outsourcing manufacturing, and reducing costs. Its second priority is to focus on customers so it can build a durable revenue base. This priority is on the minds of everyone, and has a huge influence on day-to-day behavior.

Along with having clear goals, you should strive for simplicity in general. One thing you'll notice about leaders who execute is that they speak simply and directly. They talk plainly and forthrightly about what's on their minds. They know how to simplify things so that others can understand them, evaluate them, and act on them, so that what they say becomes common sense.

Sometimes it takes a new pair of eyes to clarify priorities. In August 2000, the world's largest retail chain in its category named a new CEO. The chain was losing ground to competitors. Caught up in the excitement of "revolutionary" ambitions, it had pursued e-commerce and other new non-store ventures, and had lost its focus on executing the core business. Its stock price had fallen by two-thirds over the past year.

The senior management team urged the new CEO to grow the business by building more stores. But the CEO, who had risen through the company as a block-and-tackle execution-oriented person, felt the company was already chasing too many possibilities. He made improving the performance of existing stores his top priority, and focused his people on raising gross margins and comparable sales (improving same-store sales from year to year).

He took three steps to translate these goals into actions. First he sat down with his ten direct reports to explain the

goals and discuss their implementation—how they could be met, what obstacles had to be overcome, and how the incentive system had to be changed. Then he gathered his roughly top 100 merchandising and store executives for a two-day session. He taught them about the anatomy of the business, explaining directly and simply such things as what had happened to sales growth and why; what factors, such as logistics flow, were affecting the cost structure; and how harmony between the merchandising people and the stores was missing and what the consequences were. He set clear targets for the next four quarters and discussed with them how to meet the targets. Before the executives left, each had a ninety-day action plan and clear agreement on following through. Finally, he conducted a similar two-day session for several hundred merchandising and store managers.

As of December 2001, the chain's gross margins had improved dramatically, and its stock price had doubled.

FOLLOW THROUGH

Clear, simple goals don't mean much if nobody takes them seriously. The failure to follow through is widespread in business, and a major cause of poor execution. How many meetings have you attended where people left without firm conclusions about who would do what and when? Everybody may have agreed the idea was good, but since nobody was named accountable for results, it doesn't get done. Other things come up that seem more important, or people decide it wasn't such a good idea after all. (Maybe they even felt that way during the meeting, but didn't speak up.)

For example, a high-tech company was hit hard by the recession of 2001, suffering a 20 percent decline in revenue. The CEO was reviewing the revised operating plan for one of his most important divisions. He congratulated the division president on how well he and his people had reduced its cost structure, but noted that the business would still fall short of its target for return on investment. And he offered a possible solution. He'd recently learned about the importance of velocity, and suggested that the division could make real gains by working with its suppliers to increase inventory turnover. "What do you think you can do?" he asked the purchasing manager. The manager replied that with some engineering help, he thought he could make substantial improvements. "I'd need twenty engineers," the manager added.

The CEO turned to the engineering vice president and asked him if he would assign the engineers to the task. The vice president hemmed and hawed for half a minute. Then he said, in chilly tones, "Engineers don't want to work for purchasing." The CEO looked at the vice president for several moments. Finally he said: "I am *sure* you will transfer twenty engineers to purchasing on Monday." Then he walked toward the door, turned, and looked at the purchasing executive, and said: "I want you to set up a monthly videoconference with yourself, engineering, the CFO, and me and the manufacturing manager to review the progress of this important effort."

What did the CEO do here? First he surfaced a conflict that stood in the way of achieving results. Second, by creating a follow-through mechanism, he ensured that everyone would indeed do what they were supposed to. This included the division president, who had sat passively on the sidelines until the CEO delivered his ultimatum. And

the CEO's action sent a signal through the rest of the company that others, too, could expect follow-through actions.

REWARD THE DOERS

If you want people to produce specific results, you reward them accordingly. This fact seems so obvious that it shouldn't need saying. Yet many corporations do such a poor job of linking rewards to performance that there's little correlation at all. They don't distinguish between those who achieve results and those who don't, either in base pay or in bonuses and stock options.

LARRY: When I see companies that don't execute, the chances are that they don't measure, don't reward, and don't promote people who know how to get things done. Salary increases in terms of percentage are too close between the top performers and those who are not. There's not enough differentiation in bonus, or in stock options, or in stock grants. Leaders need the confidence to explain to a direct report why he got a lower than expected reward.

A good leader ensures that the organization makes these distinctions and that they become a way of life, down throughout the organization. Otherwise people think they're involved in socialism. That isn't what you want when you strive for a culture of execution. You have to make it clear to everybody that rewards and respect are based on performance.

In chapter 4, we'll explain why so many companies don't reward the doers, and how those that execute do.

EXPAND PEOPLE'S CAPABILITIES THROUGH COACHING

As a leader, you've acquired a lot of knowledge and experience—even wisdom—along the way. One of the most important parts of your job is passing it on to the next generation of leaders. This is how you expand the capabilities of everyone else in your organization, individually and collectively. It's how you will get results today and leave a legacy that you can take pride in when you move on.

Coaching is the single most important part of expanding others' capabilities. You've surely heard the saying, "Give a man a fish, and you'll feed him for a day; teach a man how to fish, and you'll feed him for a lifetime." That's coaching. It's the difference between giving orders and teaching people how to get things done. Good leaders regard every encounter as an opportunity to coach.

RAM: The most effective way to coach is to observe a person in action and then provide specific useful feedback. The feedback should point out examples of behavior and performance that are good or that need to be changed.

When the leader discusses business and organizational issues in a group setting, everybody learns. Wrestling with challenging issues collectively, exploring pros and cons and alternatives, and deciding which ones make sense increases people's capabilities both individually and collectively—if it's done with honesty and trust.

The skill of the coach is the art of questioning. Asking incisive questions forces people to think, to discover, to search. Here's an example I observed in a planning review

at a major American multinational company. The head of one of the largest business units was explaining his strategy for taking his division from third place in its European market to first. An ambitious plan, it depended on making sharp and swift market share gains in Germany. "That was an inspiring presentation," said the CEO after it was over. But, he noted, Germany was the home base of the unit's most powerful global competitor , which was four times its size. "How are you going to make those gains?" he asked. "What customers are you going to acquire? What products and what kind of competitive advantages will you need to beat the German competitor and gain and sustain market share?"

The division head didn't have answers to these business questions. The CEO then turned to evaluating organizational capability. "How many salespeople do you have?" he asked. "Ten," the leader answered. "How many does your main competitor have?" The answer—I could barely hear the man, he was so sheepish—"Two hundred." The CEO's last question was more of a statement. "Who runs Germany for you? Wasn't he in another division until a few months ago? How many levels are there between you and the person running Germany?"

With a few simple but critical questions, the CEO had exposed weaknesses in the strategy that would have made it a certain failure in execution.

Many CEOs would have ended the dialogue there, leaving the business leader chastened and miserable. And in doing so they would have missed an important opportunity to coach all the leaders at the meeting, helping them with both their personal growth and the company's growth. But this CEO's aim was to educate his team on planning realistically.

"There may be a way to make this plan work," he observed. "Instead of trying a broad assault, why not segment the market and look for the competitor's weak spots, winning on speed of execution? Where are the gaps in his product line? Can you innovate something that will fill them? Can you identify and focus on the customers who are most likely to buy such products?"

At the meeting's end, the leader—energized by the challenge—agreed to rethink the plan and return in ninety days with a more realistic alternative. And everybody learned an important lesson about the anatomy of the strategy process.

The same principles apply to coaching an individual privately. Whatever your style —whether it' s gentle or blunt—your aim is to ask the questions that bring out the realities and give people the help they need to correct problems.

LARRY: Let's say you've got a person making all the numbers, making all his commitments, but his behavior is terrible. Charlie's working people seven days a week, he hollers, and he won't hire a woman. You call him in and say, "I love you, Charlie, but the things you're doing are going to preclude you from making numbers down the road. People aren't going to put up with this nonsense anymore. You've got a couple of choices. I'm going to be your coach. I'm going to talk to you myself. And I want this behavior changed, or you're not going to go any farther, or you're going to have to leave."

Charlie may argue that his behavior's not so bad. You give him the evidence: "Okay, I've got ten people here

who say it *is* bad. Are they all wrong? You don't keep them in here on weekends? I've got a logbook with dates that says all your people are in here Saturdays and Sundays. I've told everybody around here, 'I don't want you in here every Sunday.' Is that a lie?" "No." "Well, then your behavior is bad, right?" "Right." "Now, let's think about how we're going to fix it. This isn't a disaster, but you've got to fix it."

Sometimes people like Charlie do fix it and sometimes they don't. If they don't, you've got to get rid of them, because ultimately it will affect results. So it isn't just numbers; it's behavior.

Education is an important part of expanding people's capabilities—if it's handled right. Many companies are almost promiscuous about it, offering cornucopias of generic courses in management or leadership and putting far too many people into them.

In one company I know every bonus-eligible manager went through the executive development program. It was an absolute waste of time for 50 percent of them. You need to make judgments about which people have the potential to get something useful out of a course and what specific things you're trying to use education to accomplish, in order to expand the capabilities of the organization.

At Honeywell our learning strategy is based on the kind of organizational capabilities people need. Some of these include tools people have to master—Six Sigma, digitization, managing the flow of materials through a work cell by self-directed teams. Some are broader, having to do with executive development. Here the best learning comes from working on real business problems. We ask people look to at three or four issues facing the company, and we form them into teams to work on those issues.

Keep in mind that 80 percent of learning takes place outside the classroom. Every leader and supervisor needs to be a teacher; classroom learning should be about giving them the tools they need.

KNOW YOURSELF

Everyone pays lip service to the idea that leading an organization requires strength of character. In execution it's absolutely critical. Without what we call emotional fortitude, you can't be honest with yourself, deal honestly with business and organizational realities, or give people forthright assessments. You can't tolerate the diversity of viewpoints, mental architectures, and personal backgrounds that organizations need in their members in order to avoid becoming ingrown. If you can't do these things, you can't execute.

It takes emotional fortitude to be open to whatever information you need, whether it's what you like to hear or not. Emotional fortitude gives you the courage to accept points of view that are the opposite of yours and deal with conflict, and the confidence to encourage and accept challenges in group settings. It enables you to accept and deal with your own weaknesses, be firm with people who aren't performing, and to handle the ambiguity inherent in a fast-moving, complex organization.

RAM: You surely have noticed that the best leader is often not the most brilliant person in the outfit, or the one who knows most about the business. What gives this person more confidence to be a leader than others who are demonstrably better in one dimension or another?

Here's a clue. A certain executive lacked an essential

quality that he needed to be a strong leader. He was the CEO of a large company I worked with, who had two executive vice presidents reporting to him. One VP, responsible for about 60 percent of the company's business, was an old and trusted colleague, completely loyal to the CEO. But he was faltering. In his gut, the CEO knew it, but he was unable to make the tough decision to let him go. (It wasn't the first time the CEO had faced this issue and frozen; that other time somebody else cleaned up the mess.) Eventually the board ordered the CEO to get rid of him. With that, the power passed to the board, and the inevitable consequence was that the CEO himself went shortly thereafter.

This man was smart and pleasant to people, and he knew the business. But he didn't have emotional fortitude. On the contrary, he had an emotional blockage that kept him from dealing forthrightly with the inadequacy of his executive vice president. Psychologists know that some people are limited, even crippled, by emotional blockages that prevent them from doing things that leadership requires. Such blockages may lead them to avoid unpleasant situations by ducking conflicts, procrastinating on decisions, or delegating with no follow-through. On the darker side, they may drive the leader to humiliate others, draining energy and sowing distrust.

Emotional fortitude comes from self-discovery and self-mastery. It is the foundation of people skills. Good leaders learn their specific personal strengths and weaknesses, especially in dealing with other people, then build on the strengths and correct the weaknesses. They earn their leadership when the followers see their inner strength,

inner confidence, and ability to help team members deliver results, while at the same time expanding their own capabilities.

A solid, long-term leader has an ethical frame of reference that gives her the power and energy to carry out even the most difficult assignment. She never wavers from what she thinks is right. This characteristic is beyond honesty or beyond integrity, beyond treating people with dignity. It's a business leadership ethic.

Leaders in contemporary organizations may be able to get away with emotional weakness for a brief time, but they can't hide it for long. They face challenges to their emotional strength all the time. Failure to meet these challenges gets in the way of achieving results. Getting things done depends ultimately on performing a specific set of behaviors. Without emotional fortitude, it's tough to develop these behaviors, either in ourselves or in others. How can your organization face reality if people don't speak honestly, and if its leaders don't have the confidence to surface and resolve conflicts or give and take honest criticism? How can a group correct mistakes or get better if its members don't have the emotional fortitude to admit they don't have all the answers?

Putting the right people in the right jobs requires emotional fortitude. Failure to deal with underperformers is an extremely common problem in corporations, and it's usually the result of the leader's emotional blockages. Moreover, without emotional fortitude, you will have a hard time hiring the best people to work for you. Because if you are lucky, these people will be better than you are; they will bring new ideas and energy to your operation. A manager who is emotionally weak will avoid such people out of fear that they will undercut his power. His tendency

will be to protect his fragile authority. He will surround himself with people he can count on to be loyal and exclude those who will challenge him with new thinking. Eventually, such emotional weakness will destroy both the leader and the organization.

In our years of working and observing in organizations, we have pinpointed four core qualities that make up emotional fortitude:

AUTHENTICITY: A psychological term, *authenticity* means pretty much what you might guess: you're real, not a fake. Your outer person is the same as your inner person, not a mask you put on. Who you are is the same as what you do and say. Only authenticity builds trust, because sooner or later people spot the fakers.

Whatever leadership ethics you may preach, people will watch what you do. If you're cutting corners, the best will lose faith in you. The worst will follow in your footsteps. The rest will do what they must to survive in a muddy ethical environment. This becomes a pervasive barrier to getting things done.

SELF-AWARENESS: Know thyself—it's advice as old as the hills, and it's the core of authenticity. When you know yourself, you are comfortable with your strengths and not crippled by your shortcomings. You know your behavioral blind sides and emotional blockages, and you have a modus operandi for dealing with them—you draw on the people around you. Self-awareness gives you the capacity to learn from your mistakes as well as your successes. It enables you to keep growing.

Nowhere is self-awareness more important than in an execution culture, which taps every part of the brain and emotional makeup. Few leaders have the intellectual fire-

power to be good judges of people, good strategists, and good operating leaders, and at the same time talk to customers and do all the other things the job demands. But if you know where you're short, at least you can reinforce those areas and get some help for your business or unit. You put mechanisms in place to help you get it done. The person who doesn't even recognize where she is lacking never gets it done.

SELF-MASTERY: When you know yourself, you can master yourself. You can keep your ego in check, take responsibility for your behavior, adapt to change, embrace new ideas, and adhere to your standards of integrity and honesty under all conditions.

Self-mastery is the key to true self-confidence. We're talking about the kind that's authentic and positive, as opposed to the kinds that mask weakness or insecurity—the studied demeanor of confidence, or outright arrogance.

Self-confident people contribute the most to dialogues. Their inner security gives them a methodology for dealing with the unknown and for linking it to the actions that need to be taken. They know they don't know everything; they are actively curious, and encourage debate to bring up opposite views and set up the social ambience of learning from others. They can take risks, and relish hiring people who are smarter than themselves. So when they encounter a problem, they don't have to whine, cast blame, or feel like victims. They know they'll be able to fix it.

HUMILITY: The more you can contain your ego, the more realistic you are about your problems. You learn how to listen and admit that you don't know all the answers. You

exhibit the attitude that you can learn from anyone at any time. Your pride doesn't get in the way of gathering the information you need to achieve the best results. It doesn't keep you from sharing the credit that needs to be shared. Humility allows you to acknowledge your mistakes. Making mistakes is inevitable, but good leaders both admit and learn from them and over time create a decision-making process based on experience.

LARRY: No one does the leader's job flawlessly, believe me. You've got to make mistakes and learn from them. Yankees manager Joe T orre got fired three times during his career. Now he's looked upon as the icon of the game. He learned some things along the way.

In his book, *Jack: Straight from the Gut,* Jack Welch freely admits he made many hiring mistakes in his early years. He made a lot of decisions from instinct. But when he was wrong, he'd say, "It's my fault." He'd ask himself why he was wrong, he'd listen to other people, he'd get more data, and he'd figure it out. And he just kept getting better and better. He also recognized that it's not useful to beat other people up when they make mistakes. To the contrary, that's the time to coach them, encourage them, and help them regain their self-confidence.

How do you develop these qualities in yourself? There are, of course, books on the subject, some of them useful. Many companies, including GE and Citicorp, include self-assessment tools in their leadership development programs.

But the ultimate learning comes from paying attention to experience. As people reflect on their experiences, or as they get coached, blockages crumble and emotional

strengths develop. Sometimes the ahas also come from watching others' behavior: your observational capabilities make you realize that you too have a blockage that you need to correct. Either way, as you gain experience in self-assessment, your insights get converted into improvements that expand your personal capacity.

Such learning is not an intellectual exercise. It requires tenacity, persistence, and daily engagement. It requires reflection and modifying personal behavior. But my experience is that once an individual gets on this track, his or her capacity for growth is almost unlimited.

The behavior of a business's leaders is, ultimately, the behavior of the organization. As such, it's the foundation of the culture. In the next chapter, we present a new framework for changing the culture of an organization.