

The Insomnia Factor

What keeps CEOs
AWAKE AT NIGHT
— and what to do about it.

The Monthly Newsletter
of CEO TO CEO

Number 8 in a Series

Misplaced Loyalty

He was employee number two and endured the cold, hard years of startup, when you were all a payroll away from failure. If you're human, you'll feel a deep sense of loyalty to him. In

another example, the CFO spent three straight months in China a few years back despite the objections of his wife and two young children, where he opened up critical operations there. Wow! That's loyalty.

The Dirty Dozen

I'm finding that there are a dozen distractions I encounter most often. I'm calling them "The Dirty Dozen." For each, I'll present how I've seen the distraction present itself, how it's caused the greatest damage, and what the key strategy is to mitigate the distraction. I say mitigate the distraction because in truth, they'll never be fully defeated. The distraction at hand may be defeated, but tomorrow will bring a new one, a variant perhaps. Distractions will always be there, always decreasing our performance. But if we are aware of them and actively employ effective strategies to keep us on our path, we'll find our prize sooner.

All twelve distractions are controllable to a large degree. The first three are strategic in nature. The next four relate to planning. The last five are about people. But the order in which I will discuss them is no reflection on importance. Each organization is afflicted with a different mix of distractions, and you will find one or more that will immediately resonate with your personal experience.

But what do you do if their performance has slipped? What if the company has outgrown their ability to keep up? Should you be tough on them? Do you have the will to fire them if that's what's required? Most CEOs and senior executives struggle with this situation.

This issue's topic, **Misplaced Loyalty**, the eighth in the series, will take you through some common issues and techniques related to this common distraction. To read the

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Robert Sher

January 24, 2011

What is the significant new skill or body of knowledge you're planning to learn this year? The way I see it, you've got to keep adding new competencies at a fast rate

because everything you already know is getting less valuable to you. The intrinsic value of the knowledge may not be diminishing, but those around you are learning it from you, will soon master it, and won't need that skill from you anymore. At a company level your competition will learn it and it won't be your strategic advantage anymore.

Most certainly you'll still make use what you know, and it will help you greatly this year and maybe next. But the lifecycle of each of your skills is heading toward its end. Adding a new significant skill each year is a great, steady way to stay at the top of your game.

CEO TO CEO

Assisting business leaders as they
navigate critical passages

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Innovation Strategy

After a research project which included interviewing 20 CEOs, I've developed a thesis around the key components of innovation and planning an innovation strategy to tie into the annual planning process. I'm beginning a series of private deep discussions with management teams on just this topic.

If you're interested, or you know of a CEO or management team that's looking to be more innovative, please [contact me](#).

The Dirty Dozen

- 1) Strategy Tinkering & Obsession
- 2) M&A and partnering mistakes
- 3) Running out of money
- 4) The data and analysis obsession
- 5) Debates without decisions
- 6) Functional areas not synchronized
- 7) The wheels coming off the bus
- 8) Misplaced loyalty
- 9) High-maintenance employees
- 10) Too much one-way communication
- 11) Compulsive micro-management
- 12) The unpredictable boss/leader

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first parts in this series, click [here](#) and start with the June 2010 issue.

The number one priority for loyalty is between the company's mission on the one side and each member of the team on the other. As humans, we often feel loyalty as being between a boss and a subordinate, but this can be distracting and problematic over time.

An executive that is acting with loyalty to the company does and continues to do such things that help the company achieve its mission. In return, a company that is acting loyally to its team members does, and continues to do such things to help the team member achieve their own personal goals. Loyalty is like a checking account with an expiration date, where

“Loyalty is like a checking account with an expiration date...”

deposits and withdrawals are made every working day. But if too long passes without new deposits being made, the account will expire.

Not doing the job well is a withdrawal from the team member's account. Too often executives tolerate poor performance for too long in the name of loyalty. Such loyalty is misplaced.

You shouldn't feel compelled to reciprocate loyalty because:

- *You hired them.*
- *At one time in the company's past they did a good job, helped achieve the mission.*
- *You like them, or because they are related to you.*
- *They'll have a hard time getting a job elsewhere.*

Certainly every long term solid performer deserves some loyalty 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. And any boss that allows such poor performers to stay is also drawing down their own loyalty account because they are not taking action that is needed to achieve the mission, namely, fixing or firing a poorly performing team member.

Too often I hear, “Well, they still are useful in some areas, and aren't that bad.” This is one version of many excuse-making angles that help people reconcile a desire to reciprocate for loyalty when the facts just don't support it.

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Strategies for Mitigation

First a change of mindset is required: Your company is not the only good place to work in the world. Firing someone is not akin to killing them. While dealing with poor performance is not comfortable for anyone, in most cases the end result is much better: Performance improves which feels better, or team members find a new job with a fresh start and hopefully a better fit. Many people thrive in new environments, but don't have the courage to make a move on their own. Dismissal is often a catalyst for new growth for them.

Know someone who should subscribe to *The Insomnia Factor*?

Please encourage them. It will be good for both of us. Send them to: www.ceotoceo.biz/insomnia.html to look at a few issues; the link to sign up is on that page.

CEO **TO** CEO

Second is a stronger commitment on your part to your company's mission. You must fully accept and understand that your duty is to stay focused on achievement of the company's mission. Tolerating poor performers out of a sense of personal loyalty is in fact disloyal to the company. Picture yourself in front of the board of directors, trying to make a case of how keeping some chronically poorly performing person is good for the company, even if they did pull off a miracle 3 years ago. If you're likely to lose the debate, it's time to do your job.

Another way to cut to the stark reality is to ask this fundamental question, "If I knew everything that I now know about this person's qualities and performance, would I hire them again today?" If the answer is no, then you should send them on their way. Ask yourself this question at least annually because there is nothing about a human being or about a company that is static.

If you're not ready to take action yet, here are a few more techniques for getting past the feeling that you might be mistreating a loyal team member.

Hand the axe to an impartial third party. Typically this means re-assigning them to a new executive who can independently decide their fate. This is easiest in a growing company where layers of management often need to be added. But once you've handed them over, stay out of the way!

Together with the employee, lay out an objective set of performance metrics that represent what the business needs from them to succeed. This plan may include some help for them to grow. However, leadership cannot be trained, it must be

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I help my clients in many different ways. The best way to understand what I do is to read these examples of recent client work.

Understandable Forecasting Tool

As part of a business planning process launch, I worked with the CFO to create a modeling tool that mirrored how the operating executives think, rather than how the financial statements work. In the end, they have a tool that quickly allows them to compare sales forecasts to work load by function, utilization of engineering talent and gross margin.

Attacking a new market This new client wanted to start working with me on a small scale, to gain comfort. We're creating a plan for a mini-business unit to pursue sales to one user-group, which if successful, could really move the needle. We'll complete that battle plan in 6 to ten hours time.

Business Planning in a Matrix

This larger organization has five business units, each driven by a director, and four company-wide departmental heads as well. We're working to formalize all roles and responsibilities and craft concise business plans for all involved.

Innovation Discussion

After delivering the keynote, "A Quest for Innovation" at Grant Thornton's 4th Annual Industry Forum, I'll be directing a three hour innovation discussion at the headquarters of one of the participants. View first ten minutes of keynote [here](#).

Superhero Selling:**The CEO**

Nobody can sell like the CEO. Two high stakes, near-death experiences by **Dennis Raefield**, CEO of **Mace Security International** (OTCQB: MACE) illustrate the power and prudence of the CEO going eyeball to eyeball with key customers. Playing the role of salesperson superhero sounds fun, but it's always high risk. It's much preferable to have a constant presence and involvement in critical relationships so that emergencies are avoided. Read the full case study [here](#).

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learned. They must make it work, or go. Depending on how much is left in their “loyalty” account, this could range from a three-month process to a year.

Find them a new opportunity—outside of your company, where they can succeed.

Although I hardly need to say it, two offenses should immediately erase any sense of loyalty. The first is a values breach, where they do or say things that are in conflict with the organization’s values. Second is a malicious attitude, or even simply a corrosive one that is detrimental to the organization.

A sense of loyalty is one of the most powerful motivating factors. Creating feelings of loyalty in your team is smart leadership. But the difficulty comes because we all, as humans, like to reciprocate. Identifying when two-way loyalty ceases can be a challenge. Thinking of loyalty as a bank account with an expiration date is a helpful analogy.

Keep your loyalty account, as well as those that report to you, active and full. Stay attentive to the performance of team members and take quick and early action if needed. Small corrective actions are far more likely to work than waiting until the loyalty account is overdrawn. ■

Next month’s issue of *The Insomnia Factor* will focus on Distraction #9, “High Maintenance Employees.”

“If I knew everything that I now know about this person, would I hire them again today?”

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