

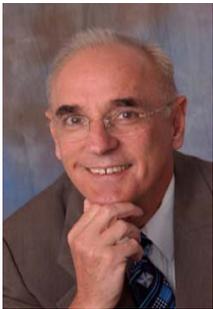
Can Executives be Portable and Profitable?

How well do executives fit into new positions from the viewpoint of financial performance?

Do skills in building profitable units translate between markets, industries, and companies?

The conventional wisdom is that there are strong limits to this. But a new approach looks beyond industry familiarity to an executive's comfort with the particular financial dynamics of a business environment. Using this approach, industry familiarity becomes much less important and financial style becomes more so.

"How well do executives fit into new positions from the viewpoint of financial performance?"



Recommendations

- In recruiting – or promoting - executives, assess the financial dynamics of the companies and market environments within their business experience, not just the industry
- Use financial style as an additional key dimension in recruiting executives
- Look past industry familiarity to the deeper understanding and comfort with the financial dynamics of a business environment in assessing executive fit.

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Can Executives be Portable and Profitable?

By Dr. E. Ted Prince

Celebrity Stories

These days CEOs have become celebrities. Not only the business but also the popular press either acclaim them as icons or excoriate them as villains.

Just as the paparazzi of the popular media breathlessly follow the moves of a Katie Couric from show to show, and wonder how she will translate to the new channel medium, so the business press follows the celebrity CEOs when they move from one business empire to another. How will this CEO perform in the new role? Will she make it? Or will he bomb out?

What goes for CEOs also goes for executives generally. How can we know if a talented and promising executive from the oil industry will translate successfully into an even more senior position in aviation? Can a hot shot who was formerly a senior manager in a highly profitable beverage company do a successful turnaround in a high tech company?

"...the most portable of these competencies is the ability to deal with various types of cost and value issues."

The GE Way

We got to thinking about these issues after reading "Are Leaders Portable?" in [Harvard Business Review](#) (Groysberg, B., McLean, A., Nohria, N., May 2006, pp. 92-100).

The article focuses on the classic GE leadership model and its executive products - in this case its alumni who have gone on to become CEOs at other companies. It asks the question as to whether the presumption that successful GE managers will be equally successful in other companies is valid. Its answer is, maybe unsurprisingly, only sometimes.

Why? The article sees three types of competency in leaders that determine the extent of their portability; domain knowledge specific to an industry; relationships within a company or industry; and third, what they call "strategic human capital". This is the individual's "strategic expertise in cost-cutting, growth and cyclical markets".

"...leaders have innate zones of comfort in how they deal with the core financial issues of resources and value."

The article defines success as a high rate of annualized stock returns. Basically, according to the article, the nearer a new occupational environment is to the former one, the more likely is the manager to be portable and successful. Conversely the further away it is, the less likely the manager will translate well to it in terms of achieving high stockholder returns.

So how is it that some executives do perform very well when they are so far from home, so to speak? How come a Bob Nardelli (himself from GE) can kick butt in widely divergent industries, capital equipment and retail? And what accounts for the belief of many experienced industry observers and recruiters that some senior executives just have it in them to be highly portable and very profitable?

That's what we examine here.

Build it and they will Cut

Significantly, the HBR article concludes that, of the three types of human capital competency it examined, strategic human capital was the key determinant of how well the executive would perform.

As it points out, cost-cutting is not the same as growth skills. Cost-cutting skills are portable if the new environment requires those skills. The same applies to growth skills. But the two are not interchangeable.

In other words, according to the article, the most portable of these competencies is the ability to deal with various types of cost and value issues. These abilities come in different flavors and the leaders that perform the best financially are those that possess the particular flavor that is best attuned to the new environment.

We can sum up the article as follows: just as executives have innate comfort zones in how they lead and manage, so do leaders have innate zones of comfort in how deal with the core financial issues of resources and value.

These financial comfort zones will vary by executive and will be particularly appropriate in certain types of business environments. The GE way is very good at identifying these financial comfort zones and the business environment to which they are best suited.

But when executives are placed in environments that are not suited to their innate financial comfort zones in the areas of resource use and value/growth, the executive does not succeed or at best under-performs.

Performing with Style

Now the HBR authors probably didn't mean to do it, but in essence they are stating that different types of leaders have different types of financial styles. Once the style of the leader is placed in an environment where it doesn't suit, they will not be portable, at least not profitably so. That's why so many leaders who are apparently so successful in one environment, bomb out miserably in others.

For those of you who are regular readers of this newsletter, you will know where this is going. My book "The Three Financial Styles of Very Successful leaders" (McGraw Hill, 2005) deals with precisely this issue.

But "The Three Financial Styles" goes far beyond the HBR article to flesh out the structure and logic of these financial styles. It identifies nine financial signatures, each of which has characteristic financial and valuation impacts.

[The 3 Financial Styles of Very Successful Leaders](#)

By Dr. E. Ted Prince; McGraw-Hill, 2005.

Each of these financial signatures is suited to differently types of companies and market environments. Put them into an environment to which they are suited and things are sweet. If not, no matter the intelligence and drive of the executive, they will almost certainly fail, or at the least do not achieve what was hoped for by their stockholders.

How Portable is Your Parachute?

In our model of financial behavior of leaders, there are three financial styles. One is resource-centric. These styles are more focused on the use of resources rather than on value and growth.

The second, the value-centric style, is more focused on the growth and product intensity side. The third style is equally resource- and value-centric.

Each of these styles has a characteristic financial performance outcome and particular environments to which it is more or less suited. That is, different environments in which it is portable.

Resource-centric styles will, other things being equal, be more suited to more mature markets, to larger and later-stage companies and to more capital intensive products. Value-centric styles will likewise be more suited to earlier stage companies, to more fragmented markets and to less capital-intensive products and services, again other things being equal.

Family Matters

The HBR article argues that the answer to the portability conundrum depends mostly on familiarity. Familiarity with the market, the industry and the people. But it does not answer the question as to why many executives succeed when few or none of the factors are present.

“Financial signature and financial style will also contribute significantly to the type of portability that an executive can enjoy.”

Financial style helps us answer this question. Financial style says that, at least as important as familiarity, is the innate financial style of the executive. Whether he is familiar or not with the new environment in the conventional sense is not the only, or sometimes even the main, issue.

The additional issue is whether he has a natural propensity to calculate and manipulate the specific types of issues that arise in particular types of company, market and capital situations. If he has the right financial traits, familiarity in the conventional sense does not matter anywhere near as much. What does matter is that he has a much deeper familiarity with the types of financial thinking processes required in that particular financial environment.

Higher-Learning

Portability is as portability does. Portability as familiarity is a convenient but unsatisfying explanation.

It is convenient because it acts as an additional rationale for managers to hire people who are more like themselves. Executives who have had similar experiences in similar markets and environments and who understand the same market culture as they do.

Quite possibly, managers hired thought this process do provide a sort of predictable safety. Their familiarity does add to the likelihood that they will succeed, in the absence of other recruitment factors. If they do fail, the decision to hire them can always be defended on the grounds that it was not the hiring committee’s fault since the manager was clearly familiar with the environment and could not have been expected to fail by any reasonable measure.

Portability as familiarity is unsatisfying first and foremost because it does not explain the fact that many leaders and executives from outside the environment perform well and sometimes brilliantly. Think of Lou Gerstner who excelled in the consulting, packaged goods, and technology industries or Paul Presser of The Gap, an apparel retailer, whose background was in theme parks in Walt Disney.

It is also unsatisfying since it can also be used as an excuse for not thinking outside the box in hiring decisions for leaders. Given our approach, hiring from outside the environment can be no more risky a decision than hiring from within it as long as the issue of financial style is taken into account.

Portability is not simply an issue of choosing familiarity with an industry or a company. Portability is also a matter of the innate familiarity of an individual with the particular financial dynamics of the environment he or she will enter. If they fit with his or her financial style and signature, the executive will be more likely to be portable, even if he comes from an apparently different industry or market.

Once we understand the deeper issue of portability implied by financial style, we open up new vistas for executive recruitment and organizational performance.

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Recommendations

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