Chapter 2 Senior Management Roles

2.0 Introduction

This chapter will examine Enterprise management, its role, and some of the forces that influence those who undertake the job. From here on in the book, I will use ‘Enterprise’ with a capital E to refer to the whole company, division, or entity to be managed, and will refer to the people who run that Enterprise as top or upper management. An analogy used earlier would be that the Enterprise is a convoy of ships. I will use ‘enterprise’ with a small e to refer to organizations analogous to the individual ships in the convoy, or the division of effort within the Enterprise

2.1 Some Observations about Enterprise Management

Successful Enterprises usually start out as enterprises - small, close-coupled, informal teams working on a single product or project. They are like a single ship. The individuals are all together within shouting distance of each other with more work to do than people to do it. If they are successful, the ‘enterprise’ grows into an ‘Enterprise’. More people are hired to do the work, more products are launched and operations become more complex. Suddenly, new government regulations become applicable. Things that no one needed to worry about before take on new significance. The new people don’t have the same shared vision of how things are to be done, or of the objectives of the Enterprise. Communication becomes a problem; hiring and policies and payroll taxes become more than time shared tasks. Things begin to get overlooked and sometimes get out of control without more formal arrangements. Individuals must become more focused on specialties and less Jacks of all trades. This division of labor becomes more important as the Enterprise grows as does the division of management responsibility. The ship becomes a group of ships trying to sail in convoy.

In this transition from a small number of people with a clear vision and knowledge of each other to a larger disparate group with longer lines of communications and legitimate conflicts in objectives, more formal checks and balances are needed to assure that the high integrity environment is not degraded.

2.2 Top Management’s Real Job

What is the fundamental job of top management in an Enterprise? Facing ***inward***, it is to guide the Enterprise in the conduct of its business, with the key word being "guide." It is to set standards and expectations. It is ***not*** to steer every ship in the convoy. That, along with all other activity required to maintain an individual ship in its proper position in the convoy, is the responsibility of the captain and crew of that ship.

Facing ***outward***, the top management job is to represent the Enterprise to the outside world and look ahead to estimate how the outside world will perceive and influence the Enterprise. Most of the Enterprise is properly focused on the present and near future in the execution of its mission. Divining the longer-term future, and deciding how it will affect the Enterprise and its mission, is a hard job. So upper management shouldn’t spend a lot of time steering even the lead ship in the convoy; if they’re unwilling to delegate ship operations and face the more daunting task of guiding the convoy, they need reassignment. Guiding the convoy means looking ahead, deciding on the best course, to take advantage of opportunities and avoid threats to the success of the convoy’s mission. It also means thinking of tactics for seizing opportunities when they appear, and defending the convoy against those threats that cannot be avoided. But *the planning of those tactics at some point must include the captains of the individual ships if they are to be effective in defending the convoy.* So it is with the Enterprise. This used to be called participative management.

Some Great Entrepreneurs Fail the Transition

Some very successful entrepreneurial leaders are unable to survive the transition from small e to large E and to grow with the Enterprise as the CEO. Faced with a daunting task of running an entity where they can no longer reach out and touch every part of it, they often focus on areas which capitalize on their strengths and pay scant attention to other areas where they are weak without creating any provision for those weaknesses. Yet they keep their hands firmly on the steering wheel and the throttle, and subordinates are wary of encroaching on the boss’s prerogatives. As a result, there is often no one watching large parts of the operation.

2.3 Balancing the Stakeholders’ Interests

In Chapter 1 we stated that the integral manager considers all the stakeholders as they affect the management team's responsibilities. In this section I will strive to describe these forces, which are often in conflict. I will also suggest ways for effectively achieving balance and increasing the congruency of motivations among all classes of stakeholders.

We also said that an Enterprise is like a society within Society. It has a personality determined by at least some of its stakeholders. It is neither democratic nor, in modern times, totally autocratic. Its place in that continuum has a lot to do with how the business performs, grows and survives. History has shown again and again that productive innovation is stifled in an autocratic society. On the other hand if all decisions are made *ad hoc* or by vote, you soon have total chaos. Like society, business enterprises need standards in order to discourage unproductive behavior. It is worth some effort to understand the motivating forces that influence the various stakeholders in an Enterprise.

2.3.1 The stakeholders and their motivations

In Chapter 1 we noted that there are at least six classes of stakeholders in a commercial profit-oriented Enterprise. They are:

- Investors or shareholders,
- Senior management,
- Customers,
- Middle management,
- Employees, long-and short-term
- Suppliers

Each of these stakeholder classes has a different set of motivations with respect to the Enterprise and its management decision- making. Effective managers must understand these different forces and strike a proper balance among them.

A. Shareholders or investors

Shareholders have a single interest: return on their investment. This return comes in two forms: dividends on stock, and appreciation of the share value. If they believe that the return on this investment beats or will beat the returns that they could get in other investments, they stay. If not, they leave.

Since the trading of shares in a publicly held company takes place on the open market, investor interest and confidence is strongly influenced by the views of professional stock analysts, traders, and financial institutions that are the market- makers. This means, by and large, that shareholders are driven primarily by short-term, bottom-line results and much less by long-range growth. Many of the shareholders are institutional -- pension funds or other large entities -- who pick and reward their fund managers based on short-term results, with the possibility of large-volume transactions hinging on their view of the short-term return.

B. Senior management

The CEO of a major Enterprise is often thought of as perched at the pinnacle of a giant pyramid, wielding infinite power over his or her domain. I have not been in those shoes, so it would be presumptuous to say I fully understand the job. On the other hand, I have been close enough to what these individuals have to deal with to suggest that the popular perception is incomplete. I think a more accurate representation would add another inverted pyramid above the CEO, as illustrated in Figure 2-1, sandwiching him or her between the apexes of the two pyramids. The board of directors is around the CEO at that pressure point, and depending on whether board members are helpful, passive, or adversarial, may be sharing the load or adding to it. Note which stakeholders are in that upper pyramid, and it is easy to see what forces are at work on the corporate management.

Executive management is measured and rewarded largely on short-term financial performance. Generally a major part of their compensation is in the form of bonuses and options emphasizing the short-term bottom line that keeps Wall Street happy. Increasing shareholder value is a key part of their job and the value of those options increases accordingly. At the same time, keeping the stock price up helps protect against predatory takeover artists, who are aided and abetted by Wall Street investment bankers. While investment bankers may not be stakeholders per se, as deal-makers they can often put a company in play for a takeover. Their interest is in a piece of the deal in a turnover, so they cannot be ignored.

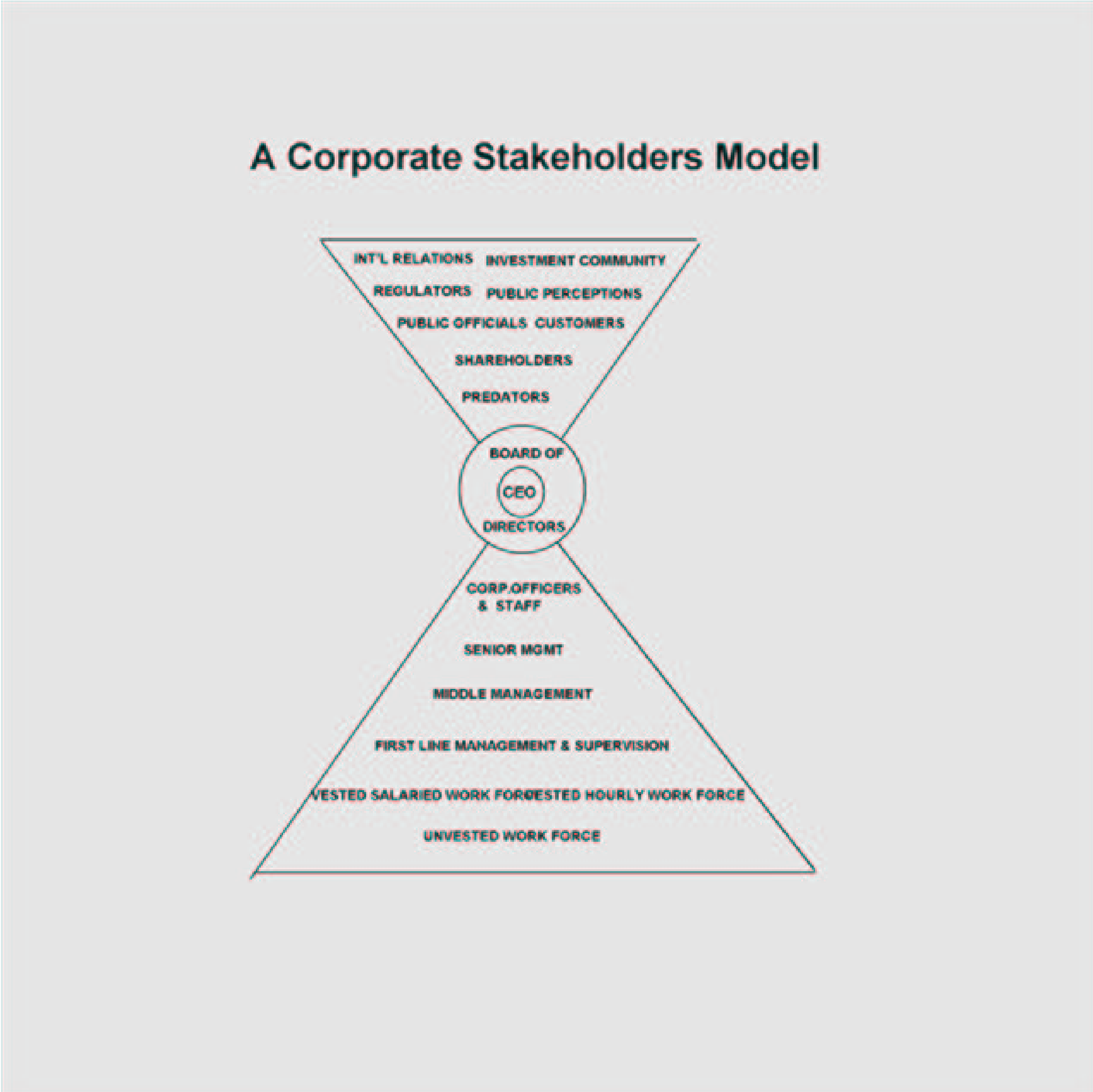

Figure 2-1 The Reality

Increasingly, because of this huge financial community influence, fads spawned by Wall Street analysts can unduly affect management decisions in an enterprise. Some of these are described in later chapters.

C. Customers

Customers may be a combination of short- and long-term, or simply short-term depending on their stake. Familiarity and trust are important to customers who feel that they are part of a long-term relationship. This is particularly true when they have been satisfied with the performance of what they purchased, whether a car or appliance or a major complex system. They are concerned about warranties, servicing and repair support for what they have acquired, or are continuing to buy many more units with a need for homogeneity in their inventory. Brand loyalty is real and is indicative of customers with the long-term view.

On the other hand, buying decisions are made on perceived value at the lowest price, and many customers never look past that parameter. This is particularly true of one-time buyers, buyers who are not concerned about future support, and as is prevalent in government, buyers who will not be around when the chickens come home to roost. In any case, continued customer satisfaction is a critical measure of the health of any Enterprise

D. Middle management and employees with vested longevity

These employees are the primary stakeholders in the long-term viability of an Enterprise; middle management because of the opportunity to grow with attendant rewards, and long-time employees because of their vested benefits. This group is also the core intellectual capability and expertise of the Enterprise. Senior management must encourage and develop these individuals so they can grow into the future senior experts and management of the Enterprise.

E. The youngest employees

These stakeholders have little invested in future benefits, are very mobile, and usually are more concerned with immediate compensation and gratification than the long-term health of the Enterprise; but if they stay, they move into category D. Companies invest a lot of time, effort and money to attract young and educated employees trained in up-to-date methods in their respective fields. It is incumbent on management to build loyalty and trust among these new stakeholders.

F. Suppliers

Since often half of the value added to products comes from outside suppliers, they are significant stakeholders who depend on a level playing field and equity in their dealings with the Enterprise. Senior management establishes the climate that determines the standards for relationships with suppliers.

2.3.2 The Lesson to be Learned

It takes courageous and visionary senior management, willing to risk abuse and possibly monetary or career damage, to take the long view of the Enterprise in the face of today's short-term pressures. What seems wrong is for senior management not to be more concerned with what happens after their stewardship. In my view, the successful CEO is one who achieves both short and long-term growth. A CEO who achieves high profitability over a five-year period by destroying his company's future is an abject failure. Incentives that focus only on stock price and measures of cash delivered this year are a serious threat to American industry. Yet, this is what the new breed in the investment community demands, and their influence is enormous, creating an equally enormous stress on the fabric of integrity within the Enterprise.

2.3.3 Is There a Solution to This Dilemma?

I believe that the best medicine for this malady is to insure that the fabric of integrity within the Enterprise is strong enough to resist the stress of these external forces. This means that there must be contracts between levels of management, with financial objectives, that are bilateral and realistically negotiated at each step along the way. Promises must not be sought nor made at any level, which cannot be met without destroying the future. This is the environment defined in Chapter One.

As mentioned there, the behavior of management from the top to the lowest level establishes the environment of an Enterprise. What management teaches the Enterprise by the actions it takes and the behavior it tolerates far surpasses the significance of any words it utters. It can take years to undo the damage done by poor management. So the challenge is to create a means of delegating management responsibility to capable lower-level leaders, inculcating the desired style of management integrity, while developing the feedstock for management succession to maintain the continuity of integrity for the future.

2.4 A Common Failure

The most common failure of top managers in companies large and small is the failure to recognize what their management team's job should be, and the creation of an organization structure that enshrines that failure so that no one else can confidently do their job. Although it's rarely admitted, organizations are often created with the intention of making the exercise of power and authority by top management easier, without considering organizational effectiveness, and without involvement by subordinate managers. In reality, organizational structure often reflects the insecurity of the top management team, perhaps colored by a previous bad experience.

2.5 The Division of Management Responsibility

In order to start thinking about management interaction and how to organize effectively, we must first consider the appropriate division of management responsibility.

2.5.1 Delegation and Management Development

In any vibrant Enterprise, there is an insatiable need for effective managers. As with trees, new branches sprout, older branches die off and senior people move on to other endeavors. And sometimes people fail and need to be replaced. As a result, there are usually more opportunities than there are candidates. Properly managing managers and developing them is the best way to provide the feedstock to meet these management needs.

There are many ways to encourage the proper division of management responsibility, delegation, and the development of management talent. A common theme in all of them, is the mutual setting of expectations and evaluation criteria, and the delegation of both responsibility and authority in an environment that embodies integrity. Once again, we are talking about bilateral contracts. Two concepts apply here:

A. Management by objectives[4] - as opposed to micro-management. The idea behind management by objectives is to establish expectations jointly with your individual subordinates for the coming period -- usually a year. These expectations include where you want them to focus their efforts, what the constraints are, and what the degree of difficulty is. Agree on the performance criteria for achievement and status reporting, then step back and let them do the job you have defined together. Delegate! Coach! Evaluate! But don’t hover.

B. Delegation with confidence. If you can’t delegate to a subordinate manager or feel you must direct him or her to do things differently, one of you is in the wrong job. By directing, you have taken their responsibility, and should do one of two things-- take that person’s place or find someone to whom you are willing to delegate.

2.5.2 Tolerating Dissent and Change

If management is to be truly participative, upper management must maintain an environment where members of the management team can voice their concerns and raise objections without fear. This does not require that management accept dissenting views, but it does require respecting them. Senior management often finds this concept threatening, but it should not be so. It often exposes information that can modify the proposed action in an advantageous way while eliminating the objection. Everybody wins. I’ll say more about participative management later in the book.

In the next chapter, we will start to examine the roles and relationships associated with this division of management responsibilities within a high-integrity Enterprise. We will begin with project management because projects are the crucible where people and organizations and resources all come together in interdependent roles, and where leadership and the work environment can make or break the success of the endeavor. Almost all the issues of management and organization come into play in a project activity. As a result, the project or program provides us a model for the Enterprise.

References

4. *Management by Objectives - A System of Management Leadership*, by George S. Odiorne, Pitman Publishing 1965
