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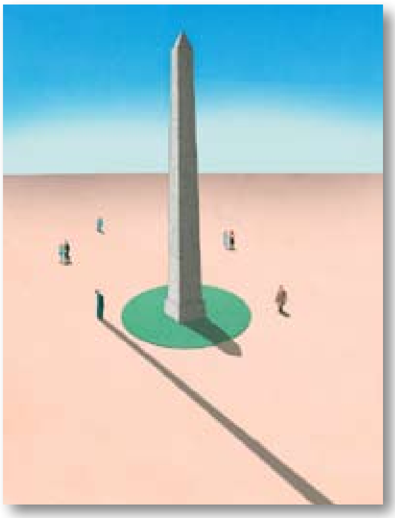
Fighting Corporate Hubris

The Four Steps of the Perpetuity Principle

By Hans-Paul Bürkner



At a Glance

The Perils of Corporate Hubris

Massive corporate fraud, the dot-com bubble, the worst economic crisis since the 1930s—these events are all examples of the corporate hubris that has led companies to overextend themselves, to falter, and even to fail over the past 15 years. CEOs should guard against corporate hubris at all costs.

The Perpetuity Principle

To fight corporate hubris, top executives should follow the four steps of the perpetuity principle: they should renew the focus on delivering long-term value, foster an open and questioning culture, develop a role as stewards of the company, and ensure a regular change of leadership.

Leading the Fight

CEOs must lead from the front and engage in a relentless fight against corporate hubris—whether this manifests itself as greed, self-promotion, or ducking the hard realities of the world. Those who successfully follow the perpetuity principle will be able to change the game and develop profitable, sustainable, and trusted businesses.

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Massive corporate fraud, the dot-com bubble, the worst economic crisis since the 1930s—these events have undermined many companies and leaders over the past 15 years. As CEOs begin to absorb the lessons of this turbulent period, they should be careful not to overlook one significant contributory factor: hubris, the pride that comes before a fall.

In a corporate setting, hubris can take many forms, such as:

- Creating grandiose strategies that find their way into glossy brochures, new advertising campaigns, and rhetorical conference speeches—but never get implemented

- Launching high-profile moves into new, exciting, international markets in a costly and flamboyant way—but failing to create competitive advantage

- Pursuing big mergers and acquisitions that deliver scale, bold headlines, and large bonuses for the management team—but no long-term value

- Completing dubious financial transactions that undermine transparency—and serve only to show that the company isn't addressing the fundamentals of business

Time and again, these activities have led companies to overextend themselves, to falter, and—all too often—to fail. CEOs should guard against them at all costs.

Hubris and Its Nemesis: The Perpetuity Principle

The CEO and the executive committee play a critical role in the fight against hubris. They do, by their conduct, set the boundaries and norms of behavior for the rest of the company. Today, the best managers follow what we call the *perpetuity principle,* serving as stewards of their companies and, by doing so, developing profitable, sustainable, and trusted businesses. They focus on results, ensure that substance triumphs over style, and champion a true humility—one that prioritizes ethical behavior, respect for others, modesty, and diligence. To adhere to this principle, CEOs should take the following steps.

Renew the focus on delivering long-term value. It is all too easy to shrug off a sluggish performance as evidence that the market misunderstands the company's terrific work or to point to a great quarter or two as a reason for ignoring any deterioration in the business fundamentals. But before castigating critics or declaring victory, the prudent leader should take a long, hard look in the mirror: knowing what creates value—and what destroys value—for customers, shareholders, and other stakeholders are core competencies of the CEO.

On a routine basis, the CEO and his or her team should embark on an unsentimental, even ruthless, review of the company's portfolio to identify any underperforming business units or decline in the key drivers of value, such as market share, gross margin, and pricing power.

At the same time, they should pursue strategies to deliver top-line growth. But they must be wary of tempting proposals for fast-tracking growth—such as buying and selling businesses—just to please the markets. Though such strategies have their place, big splashy acquisitions that promise much but turn out to be poorly thought-out, badly executed, and deeply damaging to the long-term health of the company occur all too often. In fact, according to BCG analysis across all industries, more than half of all public-to-public deals between 1988 and 2010 actually destroyed shareholder value.

Ultimately, a company will thrive only if it offers differentiated products or services to its customers and delivers them well. Leaders should never forget this—no matter how much pressure they feel from the financial markets.

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Foster an open and questioning culture, and encourage the company's major decision makers to challenge conventional wisdom. Of course, this is not easy to do; for CEOs, encouraging others to question their carefully worked plans can be an uncomfortable process. But cultivating an environment in which executives feel free to articulate their views without fear of retribution is necessary—and usually the company is stronger for it.

There are a number of ways to foster an unfettered dialogue. The most effective is when a CEO initiates the discussion by challenging the existing business model. Another is to conduct an exercise in which one group of executives takes a contrarian view, playing devil's advocate.

A third approach is to develop a series of scenarios, or mental "boxes," that give members of the executive board a chance to gain a fresh perspective on their strategic plan. This is not some tired recommendation to engage in scenario planning or to think outside the box. Rather, it is an exhortation to think in new boxes—to question everything, to think the unthinkable.[1]

Whether or not these new scenarios are plausible is beside the point. What's important is that each box be sufficiently provocative to enable the CEO and the executive team to test the merits of their preferred approaches in different boxes and, in doing so, to break out of a tunneled managerial perspective.

As well as creating new visions of the future, CEOs must address, in a very practical sense, the way they manage and organize work. All too often, a CEO orders a reorganization of the company that, despite the best of intentions, leads only to a costly and overcomplicated proliferation of structures, processes, and systems. This is why what we call "smart simplicity"—minimizing structures, processes, and systems while maximizing leadership, cooperation, and engagement—is so important.[2] It avoids the illusion of superficial change, which actually inhibits real transformation, and forces leaders instead to consider some key questions: Are we really going to change what happens, what we do, and the way we work together?

Develop a role as stewards of the company, guiding it toward a prosperous future with a respected place in society. Companies play an important role in society, and their leaders can be significant local, national, and international citizens. CEOs, therefore, should be conscious of their role in the community, set an example through their behavior, and strive both to do well and to do good, today and for tomorrow. A narrow focus on short-term profitability, coupled with excessive bonus payments for top management, undermines the very existence of a company—especially during a time of austerity in the West and widening gaps in wealth around the world.

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To set the best example, CEOs should ask themselves this question: "Is my compensation in line with performance?" If the answer is no—then that's a problem. Certainly the best-performing executives should be well compensated. But those who have poorly served—or even defrauded—their shareholders, customers, and local communities should face negative consequences rather than be rewarded with golden handshakes.

CEOs should also ask themselves, "Is my company making an appropriate contribution to society?" With the rising importance of citizenship, trust, sustainability, and reputation, leaders cannot fixate solely and selfishly on the company. They have a role in shaping a more resilient and responsible future for society at large.

Companies can contribute to the well-being of local communities through their products and services, job creation, education, and skills training. They should also pay an appropriate level of corporate tax. Of course, it is the duty of each company to take every legal step to minimize its tax burden. But going too far risks a serious backlash—not least from consumers and especially at a time of large government deficits, which are partly due to tax evasion and poor collection. This risk holds equally true when it comes to labor laws, environmental regulations, and quality standards.

Ensure a regular change of leadership. CEOs should conduct a periodic shake-up of those around them, including their loyal lieutenants. It is lonely at the top—and never more so than when reshuffling the executive pack. But this is a task that CEOs must not shirk: they cannot afford to surround themselves with a cadre of people who stop challenging the status quo (now that they *are* the status quo), who put career before company, and who stay silent when they should speak out.

In general, CEOs themselves should have time-limited tenures, too. No one is above the company, not even its highest officer. In my experience, most CEOs, in the true spirit of a steward, should step aside after no more than ten years. Now, some leaders may read this and think that a decade in the top job is the kind of corporate eternity they can only dream about. The fact is, however, that some companies are nominally led by people who no longer actually lead.

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So why deprive the company of a top leader who has built up a wealth of experience? The answer is straightforward: Over time, it gets progressively more difficult to bring about necessary change. Of course, it is not hard to point to the exceptions that prove the rule—the extraordinary CEOs who defy the years and continue to generate value over decades. But, too often, long-serving CEOs are wedded to ways of doing things that quickly become outmoded in today's fast-changing and volatile world. And while success can certainly breed success, it can also breed complacency and failure.

Knowing when to hang up one's boots is notoriously difficult, whether in business, politics, or sport. The most successful leaders, wary of destroying the legacy they have built, understand that they should never think they are indispensable.

The CEO's Core Task: Putting the "Execute" Back into "Executive"

Over the past two decades, too many CEOs lost focus: to use the language of sport, they took their eyes off the ball. Today they have a second chance.

The essential purpose of a company is to deliver value to its customers and profits to its shareholders on a sustainable basis—and this means that the organization needs to be a good citizen in the communities where it does business. So the task of the CEO, as the leader of the company, is to make this happen, to get things done, to execute—hence the name, "chief executive officer."

To be truly successful in a game-changing way, CEOs must adhere to the perpetuity principle, leading from the front and engaging in a relentless fight against corporate hubris—whether this manifests itself as greed, self-promotion, or ducking the hard realities of the world.

Notes

1. See Luc de Brabandere and Alan Iny, *Thinking in New Boxes: A New Paradigm for Business Creativity* (New York: Random House, forthcoming).
2. See Yves Morieux, "Smart Rules: Six Ways to Get People to Solve Problems Without You," Harvard Business Review (September 2011). Also available at: https://www.bcgperspectives.com/content/articles/organization_design_engagement_culture_hbr_smart_rules_six_ways_get_people_solve_problems_without_you/.

About the Author

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