

## Parenting the Business

Head of a British-based executive mentoring company likens America's scandal-stained businesses to dysfunctional families in need of better parenting.

Though now somewhat behind us, the scourge of accounting scandals and corporate wrongdoings in America was still hanging in the air at the 2003 Human Resources Forum aboard the British-owned Adonia cruise ship in May. Ethics in business and the re-examination of leadership and executive compensation were addressed in numerous sessions and keynote presentations, and probably mentioned in far more private discussions between HR executives, consultants and experts over the course of the three-day event.

On the conference's last night, Human Resource Executive Managing Editor Kristen B. Frasch had the opportunity to engage in such a discussion with David Carter, founder and chairman of Merryck & Co. Ltd., a London-based executive mentoring consulting company. Not only did his overseas corporate base offer a unique outside-looking-in perspective on one of the worst blemishes in the history of American business, his work with CEOs and business leaders in many of this country's Fortune 500 and 1,000 companies—including Shell, Hewlett-Packard, Reuters and Dell—offered some valuable insight into what went wrong in so many of our corporate board rooms and what human resource leaders might bear in mind as they strive to take on more of a corporate-governance leadership role to ensure such problems never crop up in their companies, or never do again.

Moreover, the originality and almost logical simplicity of Carter's views opened a whole new window to this troubling time and became the seeds for the following Q&A. It is his belief that at the very heart of our corporate "black eye" lies an "unmistakable void of senior leadership," he says, "father figures, if you will, practicing proper and very necessary corporate parenthood ... the figures in the corporate family structure who for years were the ones standing up to the younger leaders—the kids—saying, 'No, you can't do that; you can't do that to your shareholders and, most importantly, you can't do that to your employees.' " The void only became noticeable and prominent, he says, in the last decade, when more and more senior executives were "being ushered out the door at the age of 50 or so," lured by retirement packages that were hard to turn down.

Currently, Merryck—with revenues hovering around 1.4 million pounds (or about 2.23 million in U.S. dollars) a year—is now expanding its operation further into the United States and Australia, primarily through its Business Leaders' Forum, an exclusive networking and speaking group of top corporate leaders throughout the world. Just prior to attending the HR Forum, Carter named Margaret Barrett, former CEO of the Global Joint Venture between Merrill Lynch and HSBC, as his new CEO of the Americas responsible for establishing his business on these shores. The timing of this move is intentional—part of a long-term business plan and a response to, as Carter puts it, "what's been going on in America." "Our view," he says, "is that the collapse we have seen in the end of the dot-com era, the greed era—the Enrons, the WorldComs—was an absolutely natural outcome of what's probably been going on for 25 or 30 years: the rape and pillage of the corporate balance sheet in the board rooms of America."

**You're a mentor to CEOs. You have a specific frame of reference for their thought processes and challenges. How do you explain this 25-to-30-year gap in ethical leadership, as you've described it?**

If you think about it logically and rationally, completely unemotionally, imagine a company that, over the last 25 years, had basically taken five of its 10 layers of management out of the organizational structure and anyone who had gotten to 50 had been shown the door in early retirement. Imagine too that succession planning had really been discovered to be far too expensive, so the company decided not to develop all its people inside the business. What's more, the amount of money it was spending on training and development had gone down year after year for about 20 years. ... Would it surprise you if that company, at the end of 25 years, was in worse shape than its competitors? Over the last 25 years, statistics show, the average tenure of a CEO has come down. Ten years ago, the average life cycle of a CEO of a Nasdaq

company was 10 years. Now it's four. Investment communities are looking for shorter-term results much more than ever before. It's become sort of a vicious spiral. Numerous books show that if all you ever do is cut costs, you ultimately destroy a business. What happened in the dot-com phenomenon was really the end of 25 years of non-sustainable, long-term, destructive, value-eroding behaviors that may have boosted profits one year, but ultimately destroyed shareholder value the next, and the next.

**And it's your belief that the right parental figures in place in our businesses might have prevented that?**

Think about it. Raising a family and never effectively investing in your children—taking from them all the time—is not what parenting is all about. It's about nurturing, developing, making investments today that will yield benefits in the long term ... . What was it that Gordon Gekko [the character played by Michael Douglas in the 1987 movie *Wall Street*] said? "Greed is good, and lunch is for wimps?" That's what's been happening over the last 20 years, the development of self. What is parenting? Parenting is not about a transaction; it's about a relationship, a long-term commitment. It doesn't just stop when kids leave school; it's a life-long relationship. Very often when we talk to our children, we say to them, "Well I know this doesn't make any sense to you, but I'm making this decision because it's the right thing to do and you'll thank me for this in 20 years' time." And the kids say, "Well this is rubbish; I don't see the benefit," but you know in 20 years, they say, "Thank you for making me not do that." Parenting a company is about making tough decisions today to benefit a organization five, 10, 15 years down the road. If all a board of directors is interested in is this quarter's earnings and this week's share price, then they are never actually parenting the business. It's a series of transactions that they are looking at.

**What can HR leaders do to ensure these older, wiser figures are in place in their companies?**

As Jim Collins emphasizes in his book, *Good to Great*, the goal of a good HR leader is to get the right people on the bus, and the right people on the right seats on the bus. In keeping with that, HR could establish an advisory council of retired executives or former employees and customers who know the company's history and its values and could lend advice in decisions the board is making—say in executive hiring, recruitment and compensation strategies. The HR community should have at the top of its agenda its people. If we are really kicking our talent out at 50, what sort of culture are we really creating? One that can endure over time or one that can simply achieve this quarter's earnings? If we truly value our people, then we will be keeping our elders in-house to keep an eye on things, like parents, and make sure we're investing in sustainable things, like people.

**Parenting conjures up an image of love and commitment. When you talk of parenting a business, are you talking about something as simple as love?**

Totally. I don't think we should shy away from that word. Many employers truly love their businesses and their employees, and the bosses of their employees. They love their customers and suppliers and they look after them. There is a great book called *The Loyalty Effect*, which talks about having loyal customers, loyal shareholders and loyal employees. And it shows you very scientifically that if you look after all three groups simultaneously, you will have sustainable results. The board of directors is there to look after those three entities, parenting the company. They do that through the recruitment, training and development of an executive team. Who sets the strategy and vision for the business, and who enacts the values of the business? Every family has a set of family values. They may be spoken or unspoken. Some children are allowed to chew gum at the table and some are not. Some have to wash their hands, some have to say grace ... they have similar values, things that are acceptable and not acceptable in a family.

**What are you hearing from American executives who are seeking your services? What are they are looking for now? Do you hear them acknowledging that they haven't been tending to their companies the way they should?**

They're beginning to see that the short-term business model that they have historically been asked to operate in is no longer sustainable. That kind of pressure will not last. For the last four or five years, they have used smoke and mirrors to come up with yearly profit growth. But they really have been disguising

the five-year deterioration of the business model. Eventually, when you have used smoke and mirrors for five years to keep an upward trend in profitability and you've run out of acorns in the cupboard, where do you go? When all of a sudden there's a massive drop in earnings and you replace the CEO, and the new CEO comes in and realizes that the business model is broken, you eventually end up with two or three new CEOs because people don't accept the fact that the business is broken; they think the leadership is wrong. What board member or shareholder wants to hear that the basic business model they've been working with is broken. So there has been sort of a self-perpetuating trend; since it was in everyone's interest to make the share price rise every year, everyone found a way to make it go up. But since they kept raiding the pantry, it also meant the pantry was eventually bare. A lot of CEOs are saying, "We've got to stop raiding the pantry and using smoke and mirrors. And we actually have to address some fundamental truths."

**How do you help business leaders do that? How do you retrain them to, essentially, learn to love their businesses?**

Any change like this needs to come from the top. That's why we only work with CEOs. Because ultimately the CEO is the bridge between the board and the shareholders, and the top team and the employees. The CEO is the bridge between those two groups. But the CEO needs information from the senior officers, including HR executives, and that sometimes requires courage.

**Such as saying, "These numbers don't add up," or "We need to rethink where we're headed here?"**

Exactly. If you were to ask 95 out of 100 CEOs of businesses in which they've been involuntarily ejected, "What went wrong?" most of them would say, "I didn't know that was happening; no one told me. I didn't have that information." I don't think people are as corrupt as we make them out to be sometimes. I think they can be more misinformed, ignorant.

**Which gets to parenting, I suppose. It's up to Mom and Dad to ask their teen-ager, "Where are you going, which friends will you be with and who's driving?"**

Exactly, and I think also, particularly in America, there's been the cult of the celebrity CEO. The reactions of the boards have been, "Well, if we don't find someone who can do the job first, we'll just hire someone else who can." But they keep making the same mistakes. And the CEOs keep getting paid a whole load of dollars, whether they fail or succeed. After all, what's the down side of failing if you can put \$20 million in your pocket. Getting paid that sum, even for failure, creates in them a sense that they know all the answers. They present an image of being completely unapproachable. So part of what we do with our clients is to get them to understand that they absolutely have to be accessible and approachable. Because, again, what would happen to a child who could never talk to his or her parents? Or was too frightened to talk, or the parents were too busy. What would happen? They would probably get in big trouble, which is precisely what's been happening in American companies.

**How do you mentor a CEO toward becoming more approachable?**

First you have to get them to buy into the fact that accessible leadership is a good thing. Second, you get them to own the fact that perhaps that isn't their leadership style. As Jim Collins' book shows, the real results in terms of sustainable success in corporate America have been achieved by names you never heard of. They're the leaders who have outperformed the stock market, and Jack Welch didn't even make the list. They outperformed GE by almost 100 percent over a 30-year period by having deep personal humility combined with a fierce commitment to corporate results. So how do you mentor someone into humility and a commitment to a new style of leadership? A classic way is to administer the 540-degree feedback appraisal, which takes in comments from inside and outside the company as opposed to the internal 360. This includes direct reports, peers, customers, executive leaders and many others. I have found going over the results of these assessments with my clients can be a very mind-altering, humbling experience. I would make the observation, however, that arrogant and conceited CEOs are probably not "mentorable," in which case the board should be kicking them out. And HR should be making more noise about these problem individuals.

**Does HR realize this, in your opinion?**

The HR community in America “gets it.” They’ve read the books. They understand intellectually what the organization needs to transform itself into a long-term sustainable business. What’s tying their hands are the difficult people they report to, forcing them to decide whether they’re going to be compromised and earn their paycheck or stand up for what they believe and be prepared to face the music. The challenge for them was how they could raise their game and their credibility in the board room to have what they instinctively, intuitively knew was a benefit to the organization be implemented. We heard over and over: “How do I get the CEO to see that he needs the help?” If members of the HR community want to make a difference, as they do, they need to follow their convictions. What’s that saying? “Fortune favors the brave?”

**How global is this awareness that HR needs to raise its game, as you say? Do you see other trouble spots in the world where better corporate parenting, if you will, is called for?**

There are many problems out there in different parts of the world, but I think America’s problems and issues are particularly and only really relevant in America. That’s where you’ve been suffering through the celebrity CEO.

**So let’s say you’re going to change my celebrity CEO. How do you actually measure the change in his or her behavior. What metrics do you use to determine success?**

We can tangibly measure turnover, which we did with one company in London, in which the CEO—a real rainmaker who was very talented, but was literally burning up his workforce at a 120 percent turnover rate—needed to be shown how the culture he was fostering was hurting his business. They were spending thousands in headhunters’ fees. Within a year, turnover was eliminated entirely. We can also make cost-saving suggestions that CEOs wouldn’t have thought of. We often hear about these savings from clients. We hear too from companies that consider anything they make over budget in the year we work with them as their mentoring ROI. They may be gray areas, but they are measures. Measurement is one way to solidify your argument, but only after your CEO has signed onto the need for change.

**What’s holding HR professionals back from stepping up their game and their argument for this?**

Often, it’s the quality of the CEO. They might see the overall benefits to the company, but the CEO might be on a kamikaze mission to destroy the company and they just don’t listen to anybody, let alone the HR leader. We heard some real horror stories. I think what’s been happening is the HR director has been knocking on the CEO’s door saying we need changes, but it’s always taken lower priority. A culture change can always wait till next Monday, you know? I’ve got too many shorter-term projects. What the HR leader hasn’t come up with yet is a credible reason for the CEO to stop and say, “OK I need to do this now.” It could be giving the CEO some case studies, talking him through some personalities, benchmarking other companies where cultures have changed for profit.

**Why do you think this is, that the HR leaders can see this need for change before their CEOs see it?**

A great HR professional self-actualizes by helping other people succeed. And in a way, so does a great mentor, so does a great coach, so we share something, that we’re all self-actualizing. We see personal and inherent fallacies in other individuals and look for ways to help them overcome those problems. We’re one of the tools a great human resource leader can tap into. We’re partners in that.

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