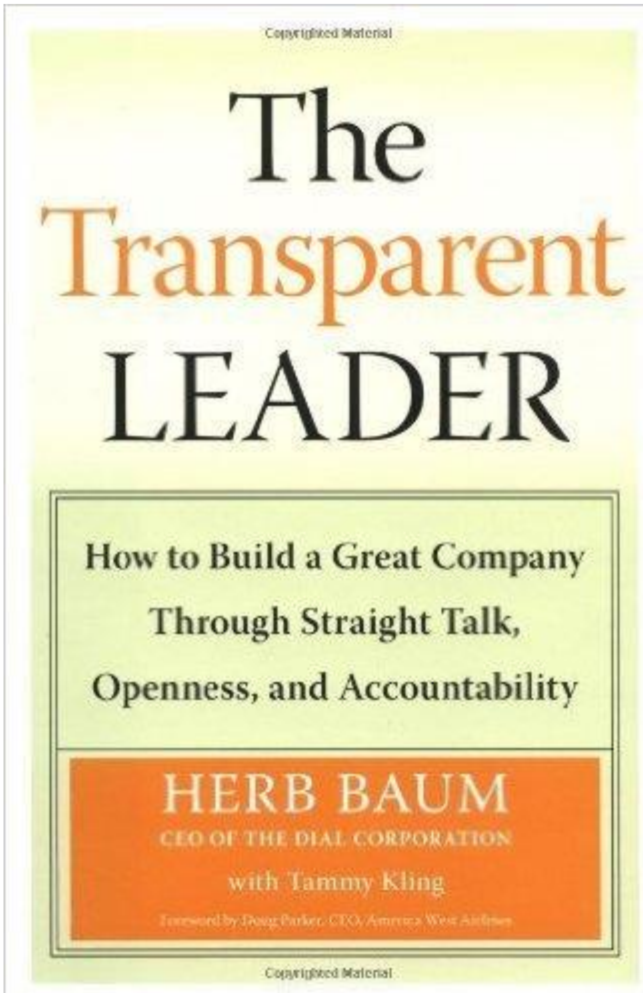

The Transparent Leader How to Build a Great Company Through Straight Talk, Openness, and Accountability

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Chapter 1 THE TRANSPARENT COMPANY

The air in the conference room was somber.

As a member of the board, I had been asked to cast my vote for the forced resignation of the reigning CEO.

The board meeting was held at the Broadmoor Hotel in Colorado Springs, a resort nestled in the shadows of the Rocky Mountains. Earlier in the day I met the CEO for a casual lunch in the hotel restaurant, along with the company's senior vice president of human resources. It was a great day. Or so I thought. We had a casual lunch at an outdoor table, and the conversation was upbeat. The Dial Corporation's CEO, Malcolm Jozoff, acknowledged that earnings were slipping, but he was certain that things would soon turn around. None of us at the table sensed what lay ahead, and even Malcolm was completely unaware of the perilous events about to unfold in his career.

Jozoff was a vigorous man with stark white hair. He was an avid runner, and sometimes could be seen running in the neighborhood around Dial headquarters in Scottsdale, Arizona, at lunchtime. A graduate of Columbia University, he had arrived at Dial after two years as the chairman and chief executive officer of Lenox, Inc., a division of Brown-Forman that sold china and crystal. Mal had had a long career with Procter & Gamble that gave him a good background for managing a company like Dial. As a CEO he was confident (perhaps arrogant at times) and, as it turned out, not totally communicative with the board about the businesses' problems.

As a member of that very board, I began to feel that Dial—the company he had led for five years—was headed for trouble. Dial had missed earnings estimates for three consecutive quarters. The employees described the atmosphere along executive row as oppressive, employee turnover was high, and Jozoff seemed to have no solid succession plan in place, a necessity for any good leader. At prior board meetings I had listened carefully while Jozoff and his executive team outlined strategies for growing the business, and on the day we lunched together at the Broadmoor, I had no indication that it would be his last meeting as CEO, an unceremonious end to a long and stellar business career.

When the members of the board convened in the hotel meeting room we took our seats, approved the minutes, and immediately elected a new director! It was Jim Osterreicher, the retired chairman and CEO of the J.C. Penney Company, Inc. Then, as we got into the meeting, one board member spoke up and asked that we break into executive session—a meeting that would exclude everyone on the corporate management team, including the CEO. For seconds there was silence. Malcolm seemed surprised, but then again so were the rest of us. Someone cleared his throat. The room was quiet, and Malcolm stood and quickly left. The board member who called the session was the retired CEO of a major telecommunications company. He explained that some senior Dial executives had come to him with legitimate concerns about the health of the business and the tactics being used to build sales. We listened to what he had to say, digested the information, and thought about solutions. There were nine people on the Dial board, among them the CEO of a major telecommunications provider, the CEO of a paper corporation, and two very talented women, one who at the time was the president and chief operating officer of an Abbott Labs subsidiary. I had been on a lot of boards, but this one was by far the most governance-oriented and aggressive panel of executives I'd worked with, and they represented a variety of industries. The board discussed the employee allegations. We had to take into account that these were just allegations, not documented facts, but we all knew that earnings had declined significantly, sales had slowed, and that the stock price was in a free fall. After we evaluated the information presented, we all came to the same conclusion: it was time for a change. We decided that the CEO hadn't been completely open and honest but instead had painted a rosy picture even when things weren't so good. He hadn't been completely forthright about the company's problems, and we felt we had no choice but to vote for his resignation.

No one enjoys casting a vote to end someone's career or turn it in a different direction. That's the tough part of being a board member. But the Dial board acted quickly and responsibly by opting for a no-nonsense approach designed to purge the company's problems and breathe life into it again. There wasn't any scandal to speak of, but things sure weren't getting any better, and in the absence of total disclosure we wondered what other skeletons might be lurking in the management team's closet. THE OPAQUE COMPANY A lot of business leaders found themselves in the same position in recent years. In the time period between 1995 and 2001 alone, CEO turnover at major corporations had increased 53 percent. Fifty-three percent! It seems a day hasn't gone by without a major headline concerning a scandal involving a company CEO, which is a sad sign of the times when you consider that at some point in their careers they had been considered highly qualified. After all, they had to be to get the job in the first place! They had a lot of the traits found in other leaders, like intelligence, charisma, creativity, and vision. So if they had all that going for them, why did they fail? The answer isn't simple. A lot of the executives who made headlines were just plain white-collar thieves who deserved to do time. And there were others who were basically good people who made compromises when they shouldn't have. They stretched the truth because they thought they had to, and they made some business decisions that were short on integrity. They had risen to leadership positions, but they failed because they didn't understand how to be open with their various constituents and they were unable to build a culture based on trust in the organizations they led.

THE TRANSPARENT COMPANY

Transparency is the single largest challenge facing corporate America today, and it will continue to be as long as CEOs and other executives fail to subscribe to a values-based approach to leadership. Let me elaborate on that a bit. You might become successful without being open, honest, and transparent, but if you don't adopt a transparent management style, your success will be short-lived. It'll disappear as fast as it came, or one day you'll wake up to find that you're being investigated because you didn't do things the right way.

Transparency is a critical business practice. It's not a strategy, and it's not something a trendy consultant can teach. Executives have a business and social responsibility to tell it like it is. You can't build a transparent company without it.

Let's take a look at what a transparent company looks like.

A transparent company can be defined as one that's rooted in core values, based on the greatest good for the greatest number of people, with a leader who believes in doing the right thing at all times—no matter what the consequences. That means following the rules, no matter how boring that may sound, and telling it like it is, as hard as that may seem. The transparent company fosters a culture of openness and inclusion, and therefore is able to adapt to unexpected shifts in market conditions by simply doing the right thing. There are three principles a transparent company must have: a leader who believes in telling the whole truth a values-based corporate culture employees who are "people people" (service-oriented/team players)

PRINCIPLE NUMBER 1: TELL THE WHOLE TRUTH The first principle defies conventional thinking about business strategy and what it takes to succeed. You have to tell the truth at all times. Some might say that to tell the whole truth is to show your cards, to let down your guard, to give up leverage in negotiations. Is it? The answer will surprise you. At Dial it wasn't one flagrant violation that caused the former CEO's downfall, it was a series of missteps, and when sales and earnings continued to deteriorate, the management team compounded the errors until it was too late to stop the avalanche. In late 1999 and early 2000, the company fell short of expected results quarter after quarter, and the management team began to lose credibility with shareholders. There were ill-fated acquisitions going back to 1999, such as the purchase of a second-rate Argentinean detergent-and-soap business that involved brands that were too local and had no synergies with the strong brands Dial marketed in the U.S. Management had concluded there was only limited growth to be had in the U.S. market, so they went to Argentina. But when the Argentinean market heated up, Dial found its small local Argentinean brands entrenched in a price war between soap giants Unilever and Procter & Gamble. It was a classic mistake. By expanding internationally with local brands, Dial drifted into unchartered territory, where it lacked the strong brand leverage it had in the U.S. market. But that's not the end of the story. Dial's CEO also pushed for the purchase of Freeman Cosmetics and Sara Michaels, two specialty personal-care businesses in which Dial had little expertise, no legitimate infrastructure, and no real plan to compete successfully. Dial's internal acquisition review team advised against it, but senior management ignored them and moved forward anyway. Overall, Dial's corporate business strategy seemed unfocused, and growth objectives were lofty. There were too many sales promotions scheduled at the end of each quarter that did little more than boost company sales and customer inventories, and nothing for customer sell-through or consumer consumption. This was all done in an effort to meet unrealistic sales goals. It was a dangerous practice, because common sense tells you that if you ship more product than can be consumed, all you do is fill up customer warehouses, and eventually your sales—even at discounted prices—will back up on you. Dial's management had shown sales increases for several quarters, but when customers' inventories began to build up, sales slowed to a crawl. This is where Jozoff failed. He didn't face up to the mistakes. He just kept going, doing the same thing, and he violated the first principle of transparency. Show your cards. Admit when you have a problem. Then fix it.

By the time I arrived, I learned that there had been a lot of compromises at Dial in the past that violated the basic principles of transparency I believed in. The corporate culture was repressed, Dial's cash was dwindling, its debt was growing, and management hadn't subscribed to the principle of telling it like it is—the whole truth, warts and all. The employees and the board of directors had been kept in the dark and the company was in trouble. Dial's management didn't understand that an open culture—where the CEO, the management team, and all employees tell the truth—is a competitive tool. Dial had a lot of talented people, but what had been considered acceptable business practice wasn't acceptable to me as the new CEO. I've been a part of successful turnarounds before, and when you realize how different the culture of the company is from what you know it has to be, you know you've got to take bold steps to turn things around. It's an evolving process, and it can't happen quickly, because first you have to earn credibility in the eyes of a skeptical employee population. We had to work hard to reverse the type of mind-set that led to those compromises and business practices in the first place, so the first step we took was to address the most obvious problem, which was the lack of clear and transparent reporting of product sales. Initially, we moved to compare actual sales with consumer consumption. Sounds simple, but that’s not what had been happening. By tracking actual sales against the rate of consumption, we took a step in the direction toward a more truthful business picture, because we didn’t oversell to fill customers’ warehouses, building unrealistic customer inventories. Principle number 1: Tell the whole truth.

We began telling the whole truth by reporting a cross section of average quarterly customer warehouse inventories of our key products each quarter to the Dial board of directors and the investment community, until inventories were normalized. We had to turn things around as fast as possible to get the company back on track, and we overcommunicated with everyone involved. Credibility was our primary goal. We gave detailed updates to stock-market analysts, granted interviews with media when asked, and laid out our plans for a turnaround. Once we did that, we were committed. Now came the hard part: we had to produce results! You have to be crystal clear about your intentions when it comes to change, because even the most comprehensive turnaround plan will fail without total disclosure. I let our employees know that there would be zero tolerance for selling product to customers for any other purpose than consumption, and that anyone who sold to load our customers’ warehouses would be fired. No forgiveness. No second chances. Sound harsh? Maybe, but we had to establish a new business protocol that would reflect the highest standards. We needed to change not only attitudes, but behavior. Why Not Hide the Truth Until Things Get Better?

Three years after the Dial CEO was voted out, it felt like déjà vu as I cast my vote to oust the CEO of the Fleming Companies, a giant food wholesaler. Mark Hansen, Fleming’s CEO, had forgotten the first principle of transparency and had kept his board, his shareowners, and the

Fleming employees isolated from the real facts about the company's poor performance and data that showed the company was in trouble. He made several critical errors, including downplaying the loss of the Kmart wholesale distribution. Kmart was a major Fleming customer, one that accounted for 15 to 20 percent of Fleming's revenue.

The Kmart business had been worth an estimated $4.5 billion in annual sales for the company, but when Kmart filed for bankruptcy, Hansen downplayed the impact it would have on Fleming. Illegal? Not at all. Unethical? Probably not. But Hansen violated a fundamental aspect of being a transparent leader—total honesty and openness. After the Kmart bankruptcy, Fleming was left with more employees, inventory, and warehouses than it could support with its remaining business. Had he not seen it coming? In hindsight, it's hard to imagine that he didn't understand the seriousness of the situation.

Under Hansen's management the company lost money for two years in a row in a restructuring effort, and then, in the third year, 2002, lost a whopping $84 million. He authorized the purchase of two major distributors and moved the company's headquarters from one city to another. It seemed he was trying to do too much, with an approach that frequently changed direction over two or three years.

Hansen had experienced a substantial amount of success early on at Fleming, and he was responsible for bringing in the Kmart business, but now a different strategy was needed to pull it out of the weeds. The truth was in the numbers. The company was not stable, but Hansen was unwilling to admit it to himself or anyone else, so he did the only thing he knew how to do, which was to act optimistically. The only problem with that was that there was no reason to be optimistic! Maybe he didn't quite understand it all himself, or maybe his team didn't comprehend the impact that losing their largest customer would have on them, but as a leader it was his responsibility and no one else's to dig deep for the truth until he understood the facts. In business, and especially in a public company, if you can't understand or explain something, you're headed for trouble. If you don't understand something, you're on your way toward violating the first principle of transparency without even knowing it.

How can you tell the whole truth, if you're not even sure what the truth is? If you're a transparent leader, ignorance isn't an excuse. You have to know your business, you have to be accountable for it, and you have to build it with straight talk and openness.

I've served on several corporate boards in my career and have seen a few other CEOs fall into the same trap. They find it hard to be completely open and honest about the things that aren't going well, and they don't realize that when businesses falter, you have to do the best you can to fix the problem while keeping your shareholders, your board, and your employees fully informed. It's important to take your medicine and get back to doing the right thing, because concealing the truth, or even parts of it, will only get you into deeper trouble.

Another leader who learned this the hard way was former American Airlines CEO Don Carty. Carty was a friendly, approachable executive who had nothing to lose, following, as he did, in the footsteps of Robert Crandall, the tough-as-nails, chain-smoking CEO who often clashed with American's unions. When Carty took over as CEO in 1998, he quickly became known as a fair and competent leader who managed to steer American through the most turbulent time in aviation history after the terrorist attacks in New York on September 11, 2001. On that dark day the world of air transportation came to a screeching halt. Airports were shut down and planes were grounded, resulting in millions of dollars in losses for the airlines. In the year that followed, air travel slowed to a crawl, corporations imposed moratoriums on business travel, and trips to international destinations sharply declined.

The world political climate was tense and it was a difficult time for all companies, but American bled until it barely had any life left in it. The company was losing $5 million a day when Don Carty petitioned Congress for governmental assistance, which the government denied. Five million dollars a day—that's a lot of Dial soap!