Why A Loyal CEO Can Be Deadly

Mid-market firms are particularly hurt when bad managers are given a pass

Having participated in hundreds of Alliance meetings, I've come to the conclusion that most all the groups talk tough about replacing underperforming executives. But why do the groups have to dispense this advice over and over again? And why are they so vehement about making changes quickly?

BY ROBERT SHER

Chief executives who are loyal to their lieutenants can be the enemies of performance. Such CEOs have kept many a company from hitting its numbers and sunk more than a few. A company whose senior managers are coasting on long ago accomplishments is a company that isn't firing on all cylinders.

That's a particular problem for mid-sized firms. They don't have the luxury of multibillion-dollar corporations to support a weak link or two in the executive chain. The average mid-market firm in the Alliance typically has 4-10 people in the C-suite. Compare that to the 40 corporate-level executives of Ford Motor Co., or the 27 of Western Union (at $5 billion, a much smaller big company than Ford). Two or three weak links out of 30? Not so big a problem. Two or three weak links out of five? A huge problem.

How huge? In one case (not an Alliance member), the CEO of a manufacturing company stayed loyal to a VP of engineering for five years despite the executive missing two product trial deadlines, a complete defection of the entire engineering team, and a flawed product that required a complete rebuild. Fellow executives departed believing the company's product problems would prevent them from succeeding. Three years of delays forced the company to raise tens of millions of additional dollars, and the early investors will never recover their nine-figure investment. It only ended when the VP left for a startup. The company got a last ditch strategic investor to put in a small round at horrible valuations in a desperate attempt to fix the flawed engineering and keep the company alive. The odds are long.

Notice that the CEO's misplaced loyalty not only created a major financial problem; it drove many of the firm's high performers away. This is a major issue for mid-market companies. Some 80% of U.S. mid-market firms ($10 million to $1 billion) polled last year by Ohio State University said getting talented employees is one of their biggest challenges.

My own research and experience within the Alliance tells me that this is the CEO's problem. In a recent Alliance survey of mid-market CEOs and their teams, we found a big schism in perception. The CEOs think they are much tougher on performance (thus less loyal). Their teams see them as being much softer on performance (thus more loyal).

People often feel that loyalty exists between a boss and a subordinate. This is a myth.

Having participated in hundreds of Alliance meetings in the last five years, and in my own Alliance group as a member for 11 years, I have found that their most common complaint is the underperformance of executive team members. While they tell each other time and again to dismiss these managers quickly, too often loyalty gets in the way, and they postpone the firing. However, once they make it, we hear over and over again how demoralized the other executive team members had been about poor-performing peers who had been allowed to stay on so long.

Loyalty to the Company's Mission is What Counts. I remember clearly sitting in an Alliance meeting and hearing from the CEO of a firm with a socially conscious mission. His issue was an executive who, to all the rest of us at the table, clearly needed to be fired, but this CEO was still making excuses, citing reasons to delay. As other members weighed in as to what they would do (all versions of "fire the exec"), I was thinking hard about how to deliver the message in a powerful and unique way. Then it hit me. This bad executive was stealing energy and money from the organization's mission the CEO so clearly cared about. I point blank asked him if this executive was more important than his organization's mission. The answer was obvious, didn't even need to be spoken, and hit hard.

So how do CEOs avoid loyalty that leads to dysfunction? In the best-performing mid-market companies I've seen, the CEOs view loyalty differently. Indeed, they value loyalty, but

Alliance Members React to this Article

Lisa Im
Performant

Lisa Im (Group Q200), CEO, Performant: I absolutely agree with this point of view about misguided loyalty. The CEO's first and foremost priority is the company, which means that the executive team must be top performing given the stage of the business.

Several years back, I hired an executive who had incredible loyalty to me, but became ineffective within the first 12 months of the hire—largely because the exec's prior experience and style were not a good fit with the team and with the department (and you know it takes a little time for that to come out). Because the exec worked hard (long hours), had abundant energy, and managed up very well, the performance gaps were less visible to me. In the meantime,

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only the loyalty of each team member to the company's mission – not their loyalty to the CEO, or the CEO's loyalty to them.

People often feel that loyalty exists between a boss and a subordinate. This is a myth. In the most successful companies, loyalty is like a checking account with an expiration date, where the CEOs and employees make deposits and withdrawals every working day. Not doing the job well is a withdrawal from the team member's account. If too much time passes without new deposits being made, the account will run dry – no matter how big it was years ago when the team member made a big deposit.

Medium- to long-term lack of performance almost always overdraws the loyalty account.

Certainly every executive who has been a solid performer over time deserves getting some slack for life's hiccups – a bout of illness, distraction due to a divorce, etc. During these times they are making "withdrawals" from their loyalty account. And most certainly every long-term solid performer deserves coaching, guidance and feedback so they can again become an excellent performer. But medium- to long-term lack of performance almost always overdraws the loyalty account.

I've seen companies rejuvenate growth after their CEOs refocused their loyalty. One case in point is Alliance Top Team member Frank Patchel, CFO at Abbyy, who at a prior company was President and identified a VP Sales that was underperforming at a crucial turning point for the firm. This VP was the CEO's recruit, and a personal friend. But Frank and the top team were bold enough to bring it to the CEO's attention, who investigated and made a dismissal within a week. They promoted a talented executive, who was integral to the leap in performance the company experienced in the next few years.

Turning Around the Loyalty Problem. I realize that rethinking the concept of loyalty is not easy for many CEOs. The tendency to help those who once helped us can be very strong. But you are not doing your company and your high performers any favors. Remember that for those who must go, your company is not the only good place to work. And firing executives is not akin to killing them. In fact, many poor performers thrive in new environments but don't have the courage to make the move on their own. Dismissal can be a catalyst for new growth.

At the same time, such CEOs should make a stronger commitment to their company's mission. Tolerating poor performers out of a sense of personal loyalty is in fact disloyal to the company, and firms with active boards will count it as a demerit against the CEO.

As legendary ex-CEO Jack Welch and his wife Suzy wrote three years ago: "Loyalty isn't dead, but rewarding loyalty without performance should be. It's shortsighted and wrong-headed." The only loyalty that matters in business is to the success of that business.

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Reactions, cont'd...

critical projects were not getting done, and a bad cultural phenomenon was developing in the exec's organization. It took the collaboration of my other executive team members, and one courageous voice, to sit with me and show me how bad this situation was. Shortly thereafter, the exec left our organization—to which there was a great sigh of relief. The rest of my executive team stepped up and shored up the functional coverage. More importantly, the disruptions surrounding this individual stopped, projects got back on track, and the core values of the company were reinforced in the organization.

Part of the problem with misguided loyalty is the message that is sends to the organization: That the company or CEO is willing to compromise values. That is a very BAD message.

Frank Patchel
Abbyy

Frank Patchel (T110), CFO, Abbyy: I was the President of a small company that was sold after a few years to a much larger public company—it was like a re-birth. Soon it became clear to me that the Sales VP was not the person who could represent the company well to the major prospects we hoped to garner under our new ownership. I gathered this insight from personal attendance at meetings where I saw his poor performance, and I found myself stepping in and giving the core presentation.

I nervously described this situation to the CEO. He had personally selected this Sales VP. Further, I was also worried about another excellent sales executive that reported to the Sales VP, as they were good friends. I did not want to lose this talented executive. The CEO asked me all the right questions, and within a week had conducted a series of discussions with the VP and dismissed the VP. We promoted the other executive.

In the years that followed the company performed really well. We would not have performed at that level without this key executive change at a pivotal moment.

John Rule
Applied Aerospace Structures Corp.

John Rule (Group 108), CEO, Applied Aerospace Structures Corporation: With only 5-6 top executives, we have no spare capacity at the top, and it's not really feasible to have a "spare" executive. If a company like ours has a weak person in the top circle, you have to address it, because everyone knows that this person is weak or not the right fit. If you don't address it, it damages the corporate culture and the team atmosphere

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needed for success and is eventually more costly to the company than to find and replace them right away. I would pay the price to quickly replace an exec-level poor performer.

Many times getting fired or laid off is the best thing that happens to an employee. It may shock them, reopen their eyes, get them re-motivated. If you truly care about them, don't let them languish in a job where they aren't able to win.

It is certainly not fun for the CEO when you have had employees who have done good things in the past and have become stagnate. But the CEO's job is to maximize the return to the investors. Things standing in the way of that need to be addressed by the CEO, or else the CEO is not fulfilling his or her job function.


Jim MacDonald
RF MacDonald

Jim MacDonald (Group 107), CEO, RF MacDonald: This article is spot on. The whole loyalty concept has at its roots friendship, which extends to spouses and families. How can you work for 20 years with an executive team of five and not develop deep relationships?

Of course, that is generally good. That's the strength on which firms can thrive. But when friendships are taken advantage of and the person in question "checks out" for other pursuits (i.e. coasting is another pursuit), it's time for a heart to heart to get a recommitment to their role and performance objectives, or it's time to move on.

I believe the key is regular doses of communication and commitment on the issues so it's evident to both parties over time whether progress is being made or not. If it is not, then separation can be seen by fellow employees and even the families as a reasonable outcome, as there has been plenty of warning and opportunity provided to alter the outcome. I think it goes really badly when the "loyal executive" bottles the issues up and stays silent for too long and then hits their limit in an emotional outburst.

I am going through this experience as I write this. My engagement with this person started last summer and continues, but with regular communication on the topics and specific plans to address the issues. The jury is still out, but the objectives and message are clear.

Anonymous (by request) Alliance CEO: I think that in a small exec team you can also have a weak manager but with offsetting strong technical skills and contributions. Especially when people grow with the company and are kind of "forced" into the management role and also want to be part of the exec team, this issue can arise. My point is about carefully defining the expected performance, and managerial/leadership skill is not always 100% of the job.


Glenn Fishler
EORM

Glenn Fishler (Group 333), CEO, EORM: I think about this subject a lot. In my view, CEO loyalty and "disloyalty" are equally important.

What/Who should CEOs be loyal to?

1. High levels of performance that drive firm value

2. Leaders that lead well and followers that follow well

3. Strategic thinking

4. New ideas that feed vision and innovate

5. Risk takers

Who/What should CEOs be disloyal to?

1. Named leaders who are not leading

2. Friends and favorites who are not performing

3. Complacency and ordinary thinking

4. Hidden agendas and other actions that are toxic to the firm

5. Low-level performers who are not destined to improve

6. Those whose time has passed; who have been left behind and failed to adapt

CEOs often wait too long to make the tough choices because they are emotionally attached to individuals in their organizations. I have been guilty of this myself, and I am trying to get over it!


Alain Couder
Oclaro

Alain Couder (Q200), President & CEO, Oclaro: Loyalty, as you say, has to be to the company and not to the executives. The word I use is "respectful." As a company evolves and goes through M&A, the executive that did a good job before may not be the talent you need to make the company successful now.

If each of your executives knows that they will be treated with respect—meaning no criticism of the person, only of the lack of results—coupled with a fair financial treatment when they have to leave the company, this goes a long way.

In my experience, executives who are failing in their job know it. I have seen some that were relieved to be pushed out. Others were furious – yet came back two years later thanking me for the decision, as they found a new job in which they were very successful. Unfortunately, for some it is a difficult journey as they cannot find another job that they like. It is sad but this is the life of business.

A corollary of the above is do not make personal friends in the company. Separate your personal life from your business life. In personal life, loyalty is a big plus. Knowing that some people, friends, your wife, children, will always be there whatever you do is great. In business it does not work.