CHAPTER 6

Aligning Financial Mission with an Organization

The culture of an organization reflects one of the nine financial missions. Whether or not the company's leader has created that culture, these nine missions define all of the feasible business cultures for any organization. These cultures can thus be named according to the missions, hence the Buccaneer culture, the Mercantilist culture, and so on.

A leader may have been selected to fit in with an existing business culture or to change it; either way, he becomes a part of it. In some cases, a new leader takes over an organization and does change its culture. By referring to the leader's financial mission, we can see where the organizational culture started and where it is headed. More important, it will show us the pattern of financial performance and profitability associated with the culture and how this pattern may change as a result of the leadership change.

In some cases, a new leader's financial mission does not match the culture of the organization, which poses a problem. The financial mission of the leader, whether a

CEO or a new manager, needs to be aligned with the culture of the organization. If it is not, there will be conflicts over how to achieve ongoing positive financial performance. Unless resolved, this disparity alone will likely lead to the organization's downfall, in both profit and operational performance.

Matched Financial Missions

Lou Gerstner, the Matched Conglomerator

An example of what happens when a leader and his organization have the same mission involves Lou Gerstner's tenture at IBM. Gerstner's Conglomerator financial mission comprised a medium value adding and a high propensity for resource utilization. In other words, he had a Deficit financial style.

IBM also had a Conglomerator culture. Its value adding had declined to a medium level as it lost its innovative touch and became a mature organization. Its level of resource utilization was also high. From that viewpoint, the two were well matched.

At IBM, Gerstner was a brilliant turnaround manager, but his lack of value-adding perspective is demonstrated in the loss of the personal computer (PC) market share under his tenure.[1] As a Conglomerator, Gerstner's instinctive approach to growing the company was by acquisition. The Lotus acquisition occurred precisely for this reason.[2] Gerstner implicitly conceded through his own decisions that his financial signature was not going to result in growing IBM internally.

Gross margins declined under Gerstner as he shifted from high–value-added, proprietary hardware to lower gross margin services. These services put IBM at the bottom of the value-adding rankings in the technology industry although, overall, still in the medium value-adding category.

On the other hand, Gerstner was a high-expense CEO. With a background at McKinsey and several large enterprises, he could not have been otherwise. His massive $25 billion buyback of IBM stock in 1997 reflected an approach that was based on a very high level of resource utilization—his staff cutbacks in IBM notwithstanding. Only expensive acquisitions, notably Lotus, allowed him to grow IBM so that it could keep up, both technologically and financially.

Gerstner was exactly what IBM needed at that particular stage of its company evolution—someone who did not have a high level of value adding. IBM had essentially run out of new products—its mainframes—and was under attack from the new PC market. It had lost its technological edge in the market and was seen as a laggard.

And although Gerstner was high on the resource utilization scale, that too was what IBM needed at that particular juncture. The company had the resources, and Gerstner was prepared to use them to conduct one of the largest stock buybacks ever.

Gerstner was successful because IBM's Conglomerator culture and Gerstner's own Conglomerator financial signature fit together perfectly. At this particular stage of the company's evolution, it needed a Conglomerator.

Gerstner's case demonstrates that a leader can have a Deficit style and still succeed. In this case, however, the positive effect is short-term. A Deficit type, or indeed a Gerstner, would not be a good fit as a longer-term leader. A Deficit leader is useful for helping a company through a transition but is not a good long-term choice as a leader because of the losses in market value—if not profitability—that accompany such leadership styles over time.

While Lou Gerstner was the perfect choice for IBM, John Sculley's Venture Capitalist financial style was a bad fit at Apple.

Mismatched Financial Missions

John Sculley, the Mismatched Venture Capitalist

At PepsiCo, John Sculley was the highly successful vice president of marketing. His record there indicates that he had a low level of value adding and a propensity for high resource utilization—a Mercantilist. Thus, Sculley had a Deficit financial style.

Coming from PepsiCo, a low-innovation company, where he had served for many years, to Apple, a high-innovation company, Sculley knew that he had to reinvent himself. Apple also had a Venture Capitalist culture, so he remade himself into a Venture Capitalist. He became a visionary. In so doing, Sculley emulated his visionary boss, Steve Jobs. The problem was that he needed to be different from Jobs, not the same, and he unfortunately didn't realize that.

As competitive threats mounted, Apple needed a different type of financial mission and a different kind of leader. The time for a Venture Capitalist had passed, and Sculley was never going to be better for Apple than Jobs. Apple needed a Buccaneer or a Profiteer, and Sculley was neither.

Sculley failed in his transition to a Venture Capitalist financial mission. His Mercantilist instincts took the company down-market with a lack of value added. The board recognized this and ultimately forced him to resign.

Matched and Mismatched Financial Missions

Al Dunlap, the Deceived Discounter

Al Dunlap of Sunbeam infamy was a Discounter—low value adding and low resource utilization.

Sunbeam had a Trader culture—low value adding and medium resource utilization. The company needed a leader with a medium value-adding propensity and medium level of resource utilization—a Consolidator. A Profiteer, with medium resource utilization and high value adding, would also have worked. What Sunbeam got, however, was a Discounter, someone used to dressing up companies for a profitable sale. The result was dissatisfaction all around.

Dunlap's investor backers really wanted someone with a Buccaneer financial signature. They wanted fast growth in the short term. But Dunlap's irrepressible urge to cut savagely would not make such growth possible. And the high–value-adding nature of a Buccaneer would have been inconsistent with Sunbeam's low value-adding culture.

The board and private investors in Sunbeam were sophisticated market players and investors, yet they still failed to make a good choice in Dunlap. Despite their knowledge, they failed to understand the need for congruent financial missions between the organization and the leader.

How Market Evolution Affects Financial Mission Requirements

The financial signature requirements of an organization differ depending on the stage of the market in which it operates.

If the market is early stage, for example, the enterprise needs a high level of value adding to succeed and, to achieve earnings early on, a low level of resource utilization—in other words, it needs a Buccaneer. Frequently, however, this type of organization will recruit a leader who has a Venture Capitalist or Consolidator financial mission, the latter frequently possessed by someone from an established company in a mature industry. Or it may hire a leader with a Mercantilist financial signature. This often happens in early-stage enterprises backed by Venture Capitalists who decide that they need a very experienced executive and recruit a leader who has spent most of her working life in a large company. All too often, this strategy will result in failure for the organization—and the investors.

As the market consolidates, organizational requirements shift. With competitors appearing, the company needs a high or medium level of value adding and a medium to low level of resource utilization—a Profiteer or an Arbitrageur. Unfortunately, the organization usually hires a leader with a Conglomerator or Trader financial signature, resulting in poor financial performance.

Finally, as the market matures, an enterprise requires a leader with a medium level of value adding and a low level of resource utilization—an Arbitrageur. Again, the organization often hires a leader with a Trader or Discounter financial signature, which leads to poor or failing outcomes.

As an example of this scenario, let's take a look at George Shaheen, the able but controversial leader of an outstanding firm, Andersen Consulting. Shaheen was instrumental in precipitating the breakup of Arthur Andersen into two enterprises, but he left in 1999 to become the CEO of Webvan, the start-up online grocery company. Less than two years later, Shaheen resigned, and Webvan later went into liquidation.

Shaheen was an example of an Old Economy leader who went into a New Economy company. As the erstwhile leader of a major company, his background, experience, and comfort levels were with enterprises that operated in mature industries. His financial signature was a medium level of value adding, and he had a medium level of resource utilization—a classic Consolidator financial mission.

But this was not the financial mission that Webvan required. It needed a Buccaneer or, at worst, a Venture Capitalist. Shaheen was neither, and his financial signature was clearly unsuited to Webvan. Of course, Webvan hired Shaheen for his name and contacts, not his financial style, and it paid the ultimate price.

The dot-com era saw several similar cases, such as Joseph Galli of Black & Decker, who moved to Amazon; Heidi Miller, the former CFO of Citigroup, who left for Priceline; and Bill Maloy of AT&T, who went to Peapod. All three later left these enterprises under similar circumstances to Shaheen's departure from Webvan. These Old Economy leaders tended to have the same Consolidator financial mission, a bad fit for the New Economy start-ups that required a Buccaneer or Profiteer financial mission.

The selection committee of an enterprise often has a hard time deciding on any leader, let alone a leader whose selection would be dependent on the stage of market evolution. Furthermore, getting a consensus on what the company's stage of evolution is can also be difficult. But if the organization does not make either of these decisions, it risks hiring a leader whose financial signature is simply going to harm it through lack of alignment and an inappropriate financial style.

How Product Evolution Affects Financial Mission Requirements

Just as with a company, a product requires leaders with different financial signatures and missions as it matures.

In the early stages of product development, an organization requires a leader with a high propensity for value adding. While expenses need to be relatively high to undertake this development, it cannot be so high as to imperil company survival. Yet, all too often, the company hires a leader with a Venture Capitalist financial mission—with potentially adverse consequences.

Once the product is developed, the organization's needs change. The company now requires a leader who focuses less on value adding and more on reducing expenses—an Arbitrageur financial mission. Yet it often gets one with a Trader or Conglomerator financial mission, which leads to major problems.

As the product reaches maturity, the enterprise needs a leader with an Arbitrageur financial style. All too often, at this stage, its board recruits a leader with a Discounter financial mission, believing that this is the only way it can get out of the box it finds itself in.

How financial signature interacts with product evolution is not always quite as simple in real life as it is on paper. Let's take Case 7, the CEO of an early-stage technology company.

Case 7 had started a company based on technology he had licensed from another venture. The good news was that his start-up expenses were not very high, as he had not had to develop the technology himself. He merely had to refine and extend it to the particular application he had in mind.

Case 7 was an Arbitrageur—medium value adding and low resource utilization. As such, his financial mission was intrinsically profitable. Consequently, his company evaded the large losses that typically characterize an early-stage company with an early-stage product. The money he raised was more than enough to keep the company going.

But the company never made large inroads into the market. Its product had a place, but its level of value added was not enough to make it attractive to many buyers. Competitors crept in with similar offerings licensed from the same company that had developed the technology in the first place. And Case 7's intrinsically profitable financial mission was simply not providing enough value to result in a very attractive product.

Contrast Case 7 with Case 8, the CEO of another technology company. Case 8 started his company and developed his product from scratch. But Case 8 was a Buccaneer—high value adding and low resource utilization. Although it was a difficult task, he found a way to make profits even though his product was at an early stage.

Case 8 acquired another company that was public and put the product into the existing vehicle. He quickly made profits. He had a propensity for very low resource utilization, which led to low expenses in his company. Against all of the odds, he made money with a start-up product. The Buccaneer financial mission worked in his favor.

Case 7 and Case 8 show us that early-stage enterprises can be viable and even successful as long as they have a leader with the correct and intrinsically profitable financial mission. Case 7's company was viable but not attractive. As an Arbitrageur, he simply did not deliver enough value to thrive, although he delivered enough to survive. Case 8, though, was different. His Buccaneer financial mission led to the potentially outsized earnings that characterize this financial mission, even though his product was at an early stage.

In most cases, unfortunately, enterprises hire leaders with financial signatures and missions that lead to early failure or, at best, poor performance. Most organizations chalk this up to the intrinsic difficulties of starting or growing a new enterprise or getting a new product to market. They are partially right.

Few realize, however, that there is another way: recruit a leader with a Surplus financial style. The process may still be tough, but this sort of leader will dramatically increase the odds of survival and success.

Enterprise Evolution and Financial Mission

As an enterprise undergoes its standard life cycle, it needs leaders with different types of financial missions. Mostly, it will need Surplus styles. On occasion, it could also use leaders with a Deficit style to meet particular internal or external circumstances—but only for relatively short periods.

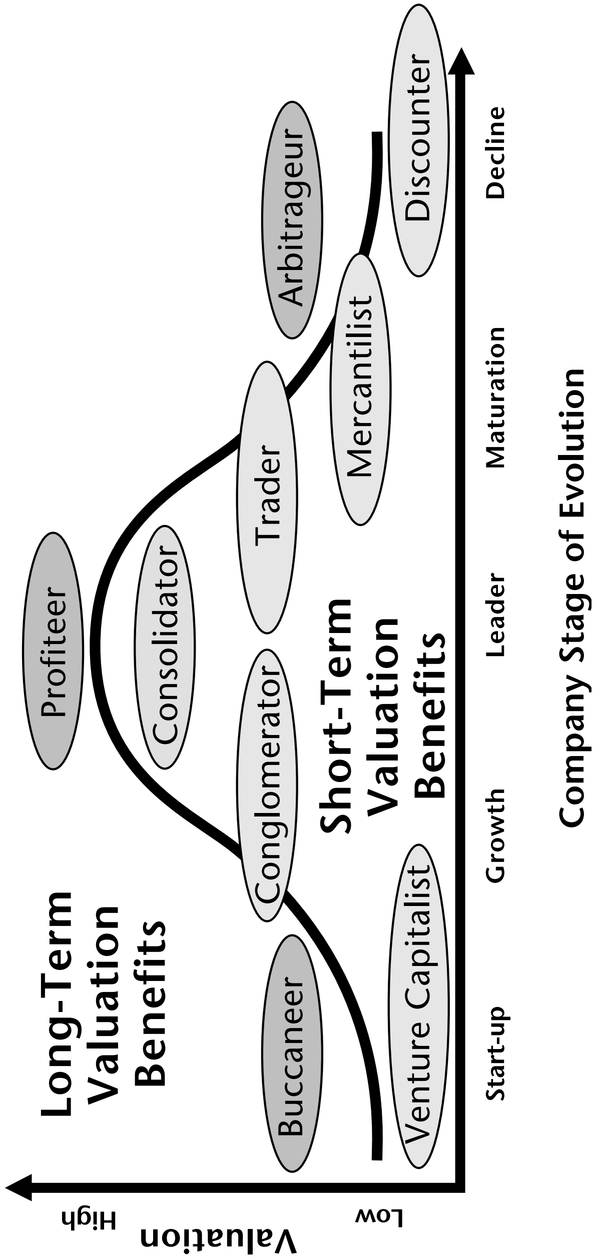
Because there are only three Surplus styles, there are few choices. At the early stages of an enterprise, a Buccaneer is clearly the best choice. As the enterprise hits its stride, more issues will surface, usually making the Profiteer a smart choice. At the later stages, the Arbitrageur is the best option for most enterprises, as she is able to wring out every last ounce of value even when the going is tough.

The required financial missions are set out in Figure 6.1. To be successful, the financial mission needs to be above the line. But in particular circumstances, the financial missions below the line could also be useful to the enterprise—provided that it realizes the limitations of such leaders. When an enterprise does not understand how enterprise evolution intersects with financial mission, it will often hire leaders with Deficit styles at the points we have indicated in the diagram.

As a company evolves, it makes typical mistakes in selecting its leaders. In the earlier stage of growth or at rebirth, it tends to recruit leaders with a Venture Capitalist financial mission. In the short term, this may be a good decision, just to get things going. But if it sticks with such a leader, it will experience problems of enterprise sustainability.

Jean Marie Messier of Vivendi had a Venture Capitalist financial signature, one unsuited to an ex-utility. Vivendi should have quickly fired Messier and put in a

FIGURE 6.1 Enterprise evolution and financial mission.



Buccaneer or Profiteer. Gerald Levin of Time Warner also had a Venture Capitalist financial signature—hence, the disastrous merger with America Online. Time Warner should have recruited a Buccaneer or Profiteer.

As a company progresses through the various stages of evolution, similar choices emerge. An enterprise will often shy away from the three good choices and move to the likely failing ones. These range from the Venture Capitalist, Consolidator, and Discounter, who at least have a minimal chance of success over the longer term, to the even worse ones of Trader, Conglomerator, and Mercantilist, who basically have no chance of success in the long term, at least without some form of intervention.

Organizational Conflict with the Financial Signature

In the long term, an organization should only recruit leaders who possess a Surplus financial style—the Buccaneer, the Profiteer, and the Arbitrageur. A leader with any other financial style is simply going to do it no good—and probably a lot of harm—over the long term. While a leader may appear to be great in many ways, unless the recruiting organization can be absolutely sure of the leader's profit-making potential, it should first assess his financial signature.

The one exception is that a board may recruit a leader with a Deficit financial mission to achieve certain short-term purposes. But the enterprise needs to know exactly what it is doing to avoid potential short-term losses, not to mention a declining long-term financial performance.

Making and sustaining profits in an unforgiving and competitive marketplace is difficult. The theory of financial signature adds another set of constraints. If a leader has a Deficit style, he faces an additional hurdle—fighting the very persona and internal drives that propelled him into a leadership position in the first place. How easy is it for anyone to fight what made him successful?

There is a way out of this dilemma. The enterprise needs to support the leader in ways that will help him transition to a financial mission with a better chance for success. We will discuss how to do this in Chapter 9.

Alignment of Culture and Financial Mission

For emerging leaders and those in midlevel positions, this chapter has a number of important consequences:

- Alignment between a leader's personal financial mission and the culture of the organization is critical. If it does not exist, the leader is likely to have a tough time, no matter how talented she is.
- Success in an organization over the long term is also dependent on the leader's having a Surplus style.
- If a leader does not have a Surplus style, he should learn how to acquire one.

- A leader with a Deficit style in an organization with a Deficit culture, or a leader with a Puzzler style in a Puzzler culture, despite their aligned styles, will not achieve much. The organization will likely fail or underperform because of the combination of financial style and culture.

In sum, alignment of missions may be key, but the culture also has to be correct.

Notes

1 D. Garr, *IBM Redux: Lou Gerstner and the Business Turnaround of the Decade*, New York: HarperCollins, 1999, 305.

2 Ibid., 218.

Aligning Financial Mission with the Organization

This chapter demonstrated that:

- For a leader to succeed, his or her financial signature must be congruent with the organization's culture.
- In addition, the organization's culture must have a Surplus financial mission for the long term.
- When an organization recruits a leader with a Deficit style, its goals are usually fundamentally in conflict with those of the leader.
- Leaders with Deficit financial missions can produce positive financial performances, but only in the short term.
- A leader's financial signature must be congruent with the organization's level of market, product, and enterprise evolution.

Top Two Takeaways

- Check the culture of any organization that you intend to join to make sure that it aligns with your financial signature.
- In addition, check that the culture of the organization is a Surplus style.

SELF-DEVELOPMENT EXERCISE

Complete the Financial Signature Self-Assessment in the Appendix. This will provide you with an objective assessment of the alignment between your financial mission and the culture of your organization.