

Leadership liabilities of newly appointed managers: arrive prepared

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New CEOs and other key managers who are appointed or promoted within organizations to head divisions, teams or projects are all likely to learn over time that managing in their new positions is only part of how their success will be achieved. The critical other part is whether or not they become accepted as leaders, which often determines the success or failure of their management careers.

Research on leadership, which mostly investigates characteristics, styles, actions, action logics, situational contexts, interactions, doesn't offer a simple, certain model for mastering leadership. And though many articles and books purport to be reliable guides to becoming leaders, few if any deliver what they promise.[1] In contrast to the many advice books, little attention has been paid to responding to the set of liabilities new managerial appointees must contend with that limit their capacity to lead successfully. These liabilities[2] are the preconditions - for example, a dysfunctional culture, inherited consequences of bad decisions, misleading data - that act as obstacles to effective leadership and strategy implementation.

So what are the leadership liabilities of new managerial positions that all new appointees must face, and what practices could assist them to overcome these liabilities? My research indicates that the key liabilities new appointees encounter can be grouped into seven categories (see Exhibit 1).

1. Liability of legitimacy

Each new manager faces legitimacy issues with stakeholders - team members, superiors, clients, and other units. The question on each stakeholder's mind is, "Does the new appointee have the perceived capacity to successfully respond to the requirements of the position?" The new appointee is initially judged on subjective issues such as credibility reputation, perceived knowledge, skills, track record, ability to influence, apparent merit of the appointment and more. During a brief "honeymoon" period, stakeholders usually allow a new manager with a promising background some "reputational [3] slack," that is, a cautious acceptance based on his or her resume.

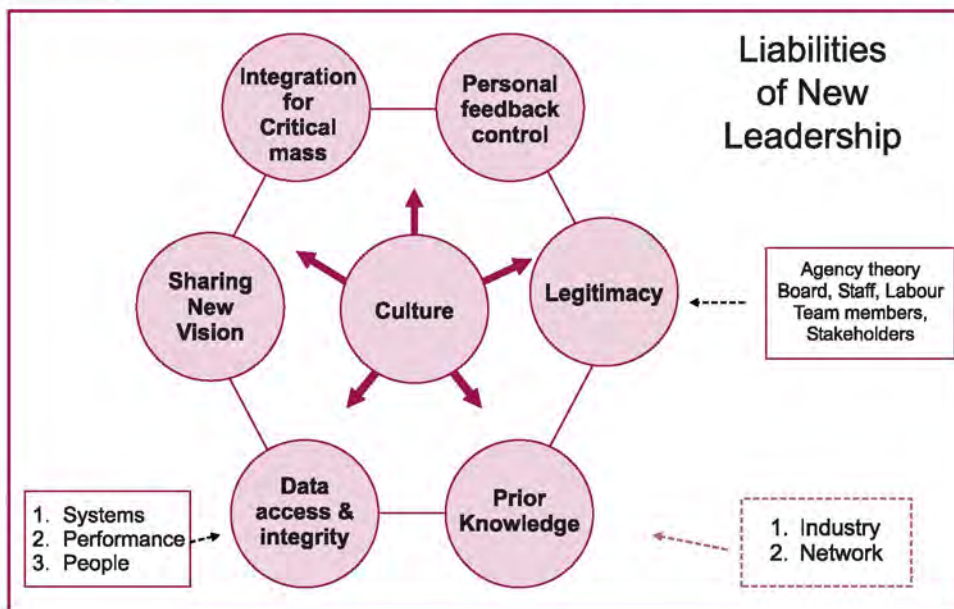
Legitimacy, however, soon becomes a matter of the so-called "soft issues" of a personal nature - such as trust, a key to the collaborative exchanges that managerial success often depends upon. A new manager could be knowledgeable and skilful and at the same time exhibit behavior and views objectionable to some potential followers. Followers with different priorities would likely support different candidate attributes: for example, some might value an appointee with financial know-how and qualifications, while others would judge an appointee's ability to work with other people as a more critical skill.

Other common threats to legitimacy include:

- The new appointee arrives from outside the current organization and is unfamiliar with its culture.
- Colleagues feel they should have been given the job.
- The terms or the amount of appointee's compensation is seen as inappropriate.

The liability of legitimacy is complex, but crucial for the new manager to overcome. It influences and is ultimately influenced by other liabilities. This liability is inherent in any situation where a new manager is appointed. It is therefore a universal liability.

Exhibit 1 Conceptual model of leadership liabilities facing newly appointed managers



2. Liability of lack of prior knowledge

Often by the time a newly appointed manager arrives, the previous management has already left the unit, so their knowledge has left with them. This is especially problematic in situations where previous management has been removed for some reason, such as a turnaround situation. In such situations, the new appointee depends on the team members for knowledge. Full access to the group's insights and data will likely depend on the new appointee's perceived legitimacy. And if the group is reluctant to accept the new appointee, it will take additional time for the new appointee to gather information required for meaningful decision-making.

Prior knowledge refers to two specific elements, industry knowledge and network knowledge. The new appointee is firstly judged on "technical expertise" by the followers, and the more favorably they judge this skill, the better the appointee's chances of overcoming the first liability of legitimacy. Secondly, the appointee needs to gain practical knowledge of who are the right people to approach for insights about specific problems. Examples include existing "informal leaders" within the follower cadre, gatekeepers, controllers, suppliers and more. Again, time is a crucial factor for overcoming the liability of inadequate knowledge, as the newly appointed manager strives to quickly "learn the ropes."

As legitimacy becomes established, the liability of prior knowledge lessens.

3. Liability of data access and data integrity

Decision-making depends on both access to and soundness of information about the challenges. The newly appointed manager has little information about systems, performance and people. Firstly, the data may be available within the systems but the new appointee needs time to master access to and knowledge of the systems to find meaningful information within the data. Secondly, data integrity refers to whether the data available for decision-making is correct, complete, whole, reliable and true. Only a very small part of all data required by the new appointee is formal and comes from systems. A large amount of data is also subjective and opinion based, and is thus susceptible to errors of human nature. The new appointee depends largely on the followers to supply reports and data interpretations, and these will be subject to biases and other limitations. Turnaround managers suffer significantly from this liability.

Verifying and authenticating data takes valuable time. The liability of data integrity depends on the new appointee's ability to verify and authenticate data for decision-making. Not verifying data leads to false assumptions and contributes to poor strategy choices.

The new appointee's access to good information is also limited by the preconceptions of team members. They may interpret the information request according to self-serving perceptions and based on their specific knowledge structures, thus influencing the data integrity. While some of these misperceptions may be intentional, there are also those that are unintentional such as biases, heuristics, filtered data and perceptive shortcuts. So, new appointees are further subject to biases of subordinates and team members caused by over-confidence,[4] escalation of commitment, risk perception and misconceptions.[5] In each case, data integrity is undermined. The new appointee manager must therefore overcome these elements by first identifying them and then acting accordingly.

As legitimacy and knowledge about the job grow, the liability of data access and integrity lessens.

4. Liability of failing to share a vision

Initial research results suggest that the number one reason reported for managers failing as leaders is because they are unable to share their vision successfully with followers. While many respondents report "no vision" as a reason, investigating the responses points rather to the manager's inability to convey the vision to the team or unit.

Sharing the vision implies that the leader succeeds in transferring the vision to the followers, who then take ownership of it. In this process, legitimacy is crucial and speed is usually essential. This liability can be seen as a dilemma, in that legitimacy depends on a successfully shared vision, while at the same time legitimacy is also a prerequisite for being able to share the vision successfully.

In my experience, followers will pledge buy-in fairly easily but reserve full commitment until such time as legitimacy is confirmed. Often that gives a new appointee an opportunity to start to deliver initial success and then quickly follow up with actions that foster full buy in.

5. Liability of integration for critical mass

implementing strategies requires an integrated approach to assimilating different initiatives, activities and people in a holistic way so as to create "critical mass" for achieving goals. Integrating this effort requires the ability to see the big picture and manage the detail actions of the process at the same time. It is only when the initiatives reach a critical mass of effectiveness can leadership momentum be sustained.

6. Liability of feedback control

Feedback is a key part of the communication process between leaders and followers. Poor communication was the second most frequently reported reason (after "failure to share a vision") given for why managers fall short as leaders. Followers rate feedback on their performance and behavior as critical to their continued commitment.

But delivering effective feedback presents another dilemma for the new appointee. To enhance legitimacy, the new manager must offer the team or unit timely feedback, but to do this accurately requires the mastery of performance measures and the insights to apply them. Accomplishing this takes time.

7. Liability of culture

Finally the new appointee is faced by the liability of culture. There are two scenarios: An organization's culture is either conducive or obstructive to implementation of a strategy. Company cultures are remarkably resistant to change by a newcomer, and yet they are so important they have been called the "invisible force field" driving the organization. The impact of organization culture on the other liabilities is shown by its central position in Exhibit 1. Culture affects the liabilities of sharing the vision, integration for critical mass and feedback control through its influence on follower perceptions. Data access and data integrity also depend on each company's culture.

In the case of each of these seven liabilities, making the best use of the limited time available is a crucial skill of newly appointed managers. Given time, new appointee managers should overcome these liabilities if they pursue the correct practices. The art is, however, to overcome the liabilities faster than expected, and the astute new appointee should rapidly put together a plan to do so. For its part, senior management is also responsible identifying the success factors that will help the new appointee overcome the seven liabilities.

Practices for overcoming liabilities

Research in the motor manufacturing industry on actions of managers that are perceived by followers as fostering successful leadership suggests three key practices. They include:

- Deliberately acting by example: this leads to overcoming the liability of legitimacy.
- Supporting and encouraging followers: this overcomes the liability of feedback control as well as sharing the vision.
- Acting with passion and compassion: this contributes to legitimacy, especially in a dysfunctional culture.

The case of Starbucks in 2008 offers an opportunity to observe how a CEO addresses the seven liabilities and endeavors to overcome them. Starbucks's problems were outlined in late 2007, by board chairman Howard Schultz: "Over the past ten years, in order to achieve growth, development and the scale necessary to go from less than 1,000 stores to 13,000 stores and beyond, I have had to make a series of decisions that, in retrospect, has led to the watering down of the Starbucks experience, and what some might call the commoditization of our brand." The board of Starbucks appointed Schultz CEO to fix the company's problems. This allows observers to contrast the benefits of appointing Schultz rather than a new CEO from outside and ask the question of whether the board's choice of Schultz was astute.

Three key insights

Three insights can be drawn from the liabilities framework:

- Firstly, the liabilities are part of the context that each newly appointed manager faces. All newly appointed managers and team leaders face them and must respond with individualized strategies that take into consideration their own strengths and weaknesses.
- Secondly, the liabilities are not independent but interdependent. Their effects can also be additive and the relationships not always directly visible. This makes it more complex to focus.
- Thirdly, the liabilities require time to be overcome. Skills and experience may help some people to mitigate the time requirements. To overcome the liabilities, leaders can adopt a number of well-known practices, such as setting an example and giving followers feedback.

Consulting view to guide new leaders

As a coach and mentor to managers, I have found that a personal leadership plan containing the seven liabilities as headings works well. It forces the new incumbent to think and analyze each liability. For each liability, managers need to pose such questions as:

- What constitutes legitimacy in this context?
- What is my comparative legitimacy?
- What actions are important to improve legitimacy?

Case

A liabilities perspective: was Howard Schultz the right CEO for Starbucks' crisis in 2008?

It is now general knowledge that in early 2008 Starbucks was struggling with the most serious crisis in its history. In 2007 Starbucks' share price fell by 42 percent, making it one of the worst performers on the NASDAQ exchange at the time[6]. The board then appointed the founder and chairman, Howard Schultz, to act as CEO to lead the urgently needed turnaround.

Looking at the situation of Starbucks in January 2008, one could ask why the board had not appointed someone from outside Starbucks to lead the turnaround. For the purposes of this case the key questions are:

- Did Schultz face the seven key liabilities?
- How did he match up to overcoming them?
- How would an outsider shape in the match-up?

Whether they are outsiders or insiders, every newly appointed leader faces more or less the same liabilities. However, answering the three questions posed requires some judgments about the nature of the liabilities of each particular situation. For example, outsiders face a steep learning curve if they are to master an unfamiliar situation but insiders face questions of legitimacy if they are held responsible for creating the problem. Despite his being the founder and previously CEO and now chairman, Schultz had to cope with all seven of the liabilities. Looking at each liability individually, one can judge how well Schultz overcame it.

Liability of legitimacy – Schultz—with his track record of growth, his history with the unions, creditors and shareholders as well as his knowledge of the business – should manage this liability with ease. Acknowledging previous mistakes as he did, also builds legitimacy. Any outsider would not be so lucky and would face a daunting obstacle. A major concern for any board would be the time required for an outsider to achieve legitimacy. Obviously, an appointee from outside the company with a stellar track record in both industry and experience would likely gain legitimacy more quickly.

Liability of prior knowledge – Schultz appointed many of the people he would be working with and has extensive contacts throughout the industry so he is positioned perfectly and would not be bothered by this liability. An outsider might have knowledge of the industry but would be comparatively weaker on the knowledge of networks and probably would require extra time to become effective. One can hypothesize that, depending on the level of legitimacy, the outsider could probably muster the knowledge from other managers, depending on skills and capacity. Learning speed, however, is a critical success factor.

Liability of data access and integrity – Schultz, with his knowledge of the system, which he participated in creating, has the advantage of not losing any time accessing data. He would also be able to judge the integrity of data easily. Any outsider would require much more time to reach the same level of information mastery.

Liability of failing to share the vision – Schultz, advantaged by legitimacy, would have fewer problems in selling the "new vision" to both managers and staff than would any outsider. He could assist managers in aligning their own unit or divisional visions with more ease than any outsider.

Liability of integration for critical mass – Schultz, with his knowledge of the business has a major advantage over any outsider. He has done this before. Having the "big picture" view could only be beneficial. Any outsider would have to develop a specific strategy to overcome this liability.

Liability of feedback control – Schultz would have a big advantage over any outsider and, with his knowledge of tasks and people, would overcome this liability with ease. An outsider would initially be handicapped because of being unfamiliar with the personalities and operations.

Liability of culture – Starbucks is known for its staff morale and its cultural focus on employees, a combination that suggests it highly values its human capital. Schultz's legitimacy would help muster support for any new strategy and its implementation.

The analysis indicates that the decision the board took to appoint Schultz was excellent for the short term, given the company's dire situation. It is also clear that someone from outside would probably have needed much more time to overcome the liabilities, a risk the board was not willing to take given the urgent need for a turnaround. However, the correct lesson of this case is not that boards should invariably fall back on previous management when facing turnarounds. On the contrary, research suggests that new leadership is often required because the previous management's legitimacy is compromised by its association with the problem. The case is offered to illustrate how the same liabilities apply differently to different candidates.

Address all the liabilities with similar questions and you have a workable framework that will improve your chances of successfully leading your new team.

Notes

1. Allio, R.J. 2006, "Strategic thinking: the ten big ideas," *Strategy & Leadership*, 34(4): 4-13.
2. Pretorius, M. & Holtzhausen, G.T.D. 2008, "Critical variables of venture turnarounds: a liabilities approach," *Southern African Business Review*, 12(2): 87-107.
3. Barker, V.L. III, Patterson, P.W. Jr and Mueller, G.C. 2001, "Organisational causes and strategic consequences of the extent of top management team replacement during turnaround attempts," *Journal of Management Studies*, 38(2): 235-269.
4. Shepherd, D.A. 2005, "The theoretical basis for my plenary speech about our successes and failures at research on business failure," invited paper. *Proceedings: Regional Frontiers of Entrepreneurial Research*, Brisbane, February: 123-134.
5. Le Roux, I., Pretorius, M. & Millard, S.M. 2006, Entrepreneurial cognition and the decision to exploit a venture opportunity, *South African Business Review*, 10(10): 51-69.
6. *Economist*, 2008. "Coffee wars: Starbucks ousts its boss and brings back its founder as a new threat emerges" January 12-18: 54-55.

Research note

The author's research focuses on leadership from multiple perspectives and also looks at leadership at middle and lower levels in the organization. Junior and middle managers in the banking and finance sector were surveyed about their managers' ability to lead them and what makes them recognize and follow a leader. Open type questions were used at first to establish the key issues. The survey results about leadership failure and mistakes contributed to the understanding of the liabilities described in this article.

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