In Praise of the SOB CEO

The Talent Strategy Group

SCIENCE + SIMPLICITY

In Praise of the SOB CEO

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You have the opportunity to invest in one of two identical companies. At Company #1, the CEO is abusive, narcissistic, rates low on interpersonal skills and personal sensitivity. At Company #2, the CEO is team-oriented, engaging, participative, open to criticism and treats others with respect. It's an easy investment decision, right?

Before you answer, let's review the profiles of a few extremely successful CEOs:

- Dish Networks CEO Charlie Ergen was described by a former company president as someone who "pound(ed) people into submission." It's reported that he publicly berates executives for arriving at company headquarters after 9AM. A former executive said that Ergen treated employees "like they were just cattle to be put into a pen." Dish was twice voted the "meanest company in America" by GlassDoor.com. The company's stock price is up 268% in the past five years, nearly 3 times the increase of the S&P 500 index. Its success has made Ergen, its founder, one of the wealthiest people in the world with a fortune of more than $20B.[1,2]
- Oracle's co-President Mark Hurd was described by a former colleague in this way: "It's not that he doesn't have good instincts, but he was always so unpleasant. People aligned with his what, if not his how." A former HP employee (where Hurd had been CEO) created a website about him whose domain name is too vulgar to print in this article. Just two weeks after Hurd left HP due to differences with the Board, he was hired by Oracle and quickly promoted to co-President. It's likely that he'll become CEO of the Fortune 100, $40B company when founder and CEO Larry Ellison retires.
- The late Steve Jobs founded and served as CEO of Apple. His best friend Jony Ive said of him, "…his way to achieve catharsis is to hurt somebody . . .

> Because of how very sensitive he is, he knows exactly how to efficiently and effectively hurt someone. And he does do that."[3] Jobs revolutionized, at the most fundamental level, both how we interact with technology and how we give and receive information.

No Aholes Please**

Stanford professor Robert Sutton's best-selling and exquisitely titled book *The No Asshole Rule*[4] succinctly reflects a sentiment that many of us share. We don't want to work for leaders like those described above and we don't believe that their behaviors create long-term success. If we had the opportunity, we wouldn't promote or reward a leader who behaved in those ways.

To reinforce those views, we've built leadership models, training programs, 360 assessments and performance management evaluations to develop and reward more team-oriented, humanistic behaviors and to punish those who don't display them. In short, we've worked hard to establish the appropriate "what/how" balance in our organizations.

So how much does a company benefit when it shifts that balance more towards the "how"? In other words, if we ask executives to spend less time on execution and more time on other behaviors, how much more successful will that company be? What would you do if you found out it made no difference at all?

The Uncomfortable Evidence

In a unique research project published in *The Journal of Finance*, researchers examined the capabilities of 316 individuals who were CEO candidates for private equity funded companies.[5] They analyzed detailed qualitative and quantitative assessments of each individual's skills and attributes using survey and interview data from a selection consulting firm. They also analyzed the performance data for the individuals who became CEO of each portfolio company.

This rare combination of detailed CEO capability and performance data across multiple company environments allowed the researchers to directly assess the effects of individual characteristics and behaviors on performance.

The researchers identified a few key factors across the 30 capabilities on which the potential CEOs were assessed. One factor captured "people-related" capabilities (i.e. teamwork, listening skills, treats people with respect, open to criticism). The other factor captured "execution-related" capabilities (i.e. aggressive, fast mover, persistent, proactive).

Their analysis showed that a CEO's success was positively correlated with execution-related capabilities including being persistent, organized, proactive, setting high standards and holding people accountable. In short, better execution capabilities meant better financial results.

Conversely, a CEO's financial results were not correlated with their people-related capabilities. Their teamwork, listening skills and similar capabilities did not impact performance.

But wait, it gets worse. The researchers found a *negative* relationship between a CEO's people-related capabilities and their success in venture capital owned companies. In other words, if you were a CEO in a venture capital owned company, the stronger your people-oriented capabilities were, the worse you performed.

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The Implications

While this is only one study, it assessed a unique data set in a very comprehensive and unbiased way. The researchers were trying to identify which CEO capabilities led to superior financial performance and they had no preferred outcome for the results. They didn't work for a consulting firm that was trying to sell assessments or 360s. They didn't need the data to support a book they were writing about leadership.

Their finding that not only do softer skills not affect CEO performance but also that they can actually harm it, raises some important questions for anyone interested in executive and corporate success. It also suggests that the billions spent on training people to improve softer skills might be partially redirected to selecting leaders with more execution-oriented skills and/or trying to build those capabilities in others.

But, But, But . . .

Your likely reaction to that research is to start iteming the reasons that its conclusions are flawed. Let's address some of those.

What About the Collateral Damage? People refer to the "collateral damage" caused by leaders with low interpersonal capabilities or lament the "wake they leave behind them." Let's examine that sentiment through a fact-based and emotionless lens.

It's quite likely that Dish Network's Charlie Ergen has upset quite a few of his peers, direct reports and employees over the years. Just his suggestion that Dish employees should stay in local hotels at their own expense to ensure they make it to work when it snows likely offended a majority of Dish employees. By any reasonable assessment, Mr. Ergen generates a wake behind him that would capsize a battleship.

Dish Networks has thrived, however, as have the companies led by the other leaders we describe above. That suggests the possibility that:

1. **We overvalue the damage caused by occasionally hurt feelings.** The higher performance delivered by someone with very rough edges may more than compensate for the lower engagement their behavior may create in others. The research on the value of high performers vs. average performers regularly concludes that the best talent delivers 1.5x to 12x the value of their average brethren. These higher results may more than compensate for the potentially lower performance of others.
2. **We underestimate the followership and engagement that execution-oriented behaviors create.** Not everyone requires a sensitive, interpersonally savvy, team-oriented leader. Some people want big opportunities to grow, big rewards for success and direct feedback when they under-deliver. They may consider these things essential to their success and not care if a less than pleasant leader delivers them.
3. **It may matter for most, but not for all:** Work would be both impossible and insufferable if no one in our organizations demonstrated people-related capabilities. Fortunately, the vast majority of employees wants to, or can be convinced to, play nicely with others. Perhaps it's OK if those who are truly headed for the top don't.

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What about their company's ability to attract great talent?

Why would you want to work for a company whose CEO is widely recognized as being an SOB? You'd have to ask the leadership teams at Dish, Oracle and Apple. It's interesting that during Steve Jobs' tenure at Apple no news stories mentioned that Apple was having difficulty recruiting executives. To the contrary, Apple was then and is now one of the most desirable companies in the world to work for.

What about those leadership models that say people-oriented behaviors matter?

When consulting firms define a "successful leader model" to sell you 360s, behavior models or assessments, "success" is typically defined as the ability to drive high engagement scores[6] or be rated by others as a good manager.[7] Those are interesting outcomes to measure but they are not direct proxies for performance. The most valuable aspect of *The Journal of Finance* study is that it directly evaluates how individual capabilities affect actual financial performance.

There's more to a company than financial performance

Well, if you're a typical investor, there's actually not. If you want to include other metrics in your personal definition of performance (really nice culture, socially conscious, etc.), then you have to decide how many cents a share of earnings you're willing to sacrifice to achieve those non-performance related capabilities.

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The Implications

While the research we cite is just one study, it suggests some practical action for your company to consider.

- **Clarify your Talent Philosophy**: A standard question on our executive Talent Philosophy survey is "How much 'behavior credit' does high performance buy?" That question gets to the heart of the tradeoffs you're willing to make between behaviors and performance. Most companies don't have a Talent Philosophy so there's no executive team alignment on this and other similar and important questions. Read "[What's Your Talent Philosophy?]" and use the mini-survey in the back to start this valuable discussion with your executives.
- **Focus Your Leadership Behavior Model**: Many leadership behavior models capture a long list of "good citizen" behaviors rather than the few differentiating capabilities that actually drive performance. If you have a leadership model with more than five capabilities, ask your executive team to stack rank the entire list in order of the capabilities they most value. The top four or five are the ones that truly matter. Even better, drop the antiquated and bureaucratic competency model and use an outcome-based [Success Model] instead to explain the few outcomes that differentiate your best talent.
- **Shift Your Development Approach to build Execution Capabilities**: If execution-related capabilities are the ones that improve performance, audit your development approach to assess whether you're spending enough resources to build those results-generating capabilities. You should also try to prove that the investment in building softer skills has some relevance to the success of the organization.

We always recommend that when making talent decisions you start with the science. That approach may lead you to discover facts that make you uncomfortable or challenge your beliefs, but you'll hopefully emerge from that endeavor as a more fact-based and intelligent leader.

The research that we highlight in this article challenges much of today's HR orthodoxy. We encourage you to carefully consider its findings and whether they should influence how your company defines and develops successful leaders.

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4 Sutton, Robert I. *The No Asshole Rule: Building a civilized workplace and surviving one that isn't*. Hachette UK, 2007.

5 Kaplan, Steven N., Mark M. Klebanov, and Morten Sorensen. "Which CEO characteristics and abilities matter?." *The Journal of Finance 67*, no. 3 (2012): 973-1007.

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