NATIONAL BEST-SELLER

The FOUR OBSESSIONS *of an* EXTRAORDINARY EXECUTIVE

A LEADERSHIP FABLE

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INTRODUCTION

If everything is important, then nothing is.

No one understands the power of this saying more than a person who leads an organization. Whether it is a multinational corporation, a department within a larger company, or a small entrepreneurial venture, every organization provides its leader with more distractions and concerns than one person can handle.

The key to managing this challenge, of course, is to identify a reasonable number of issues that will have the greatest possible impact on the success of your organization, and then spend most of your time thinking about, talking about, and working on those issues.

But what are they? Before we can identify them, it is important to understand what is ultimately necessary for organizational success.

I believe that all successful organizations share two qualities: they are smart, and they are healthy. An organization demonstrates that it is smart by developing intelligent strategies, marketing plans, product features, and financial models that lead to competitive advantage over its rivals. It demonstrates that it is healthy by eliminating politics and confusion, which leads to higher morale, lower turnover, and higher productivity.

As important as both of these topics are, I have found that most leaders spend the majority of their time and energy making their organizations smarter, with relatively little effort directed toward making them healthier. This is understandable considering the predominant focus of business schools and business media. It is regrettable, however, when one considers the powerful and unique attributes of organizational health.

First, healthy organizations have a way of making themselves smarter. Even if their ideas are temporarily inferior to those of competitors, they are usually humble and efficient enough to recognize their deficiencies and make changes in their plans before it is too late. On the other hand, plenty of anonymous and forgotten companies have squandered intellectual advantages because of infighting, lack of clarity, and other problems that plague unhealthy organizations.

Second, healthy companies are far less susceptible to ordinary problems than unhealthy ones. During difficult times, for instance, employees will remain committed to a healthy organization and stay with it longer, ultimately working to reestablish competitive advantage.

Finally—and this point is critical—no one but the head of an organization can make it healthy. While executives often successfully delegate responsibility for strategy, technology, marketing, or finance to their direct reports, they cannot assign responsibility for their organization's cultural well-being to anyone but themselves.

And so, as odd as it may seem, it is actually more important for leaders to focus on making their organizations healthy than on making them smart.

But don't misunderstand me. Not for a second am I saying that issues like strategy, product innovation, and marketing are unimportant. They are indeed critical and deserve a great deal of mindfulness from any executive team. It's just that these topics receive a wildly disproportionate amount of attention from well-meaning and intelligent executives who somehow cannot find the time and energy to focus on making their organizations healthy.

Why does this happen? Because organizational health is relatively hard to measure, and even harder to achieve. It feels soft to executives who prefer more quantitative and reliable methods of steering their companies. It also entails a longer lead time to implementation than does a technical or marketing strategy, which yields more immediate results and gratification.

But perhaps most important of all, organizational health is often neglected because it involves facing realities of human behavior that even the most committed executive is tempted to avoid. It requires levels of discipline and courage that only a truly extraordinary executive is willing to embrace.

The purpose of this book is to help executives understand the disarming simplicity and power of organizational health and the four actionable steps that allow them to achieve it. It begins with a tale of two companies, a healthy one fighting off a potential virus, and an unhealthy one searching desperately for the cure.

This is a work of fiction. Any resemblance to real life is purely unavoidable.

The Fable

PART ONE

Green's Pain

THE RIVAL

Eighty million dollars in annual revenue should have made him happy. Or at least not bitter. But Vince Green, the founder and CEO of Greenwich Consulting, would not be satisfied until his company was recognized as the number one technical consulting firm in the Bay Area. And on particularly bad days, he joked that he would be truly happy only when his competitor, Telegraph Partners, was dead.

It wasn't that Telegraph was much larger than Greenwich. In fact, from time to time Greenwich rivaled Telegraph's quarterly revenue (although its profits never seemed to do so).

More than the financial war, it bothered Vince and his staff that Greenwich couldn't seem to win any of the less tangible battles. Telegraph was always regarded as a darling of the trade press. Industry analysts fawned over them. Telegraph's clients raved about their services and even stood by them during difficult times. Though Greenwich certainly garnered its share of new business, retaining clients felt like a constant struggle. On the other hand, life seemed too easy for Telegraph.

And if this bothered Vince, then the battle for employees enraged him. Telegraph didn't have to work as hard or spend as much money recruiting good people. To make matters worse, there seemed to be a small but steady stream of employees leaving Greenwich to join Telegraph, but rarely did traffic flow in the other direction. And in those few instances when employees actually did leave

Telegraph for Greenwich pastures, they rarely stayed more than a year.

Perhaps the most subtle but frustrating aspect of the competitive relationship that kept Greenwich executives awake and angry at night was the fact that Telegraph's CEO, Rich O'Connor, rarely, if ever, acknowledged Greenwich. Not during press interviews, conference speeches, or client presentations. And when a Greenwich executive occasionally met Telegraph's chief executive during an industry event, almost without fail he seemed genuinely disinterested in Greenwich and unaware of what his largest and most direct competitor was doing.

All of this would have been less frustrating had Greenwich not invested so much time and money learning about its rival. From interviews with former Telegraph employees to minor acts of legal corporate espionage, Greenwich had amassed as much knowledge about its competitor as about any of its own clients.

Still, none of the surveillance yielded anything that Greenwich could put to use.

Until now.

RECONNAISSANCE

As part of his desire to understand the mystery of Telegraph’s success, Vince Green occasionally invited business scholars to his staff meetings. Strategy experts, marketing professors, and finance gurus had analyzed Telegraph’s practices, paying particular attention to any areas where Telegraph and Greenwich differed.

Much to the dismay of Green and his team, these experts usually found little real difference between the rival firms’ business strategies. Both companies recruited from the same schools; they paid their employees similar salaries (Greenwich actually paid slightly more); they invested roughly equal amounts of money in marketing; the financial models they used to run their businesses were remarkably similar; even the prices they charged clients and the services they offered were almost identical.

Confounded by the lack of insight gained from these high-priced analysts, Green reluctantly agreed to have a local organizational development professor and consultant compare the cultures of the two companies. On the day that she came to present her findings at the weekly executive staff meeting, Green was in no mood to listen to psychobabble about the importance of employee picnics and holiday parties. He would be pleasantly surprised.

The consultant immediately grabbed the attention of everyone seated around the conference table: “Based on the information available and the research I’ve done, there is so little in common between Greenwich and Telegraph that making a comparison is extremely difficult.”

Amazed by the apparent ridiculousness of the remark, Green was on the verge of bringing the presentation to an early halt. But before he could do so, she continued: “Something about Telegraph’s culture is remarkable, like none I’ve ever seen. Their ability to attract clients and employees, to retain clients and employees, and even to maintain a loyal base of former clients and employees is really very impressive.”

The Greenwich team was caught between two strong emotions: a sense of relief at having finally discovered even a kernel of insight that might help them understand Telegraph, and a wave of disappointment that their competitor had recruited yet another admiring fan.

Green was too driven to let jealousy override his desire to understand his competitor. “So what exactly are they doing?”

Although the consultant could not ascertain the core reasons for the cultural discrepancy, she spent the next hour simply describing various aspects of Telegraph’s culture. “Apparently, there is almost no politics, very little voluntary turnover, and relatively few lawsuits brought by disgruntled employees. Even most of the former employees I spoke to raved about the firm’s culture.”

The executive team listened closely, asked questions, and scribbled notes like college students the day before a final exam.

The consultant eventually concluded her remarks: “Essentially they have an organization that is so sound, so”—she struggled for the right word—“so healthy that it makes them immune to most threats. This, more than anything else they’re doing, seems to be driving their success financially, strategically, and competitively. I wish I knew exactly how they did it.”

Vince spoke for the first time in an hour. “So do I.” Standing now, he waved and forced a smile to say thank you to the consultant and left the room immediately.

No one could have known that he already had an idea.

Now where did I put that phone number?

PART TWO

The History

TWO CEOS

In many ways, Rich O'Connor and Vince Green were alike. Besides being CEOs of the area's top technical consulting firms, they were essentially likable and decent men. Both were tireless workers, fierce competitors, and committed husbands and fathers.

They also happened to receive their training at U.C. Berkeley's business school at the same time. Vince had worked with a top management consulting firm before B-school. During his two years at Berkeley, he followed the stock market religiously, maintained contact with business associates, and read as many analyst reports as he could get his hands on. He graduated near the top of his class.

Rich also earned impressive grades but maintained a relatively low profile in the process. To earn extra cash, he waited tables and tutored undergraduate students, and when he wasn't working or in class, he could be found at the psychology lab where his wife-to-be worked. Because Rich spent so much time away from the business school, he didn't establish quite as many close relationships with classmates as most others did.

When Vince decided to start his own consulting firm just a few years out of school, no one was surprised. When Rich did the same thing two months later, no one noticed.

The timing for getting into technical consulting was ideal, and for their first three years in business, both firms grew dramatically. Each CEO believed his success was the result of extremely hard work, a little luck, and amazing attention to detail within his respective firm.

Both of them received regular reports about virtually every consulting engagement that their firms took on. They knew where every dollar was being spent, how much every client owed, and which competitors were bidding on which projects.

During this time Rich and Vince developed a cordial though somewhat distant relationship. Although the two rivals respected one another, they also knew that the other would be glad to take his business away from him if he lost his edge. So they were determined to never lose their edge.

Neither firm established any discernible advantage over the other, and they shared much of the emerging local spotlight when it came to consulting. Vince liked to say that their companies maintained a degree of balance that made coexistence possible, even enjoyable.

Until something changed.

Out of nowhere, Telegraph seemed to gain an advantage over its rival. Before he knew what was happening, Vince found himself increasingly frustrated by his firm's inability to compete with Telegraph on a variety of issues. What he didn't understand at the time was that in spite of all their similarities, he and Rich O'Connor had suddenly become quite different CEOs.

DESPERATE EPIPHANY

It happened late one night while Rich sat alone in his home office, contemplating selling his beloved three-year-old company.

He was about to break under the pressure of trying to balance his family and his successful but demanding business. It seemed that with every passing month, there was more to know—competitive analysis, technology advancements, industry trends, client updates—and less time to learn about it all. But Rich prided himself on knowing his firm inside and out, and he always found a way to stay on top of what was going on at Telegraph.

It was when he missed his third consecutive Little League game that things began to unravel. He and his wife had begun to lose patience with his increasingly unmanageable schedule, and as hard as he tried, Rich could see no relief in sight. Selling the firm and taking on a less demanding job seemed like the only way to alleviate the pressure on him and his family.

But the company had become such a part of Rich's life that he was unable to pull the trigger on a sale. So he decided to try an experiment. For three months he would quietly limit himself to fifty-hour workweeks—far below his usual seventy—which would give Rich plenty of time for his family. At the end of the experiment, if the firm were showing any signs of distress, he would sell.

For the first month he struggled, often bringing work home with him in violation of his personal pact. Trying desperately to handle the same set of responsibilities in