EGO FREE LEADERSHIP

Ending the Unconscious Habits
That Hijack Your Business

BRANDON BLACK & SHAYNE HUGHES

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First Edition

To Aidan, Gabriel, Jeremi, Leah, and Trevor

May you and your generation be inspired leaders of the future,
always seeking to bring out the best in others.


WORLD'S
SMARTEST
BOSS

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PROLOGUE

ENDING THE UNCONSCIOUS HABITS THAT HIJACK YOUR BUSINESS

BRANDON

It's January 2005, and our company is under siege: Industry turbulence has sent costs soaring, and profits are drying up before our eyes. As Encore Capital's president and COO, I help devise our response to the crisis: Hire top-caliber key executives, start a new business vertical, acquire a company outside our core business, and open an overseas call center. We'll turn this ship around; we've done it before.

I pride myself on having a highly analytical, strategic mind while still being a people person. I know how to guide groups to the right decisions. I'm Brandon Black, age thirty-seven, and thanks to good timing, great mentors, and a lot of luck, my career path has largely been one success after another. I'm expected to replace our CEO when he retires in the fall. I'm ready.

Or so I thought.

By October 2005, when I became CEO of this publicly traded financial services company (Nasdaq: ECPG), the turnaround strategies were floundering. Our new business vertical was going sideways, our acquisition was a cultural and financial misfit, and our call center in India was struggling to get off the ground. Costs of new deals in our core business kept increasing. Our stock price had dropped 30 percent in the previous twelve months. I was rattled.

The shareholders were unhappy, and the board was questioning our decisions. I turned to my executive team for results, only to find that my high-caliber new hires were struggling to understand our complex business. Strategy meetings were constrained by people fighting for airtime or dismissing each other's ideas. When I met offline with my direct reports to focus on operational issues, they made excuses and pointed fingers.

Determined to succeed, even single-handedly, I went around them—only to confront entrenched silos. Instead of sharing resources and solving problems together, department heads fought over who called the shots, hadn't delivered results, or weren't suited to do their jobs.

I initially shrugged off these personality conflicts and turf wars. *Similar dysfunctions plagued my previous employers, yet they still succeeded. Our major competitors can't be any better. A few wins and everybody will be fine.*

But market conditions worsened, and the added stress pushed us further into our self-serving corners. Morale was at an all-time low.

Grasping at anything that could give me hope, I signed my executive team up for a series of leadership development seminars. I didn't need the help, but they certainly did.

That didn't change anything. In poker, they say if you can't find the mark, you're it. In leadership, if you look around and think everyone else is the problem, it means you're the problem. That was me. I first resisted the reality that key aspects of my leadership style were having a detrimental impact on my team. Then, finally, I committed to facing it. That decision fundamentally changed the trajectory of Encore.

Three years later, the financial crisis of 2008 decimated our industry. Ninety percent of our competitors went bankrupt or shuttered their operations. Encore Capital could easily have been one of them.

We weren't.

During the greatest recession since the 1930s, Encore thrived. Between 2009 and 2013, our revenues and profits increased 300 percent, operating costs declined 30 percent, and the stock price rose 1200 percent. How did we create this miracle?

Here's what we did *not* develop:

- A unique strategy—Every industry player was bidding on the same deals and building overseas call centers.
- A hidden source of revenue—Laws and regulations for our industry made innovation nearly impossible.
- A game-changing technology—Our industry-best analytics only heightened our awareness of how dire things were.
- A mercilessly reduced cost structure—We knew asking people to do more for less wasn't going to save us.

Instead, our competitive advantage came from recognizing and stopping the specific ways in which we were working *against* each other.

This awareness allowed us to take full advantage of the disrupted marketplace and unlock *hundreds of millions of dollars per year* of enhanced performance. Our journey is what inspired my leadership coach, Shayne Hughes, and I to write this book.

Encore's transformation began when I acknowledged the destructive elements of my own ego. I learned that my need to be right, coupled with a robust fear of failure, made me defensive and argumentative; unbeknownst to me, these tendencies had far-reaching negative impacts on my colleagues and the company. When I committed to change, I gave my executive team and other leaders in the company the opportunity to openly address their own ego-driven behaviors and skill gaps. We each examined how our distrust and our judgments were fueling the internal politics and divisions we blamed others for. And we stopped it.

A new foundation of trust allowed us to take quick, decisive action on Encore's most important priorities. We collaboratively solved problems such as how to create an international collection strategy, which no one thought was possible. We prioritized resources throughout the company as needed, and without drama, focusing on the initiatives that would have the greatest benefit.

Our cultural transformation didn't happen overnight with a series of quick fix solutions. Over the course of several years, we partnered with Shayne and Learning as Leadership to get at the root causes of our challenges—and eliminate them.

We learned a different way to lead and to support each other as we all elevated the company to unexpected levels of performance.

SHAYNE

My name is Shayne Hughes and I'm the president of Learning as Leadership. I've been an executive coach for twenty-five years, partnering with leaders to bring about culture change within their organizations. I am grateful to Brandon for sharing his story because it allows us to explore a subject I care deeply about.

The politics, power struggles, and dysfunctional behavior Brandon faced in 2005 are nearly ubiquitous in organizations of all sizes. Blaming, avoiding conflict, overcontrolling, assuming ill intent—sometimes these behaviors are so constant we stop noticing. They are the air we breathe. Stress and conflict undermine employee satisfaction and engagement. In fact, a September 2015 Gallup Poll measured nationwide employee engagement levels at 31 percent—and that's a peak for the past five years! Even more troubling, almost 20 percent of employees are actively *disengaged*.

It's all the more aggravating that the solutions to this quagmire seem so obvious. Ask any group of employees to describe an ideal team or organizational culture, and they will tell you: supportive, transparent, authentic, collaborative, trusting. But inquire about their current company's culture, and the list usually looks very different: competitive, political, territorial, untrusting, conflict averse.

If we all know the characteristics of a healthy team and organizational culture, why do egos and rivalries keep coming back? Are there ways to eliminate them? My company's founders, my colleagues, and I are passionate about exposing the destructive effects of the ego—and releasing the boundless human energy and outcomes that are possible when we shed these unnecessary tendencies.

Dysfunction is so entrenched because it occurs automatically, whenever a person experiences stress or fear. Although unproductive reactions seem like personality traits, they are, in fact, learned, *very predictable*—and completely changeable. In understanding how anxiety about your value, competence, and well-being can hijack your behavior, you will discover the time-tested strategies that Encore employed to forge a healthy, creative, and high-performing organization.

Note, however, that we don't present any silver bullets in *Ego Free Leadership*. That's what Brandon initially wanted when he became Encore's CEO, and his efforts to hold his team accountable to more functional behaviors went in vain. Like most smart, self-aware, and highly successful executives, *Brandon underestimated how his own ego-driven dysfunctions created a team and organizational culture that virtually guaranteed broader dysfunction.*

Are you willing to look at this for yourself?

In the coming pages, Brandon will share his journey. You'll understand his fears and his team's challenges, and you'll watch him break through his limitations as a leader. He'll take the risk of revealing what we all think and feel but usually don't admit—sometimes, not even to ourselves. He'll take you on a wild ride, and together, he and I will help you understand the connection between individual leadership obstructions, cultural dysfunction, and business results.

Encore Capital collects distressed consumer debt. It isn't a glamorous job, but if no one does it, America's financial system grinds to a halt. *How* it is done, however, makes an invaluable difference in the lives of both consumers and employees. Encore's management team embraced that opportunity despite external skepticism about their motives. They created a culture in which imperfection, empathy, and growth were valued. They sought to heal riffs across departments, cultures, and genders. They encouraged people to care about the plight of their consumers.

In the process, they discovered that the upside business value of decreasing ego within an organization is not incremental, but exponential. It's the difference between 300 percent growth and bankruptcy.

CHAPTER 3

WORKPLACE POLITICS ARE YOUR FAULT TOO

My Reactions Create *Our* Dysfunction

BRANDON

The board's challenge to create greatness somewhere in the business was the main topic of our August 2007 strategic planning session. We felt competent, even skilled, in many areas, but not great in any. After a lot of discussion, we concluded two things should define Encore in the coming years: leveraging India and becoming the authority on our customer.

Despite the lack of traction in India, we had the opportunity to employ tremendously talented people at significantly lower wages.

Success in India would save us tens of millions of dollars annually in operating costs and be the foundation for future growth. Nothing else could have as profound an impact on the company.

We also felt that nobody really understood the people who fell deeply into debt. Characterized by words like subprime or debtor, their financial troubles were attributed to an illness, loss of a job, or a divorce. But there were plenty of people who experienced these hardships and kept paying their bills. We aimed to fill that void of understanding in order to improve how we did business, how we served our customers, and the return on our investments.

We believed this combination of achievements would give Encore a sustainable cost advantage and the ability to outperform our competitors. Intellectually these priorities made complete sense to the team, but emotionally we were still reeling from our recent lackluster performance, the effects of years of significant pricing headwinds, and a lack of traction on key initiatives. Optimism had faded, and I noticed a distinct lack of energy—a resignation bordering on apathy—around the office. While my renewed commitment to work on my own dysfunctions opened my eyes to how frequently such behaviors occurred in the organization, when I pressed the leadership team to develop solutions, they seemed more focused on finding excuses for their own inaction or pointing out flaws in other people's proposals. Most new initiatives were met with resistance lower in the organization. Sharon and her Human Resources team were a favorite target, often accused of having an agenda and operating in a silo. Any initiative around benefits, training, recruiting, or employee evaluation was met with skepticism. I spent hours coaching Sharon on how to push forward without getting pushback. But it seemed like her willingness to try was matched by a collective desire to argue with her ideas.

I saw similar dynamics between our Operations, Finance, and Technology departments. The historical lack of cohesion at the executive level had created entrenched factions lower in the organization. Although our executive team was functioning better, their respective teams were still openly competing with one another and there were significant pockets of resistance to our venture in India.

Over my career, I had shrugged off this type of infighting as a normal, if unpleasant, part of doing business. But Encore's situation was becoming bleak, and I couldn't comprehend wasting time and energy on issues that didn't impact the bottom line.

Achieving our dreams for the company meant changing the mindset of many layers of management, not just the executives. I knew culture change, if even possible, would take many years to complete. I wanted to accelerate that process. Given the state of the marketplace, slow, deliberate change wouldn't be good enough.

We partnered with LaL to customize their in-house training program, called "WeLead." Leveraging insights from another round of 360-degree feedback sessions, including one for me, we identified dominant cultural dysfunctions that were holding the company back. Determined to address them, we set four key goals for the program:

1. Develop a culture of transparency around people's learning and development
2. Remove silos and "us vs. them" dynamics
3. Improve the level and frequency of feedback and critique of ideas
4. Transform complaining/blaming into co-responsibility

We believed that if we could achieve these outcomes, we could transform our culture and collaborate in a far more effective way.

The initial target audience was the executive team's direct reports. Over time, we planned to cascade it down through multiple layers of the organization, ultimately impacting anyone in a leadership position, or approximately 100 to 150 people.

I was hopeful that my newfound understanding of how I needed to lead differently, combined with the implementation of WeLead and our new strategic focus, would generate higher morale and profits. Only time would tell.

SHAYNE

Over the years scores of leaders have told me, "You should see the ego and politics in my organization!" Perhaps because ego-driven behaviors—people avoiding conflict or overcontrolling; personality conflicts; groups assuming ill intent or acting with a tribal mentality—are so pervasive, many leaders accept them as normal. It's the air they breathe, and they become numb to the consequences.

Learning to recognize the detrimental effects of individual egosystems on an organization's culture is the first step in addressing them. These cultural dysfunctions are complex and important enough to warrant a chapter to dissect them—what they look like, what causes them, and how they affect company performance. After this discussion, the subsequent chapters will provide tools and solutions for forging a healthier culture.

Over the past two decades, LaL has surveyed and consulted with many large organizations across dozens of industries, as well as the public, nonprofit, and academic sectors. Each organization had its own flavor, but four dominant cultural dysfunctions consistently showed up:

- Widespread ***conflict avoidance***, peppered with a few leaders who are abrasive

- ***Us vs. them dynamics*** (silos and turf wars, especially in matrix organizations)
- Leaders being ***defensive and guarded*** about developmental needs (fear of being judged)
- Employees being ***reactive, tactical, and overwhelmed*** by too much work

Each of these cultural derailers is triggered by self-worth fears. The employees in every one of these organizations were talented and hard-working, but they underperformed their potential in proportion to the severity of these dysfunctions. Sometimes a culture was clearly toxic, and leaders were openly hostile toward each other. In other cases, artificial harmony left key performance and operational issues unmentioned and unresolved.

Many organizations try to remove unwanted cultural tendencies through reorganizations, teambuilding outings, or redefining their mission-vision-values statements. While these efforts may produce other valuable outcomes, they rarely make significant progress on behaviors, because they don't deal with the root causes. *Cultural dysfunction is produced by many individual dysfunctions* ricocheting off each other. When leaders are defensive, territorial, artificially polite, competitive, or abrasive, it tends to trigger similarly dysfunctional behaviors in their colleagues. It doesn't matter what poster you put up on the wall. *Dominant organizational dysfunction will not decrease until individual leaders identify and overcome their personal egosystem reactions.*

Encore, for example, was a fast-paced environment where a premium was placed on analytical intelligence. Being smart, knowing the answer, and being able to defend your position effectively moved you up in the organization. These qualities—intelligence, resourcefulness, and clarity of expression—are important. Applied with other qualities to organizational goals, they can produce breakthrough results.

But recall our discussion of desired and dreaded images in chapter 1. Leaders at Encore with these qualities—like any one of us—also wanted *to be seen* as smart, competent, knowledgeable, and in control. Being wrong or asking for help felt like admitting incompetence. "If I can't do it on my own, my boss will wonder why I'm in this job," one director shared in a remark characteristic of how many at Encore felt. When protecting their desired and dreaded images became their brain's default goal—which, as we've seen, is most of the time—it eclipsed learning, collaborating with others, and doing whatever it took to meet their responsibilities. *Their unconsciously held ego goals were overriding their deeper, conscious aspirations.*

This has a social side effect. The less transparent a leader is, for example, the more dangerous it feels for his or her colleagues to reveal their own shortcomings. The less those folks are forthcoming, the more it stands out when any one person admits he or she is struggling. It is already painful enough for our ego to admit we need help; being the only one on a team to do it can feel shameful. This individual tendency to keep up a façade becomes a collective phenomenon.

At Encore, this created a cultural norm of wanting to appear to be on top of things. This may have been fine for an organization in a stable industry where success was easily achieved. But Encore in 2007 had leaders in stretch roles facing unfavorable industry trends. Not acknowledging developmental gaps meant not getting help where it mattered most.

While these tendencies often seem set in stone within an organization, they are actually quite reversible. At Encore, "developing a culture of transparency in learning and development" would become possible when a critical mass of Encore's key leaders, one by one, overcame the discomfort of their dreaded images. The more they modeled transparently requesting and accepting feedback, the more "normal" it would become—until they created a more functional cultural tendency.

How and Why We Stop Trusting

BRANDON

Besides greatness, the other deliverable we owed the board was a forecast for the remainder of 2007 and the upcoming year. We had spoken at length about the pricing pressure in the industry, and they were worried about the long-term profitability of the company if we didn't improve the cost structure. Our budgeting process usually took two months. They wanted an answer in a few weeks. Paul's office was right next to mine, so I stuck my head through his door to check in.

"How's the 2008 budget coming along? The board wants a quick turnaround. There's no time for multiple iterations."

He laughed. "Our chances of getting anything done on the first try are close to zero," he said. "It's always the same routine. The administrative departments add in a bunch of new hires we can't afford, and the ops guys set their goals so low they look like heroes when they over deliver. Everybody postures to look good, and none of our inputs work when we roll it up to the corporate budget."

Paul had complained to me about this before. I needed to nip any delays in the bud.

"We don't have time to haggle over this," I told him. "You get your team ready, and I'll meet with the other VPs. I'll make it clear how their teams need to act and make sure the message gets to the operating leaders."

I turned to leave Paul's office just as Dave came around the corner. I asked him to come into my office.

"What am I in trouble for now?" he said jokingly.

“Nothing, I just want to talk about how we approach the planning process. I need you and your team to take Paul’s guidance seriously. I—”

“Is that what you two were talking about?” he interrupted. “I’m tired of you and Paul making decisions behind closed doors and expecting the rest of us to fall in line. You should be asking me about *my* concerns. Instead, you take his side on everything.”

“What are you talking about? My door is always open for you.”

“It doesn’t seem like it. I manage this stuff day-to-day, Brandon. I know what we’re capable of doing. Paul is disconnected from what’s happening on the floor. Why would you listen to him and not me?”

I was tired of hearing this from Dave. In addition to bitching about the budget process, he had recently begun complaining about our methodology for buying portfolios. One day we weren’t paying enough for new portfolios, the next day our models weren’t accurate. It seemed like he always had a complaint of the day and wouldn’t listen to anyone who disagreed.

“If you recall, I was the Chief Operating Officer for many years,” I said irritably. “I’m keenly aware of what’s happening on the floor. You’re not the only person with perspective.” I moved to put the conversation to bed. “I don’t always agree with Paul, but this planning process will be driven by him, and I need you to follow it.”

“Paul and his team of MBAs have fancy models producing numbers that look good on paper. But without my input, the whole plan is disconnected from operational reality.” Dave sat back and crossed his arms. “Garbage in, garbage out.”

I guess we aren’t ending the discussion. I was surprised how frustrated I was. Just a short time ago, we had come together on his development plan and were solving problems as a team. Now he was resisting things that shouldn’t be controversial. What was going on?

"Look," I said. "If we went with the numbers your team produces, we'd go broke."

We went back and forth for a few minutes. The more adamant he was, the more I dismissed his points.

"Why don't you value my opinion? I know this as well as anyone in the company. You're not listening."

"Do you hear yourself? When I see how little you respect Paul's Finance team, I worry about how your team is interacting with areas like Strategic Initiatives. Are you taking advantage of improvements they recommend?"

"Don't worry, Brandon. I'm not missing any opportunities because they don't produce anything useful. If they ever do, rest assured, I'll jump on it."

Not for the first time, our conversation was going nowhere fast. I wasn't reassured in the least.

SHAYNE

"Now that I understand the downward spiral I was in with Dave," Brandon said later, "I see it everywhere. It's an epidemic."

People's egosystems do more than just generate cultural dysfunction. Their desired and dreaded images and reactive behavior patterns set off ego-driven personality conflicts. These unconscious dynamics can lead to broken relationships and disrupt collaboration between individuals and entire departments.

Brandon's communication dynamic with Dave was symptomatic of many other downward spirals between leaders at Encore. Brandon thought the problem with Dave was that he was negative, stubborn, and extreme. Dave thought Brandon was biased and didn't listen to him or value his opinion. Naturally, each thought that if the other just changed the way he was behaving, their communication would improve.

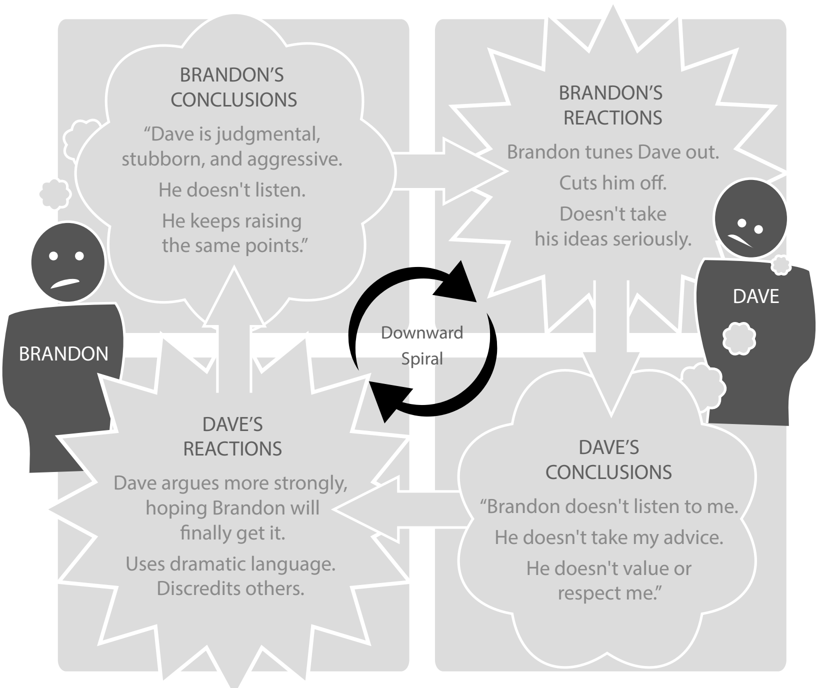
Instead, when Brandon perceived Dave as being stubborn, he tuned him out. If Dave were a robot, he might have shrugged this off. As a human being, however, he had his own set of ego threats, and Brandon's behavior made him feel ignored—a powerful trigger. Feeling pinched, Dave ratcheted up his intensity and language, hoping Brandon would see the wisdom of his words. But that reaction simply frustrated Brandon more, and the opposite occurred; Brandon was even less inclined to listen. When Brandon cut Dave off, he was hoping Dave would realize his ideas were off base and change them. Instead, Dave doubled down on his position.

These loops are called "self-fulfilling prophecies," and they describe how we unknowingly invite other people to react in ways that confirm our assumptions about them, and then use those reactions to justify our initial assumptions and behaviors.

The more Brandon believed Dave was negative and stubborn, the more he noticed when Dave raised his voice or used extreme language. He missed Dave's attempts to advocate objectively. "It got to the point," Brandon laughed ruefully, "where I had dismissed his input before he even opened his mouth."

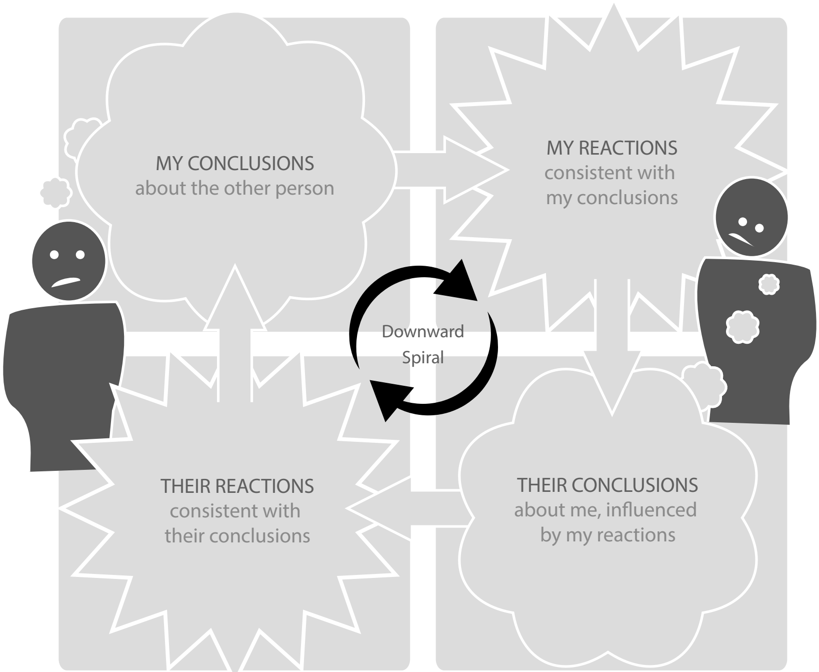
Science has extensively researched our brain's tendency to notice—or interpret—what we expect to see. It is called "confirmation bias." This forms a type of "filter" through which any information that contradicts our preconceived expectations passes unnoticed. Unfortunately, our brain doesn't alert us when it's discarding information about another person. We believe we are balanced in our perspective, when in fact the other person has a smaller and smaller window of possibility to speak to us. To make matters worse, their view of us is deteriorating in parallel, making them less and less likely to communicate in ways we can hear. Over time, self-fulfilling prophecies can make it nearly impossible for two people to have a quality discussion. The judgments and frustrations that accumulate can strain relationships to the breaking point. This downward spiral also happens in personal relationships, and our high divorce rate is proof of it. In all these cases, we experience it as entirely the other person's fault and don't see how we've actively contributed.

BRANDON-DAVE SELF-FULFILLING PROPHECY



Realizing that these loops exist is a crucial first step. Unless we recognize when they occur in our daily life, we will unwittingly fall into them. The following figure outlines the generic steps of this loop.

SELF FULFILLING PROPHECY LOOP



DEFAULT EXPERIENCE: I believe I am just at the mercy of the person's behavior and bear no responsibility.

SELF-AWARE EXPERIENCE: I realize that my conclusions and actions are influencing the other person to react in ways that frustrate me. If I were him/her, I would respond similarly. I can break out of this cycle by working on my beliefs and/or actions.

These downward spirals are so difficult to stop because our egosystem plays an active, pernicious role in them. It builds in stages.

First, we see something negative in another person, feel threatened or aggravated by it, and react counterproductively. In Brandon's case with Dave, he had concerns about Dave's competence and analytical ability. His fears of rejection and not being liked, however, caused him to avoid expressing his criticisms. His frustrations and beliefs built up, becoming judgments that drove his part of the self-fulfilling prophecy. So Brandon's conflict avoidance pattern contributed to the first stage of downward spiral.

Then, the less functional their relationship became, the more it triggered other ego threats for Brandon. "I hired Dave over the concerns of Paul and a few other people," Brandon explained. "Seeing him struggle gave me a 'failure' or 'I was wrong' pinch." This discomfort came out as impatience and anger, which also fed their self-fulfilling prophecy.

Brandon was further triggered by Dave's stubbornness, setting off his fear of being wrong and his tendency to debate. There was no way he was going to concede a point to someone he judged as not smart enough to understand Encore's business.

When we add it all up, we realize that Brandon wasn't neutrally dismissing Dave because he was extreme; he was shutting him down because it made his egosystem feel right, superior, and powerful. As for each one of us, stopping his part in a self-fulfilling prophecy meant no longer reaping a variety of powerful ego benefits.

It's not that Dave didn't have performance issues and skill gaps to address. But Brandon had lost his ability to productively coach and mentor him. Despite theoretically wanting Dave to succeed, *Brandon's ego was invested in knocking him down.* Similarly, Dave knew his relationship with Brandon was crucial to his job at Encore, yet his ego caused him to be argumentative and guarded, directly undermining the likelihood of his success. All of this, to our detriment, happens unconsciously.

The figure that follows summarizes what we see and don't see in these downward spirals.

All this one-on-one dysfunction eventually spawns team-on-team dysfunction.

The Us vs. Them Epidemic

BRANDON

I told Paul that Dave wasn't thrilled with the process but understood the urgency. Paul called a meeting with the leadership team and their budgeting analysts. Twenty key people were needed to create the forecast.

"Welcome," Paul said. "I asked the finance team to give us a head start by creating a collection and revenue forecast for the next eighteen months—"

Before he could get a second sentence out, one of Dave's key lieutenants cut him off.

"I don't know where these numbers come from, so how can I be sure they are accurate?"

"They come directly from our models." Paul responded. "Just like they always do."

"Yes," another operational leader spoke up, "but are they correct?"

I stopped the discussion. "Nobody can predict what will happen over the next year with 100 percent precision, but these are our best projections. We need to work with them."

I shot a look at Dave. He asked his team to hold their thoughts until Paul completed his explanation. With everybody back on task, Paul resumed the discussion.

"I am also distributing a current headcount census that is the foundation for the expense projections—"

"I haven't seen this before," another person objected. "I can't agree to use it without verifying it myself."

"Are you questioning my work?" one of Paul's financial directors asked.

Several people started talking at once. What was going on? Barely ten minutes had passed, and we were all over the place, arguing about things that weren't controversial.

"Look, guys, these numbers are accurate," I cut them off. "We need to move on."

That didn't work either.

"Every year, the Finance guys and the Decision Science people create scenarios without our input," someone from the Operations team called out in frustration. "Then you ask us to build an operating plan around numbers we don't believe in and have no ability to influence."

"Actually, you typically ignore our numbers and build forecasts that fall short of our corporate objectives," Paul said. "It helps you look good when you exceed expectations. Are we here to win a beauty contest or increase the stock price?" In this case, I thought his sarcasm was justified.

"We give you reasonable projections of what people can actually do," Dave retorted, "not made up numbers to fit your fantasy."

The whole room was tense. Until now, I hadn't noticed the seating arrangements and nonverbal cues between groups. The Finance and Decision Science people sat on one side of the table, while the Operations and other staff leaders sat on the other. When one member of either "group" made an assertion about the other, head nodding and affirmative glances followed. Finding it unacceptable, I stepped in more forcefully.

"You *will* do a forecast using these numbers as a baseline. To Paul's point, I'm worried about past patterns of sandbagging collection objectives. We have no room for error. You guys need to make your individual targets match the portfolio expectations, period."

The meeting continued without any additional debate. People listened to Paul and then dutifully left the room.

I went back to my office, feeling troubled. Why were we having such a difficult time rallying around a basic plan? How would we ever overcome the major challenges ahead if we couldn't do the simple things quickly and efficiently? Our new investors were counting on me. I was just glad they weren't in our meetings.

SHAYNE

Paul and Dave had progressed far enough down the self-fulfilling prophecy loop that neither had much respect for the other. They dismissed the other's point of view; they defended their positions in disagreements; they were critical of each other out of earshot. The responsibilities and objectives that Paul and Dave shared, like building a useful budget or implementing operational improvements, took a backseat. This kind of dysfunction between key executives is common in large organizations.

Often having pinches with the other, Dave and Paul each talked with Brandon, other executives, and their own team about their frustrations, drawing them into the dynamic like a black hole swallowing sunshine. It's an unfortunate trait of the egosystem that we seek out people to confirm we are right rather than to challenge our perceptions. This inclusion of other people amplifies these downward spirals to an organizational level. Because both Paul and Dave led departments, their respective teams progressively saw the conflict through their leader's eyes. They developed antagonistic views not only of the other leader but also of the sister organization. By the time Brandon unwittingly sat down with these teams to create the budget forecast, this "Us vs. Them" divide had been going on for some time. The following figure schematically shows how this amplification occurs.

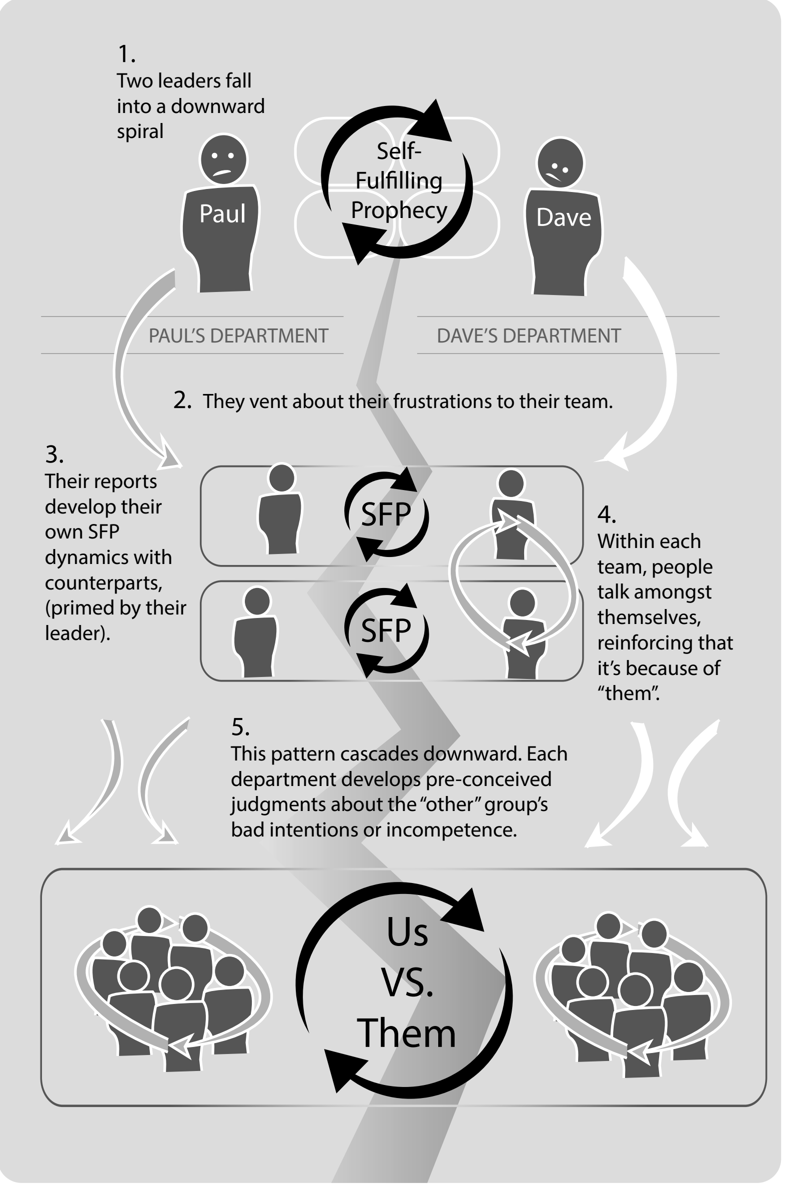
The conflict Brandon described between Finance and Operations was just one of many interdepartmental Us vs. Them dynamics. Sharon and her Human Resources team were exasperated with how Operations took exception to every initiative they launched; Strategic Initiatives bristled at how infrequently Operations followed through on their ideas, while Operations belittled SI's plans as naive and disconnected from reality; the middle of the organization judged senior management for their double-talk and lack of clear direction; and, of course, everyone complained about Information Technology.

I wish Encore had been an anomaly, but it wasn't. Over the last twenty years, my colleagues and I have worked with multinational Fortune 500 corporations, government agencies, privately owned companies, nonprofits, and academic institutions. Almost without exception, individuals, teams, and departments in these varied organizations developed beliefs and stories about each other, until they eventually spent significant amounts of their time and energy criticizing each other's behaviors and intentions. They saw the problem as "over there." They were right, and the other group just didn't get it. But that "other" group believed just as fervently that they were the heroes, and the first group the villains. Science calls this "self-serving biases."

People don't do this because they are stupid, or because they have bad intentions, or even because they don't know better (they usually do). Also, being aware that self-serving biases exist is insufficient to stop us, because we unconsciously depend on them. How could we not? These entrenched conflicts feed our addiction of feeling right and being the hero. They enable us to shift the blame for our shortfalls. Most delicious of all, obsessing about "them" distracts us from our most daunting business challenges. It was far more gratifying for Operations to focus on how Sharon and HR had an agenda and SI's ideas were useless than to confront their own difficulty in responding to massive price increases. And let's not forget how colluding against an outside enemy is an easy way for a group to create an artificial sense of cohesion.

This group collusion makes it doubly hard to change. As leaders, once our judgments of others are known, softening or changing our position can feel like publicly losing face, appearing weak, or being seen as a traitor to our "side." All these ego motivators contribute to how invested we become in other people or groups being wrong. This is the great tragedy of workplace politics, turf wars, and lack of trust: *nobody wants it, but everybody perpetuates it.*

HOW INDIVIDUAL SELF-FULFILLING PROPHECIES BECOME DEPARTMENT-WIDE US VS. THEMS



In a "functional" company, departments operate in their own silos, working around each other but not creatively collaborating. In most organizations (especially matrixed), these turf wars become disruptive, as mutual suspicion prevents problem solving or working effectively towards shared goals. When performance shortfalls occur, learning and accountability get overrun by finger-pointing. The organization's mission takes a back seat.

Unfortunately, the popular strategy of reorganizing a company or a department is ineffective at resolving silos and turf wars. The causes are not structural, so structural solutions will not fix them. More than once I have seen leaders of two warring factions exchange roles—and within three months be aggressively accusing the very people they previously led.

With these dynamics at play, functional collaboration—much less high-performance teaming—becomes nearly impossible. To make any significant and sustainable progress on these spirals, each leader needs to understand, on a personal level, how he or she has become invested in them.

What are the uncomfortable ego threats that push you to judge, criticize, avoid conflict, and/or vent to others? How does this lead you to be the starting point of these divisions in your teams and departments? What is the cost of these broken relationships to your key strategies and bottom line results? These were questions that Brandon and his team were just beginning to contemplate.

The Dollar Cost of Cultural Breakdowns

BRANDON

With the planning process finally under way, I turned my attention back to India. Our failure to get any traction was sobering, and I was desperate to change the trajectory of this very complicated venture. We were trying to motivate recent college graduates in India to collect debt from people halfway around the world. Their job consisted of making phone calls between the hours of 5:00 pm and 5:00 am to ask for sums of money most of them didn't earn in a year. Just as daunting, these employees needed approval from their families to take the job. Culturally, what someone's parents think really matters in India. Disapproval of the company or the industry meant they just didn't work there. Period.

Had it been me, I think I would have found a new profession. But Manu Rikhye and his team were determined to make it work. They were constantly brainstorming solutions and looking for the silver lining. I was so impressed with their attitude and commitment, quitting just didn't seem like an option.

I set up a meeting with Jay Cherry, our VP of Operations, to get an update on performance. Jay and I had worked together for a long time and I knew he would give me his unvarnished opinion.

"Well," Jay said right off the bat, "your test worked."

"What test?"

"When you authorized giving higher-quality accounts to our Indian collectors, we set up a small, dedicated group so we could track their progress."

"What, did we get a 5 percent or 10 percent increase?" I asked.

"You're way off. The team in India is absolutely killing it, Brandon. After only four months, they're producing revenues comparable to domestic teams."

"That can't be right. Our learning curve in the U.S. is six to seven months, and most people fail. How could India get an entire team to *average* numbers this high? You're missing something."

"I thought the same thing, so I went through the numbers myself. Math doesn't lie. They're doing something amazing. Manu was right."

I still didn't believe him. Assuming there was a clerical error or too many accounts had been sent to India, I forced Jay to take me through the numbers. Everything added up.

"Even more impressive," Jay added, "is how they're doing all this with abysmal technological support. Imagine having to make small talk for five to ten seconds because our system is painfully slow and hasn't told you whom you're talking with."

I realized with a shock that I had been a victim of my preconceived ideas. I had viewed our Indian workforce as low-cost employees capable of collecting only on marginally profitable accounts. They were a cost-reduction play and my decisions had unwittingly helped them prove me right. The mere act of doing something different had allowed them to break out of the cycle. I now realized that if I viewed them as a high-quality workforce—each Indian employee as valuable as an American employee—it became a contribution opportunity. If the team in India could produce equal or better performance than in the United States, at a lower cost, it would be a game changer. We wouldn't just be able to realize significant levels of collection revenues at a vastly lower cost; we also could make investments in other areas like analytics and technology.

They had made this happen in spite of our doubts and lack of technology investment. What was possible if we actually supported them?

"Is your team excited?" I asked Jay.

He laughed. "Right now India's getting no support." He paused. "In fact, I was in a meeting the other day with the technology team to brainstorm ways to deal with our system challenges. I wanted it fixed immediately, but one key analyst said he didn't work on projects related to India. He just didn't believe in it."

I was incensed. "Who was it?" Maybe firing somebody for dissention would show how serious this was.

"It doesn't matter who." Jay thankfully waved me off. "He's just an example of what I encounter every day."

"Don't they get how important this is?"

"Absolutely, Brandon. But they also know the company is struggling and their jobs might be in jeopardy. A lot of people assume you have a plan you're not sharing."

I was getting madder by the minute. Over the last year I had gone to each department and explained Encore's challenge. The high cost-to-collect was keeping us from buying new portfolios. India was the only way to make lasting change. It was *the* critical element on our path to sustainable growth. Failure in India could mean failure in the United States. Why was this so difficult for people to understand?

"Other than that IT example," I tried to ask more calmly, "what does this lack of support look like?"

"The best way to describe it is that nothing about India is easy," Jay said. "I spend time fighting with people who believe we are prioritizing India's needs over theirs. The HR and IT departments can only focus on a limited number of challenges, so the ones in India get de-prioritized. It is death by a thousand cuts."

I thanked Jay for his candor. Over the next weeks, I asked similar questions of people all over the company, and heard similar perspectives. I began to see the situation through a new lens. India was causing friction throughout the organization. While I was frustrated by it, I realized even I had been limiting India's potential based on my beliefs. I had to find a way to turn people's attitudes around. Without that, I was pessimistic about our ability to navigate forward.

SHAYNE

After several years of working to improve Encore's culture, Brandon remarked to me, "I had no idea it was *that* bad." And make no mistake; Encore was barely average in its level of organizational dysfunction. Like many executives, Brandon hadn't realized how much time and energy were used up by posturing and squabbling. Even when executives are faced with a burning platform and are made aware of the cultural dysfunctions in their organization, they tend to underestimate the negative impact on the real-world results they deliver.

With the benefit of hindsight, CFO Paul Grinberg reflected on strategic decisions Encore made in 2005. "We spent a heck of a lot of time arguing with each other instead of figuring out how to move the organization forward. Key leaders would tell their teams not to trust the input of other departments. We lost hours of productivity. Then, in the end, we didn't pursue strategies that were very profitable for our competitors, and we didn't optimize the ones we did choose."

It's impossible to know if they would have made the "right" decisions had they communicated more effectively. What we do know, however, is that ineffective conversations almost always lead to making the "wrong" ones. When smart people don't listen to each other, their value cancels each other out.

These ego dynamics affect an organization's most important strategies. Brandon believed that the India strategy was a question of life or death for Encore. Yet, despite broad awareness of these stakes, the initiative suffered a "death by a thousand cuts."

The cultural dysfunctions, stuck relationships, and disharmony also took a toll on Encore's financial performance in less obvious ways. While Brandon and his team could quantitatively determine the difference between a dollar collected in India and one collected in the United States, it was harder to assign a value to other missed opportunities.

At Encore, leaders in pivotal stretch roles weren't seeking help and receiving feedback. The Strategic Initiatives team was developing crucial business strategies only to have Operations discard their ideas out of hand. The tug of war between Finance and Operations led to a budget with no ownership. The new business ventures struggled due to lack of support. While the combined impact of this dysfunction was difficult to measure, Brandon realized it was significant.

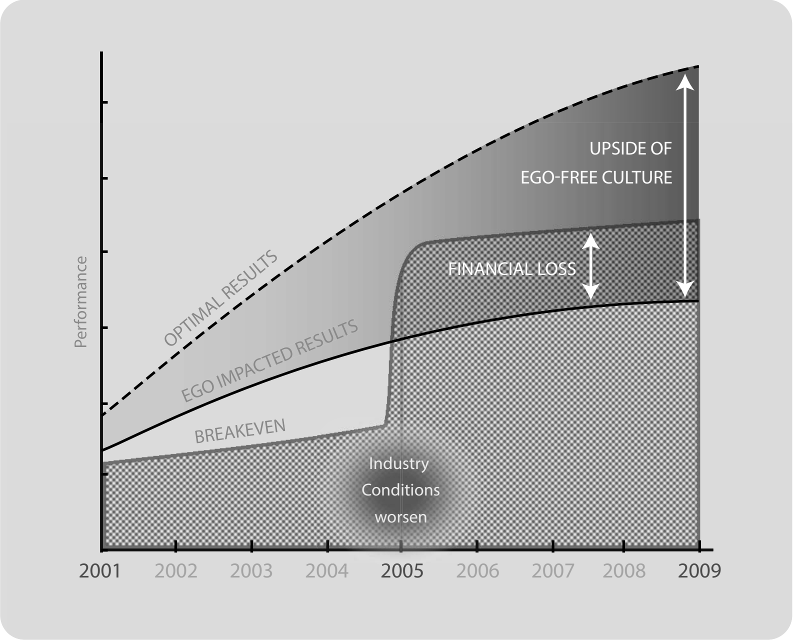
Our beliefs and actions have a human cost as well. The leadership team in India felt Encore's lack of commitment, even if they didn't understand what was going on stateside. "We felt irrelevant for a long time," Manu explained. "There was no sense of what the future looked like. They gave us low-value accounts, so our collectors couldn't produce results. People here felt like they were failing, and they left. The U.S. saw our poor collections as proof that India couldn't work, so they didn't trust us with better opportunities. The attrition got higher, reconfirming for the Americans that India couldn't function. They didn't trust us, and quite frankly, I didn't trust them."

Initially, the net result was that a big, hairy, audacious challenge—opening a call center in India and completely changing the cost structure of the company—didn't even make a small dent on Encore's profit and loss statement. If it hadn't been for the commitment and personal evolution of Manu, Brandon, and others, the cycle would likely have continued until they gave up. As higher-quality accounts were shared more broadly with the Indian workforce, and the Us vs. Them dynamics were addressed, this would change.

No organization can be completely "ego-free," and many succeed despite whatever individual and cultural egosystem dysfunctions they exhibit. Encore had many of these same issues in 2004, but favorable industry conditions helped them get away with it in the short term. By 2007, however, if Brandon couldn't lead his organization to earnestly and energetically work as one to achieve their most important strategies, he feared Encore's very survival was at stake.

What are these egosystem tendencies in your organization? How do they disrupt your pivotal operations and most critical strategies? What is the cost to you of underachieving in this way? History indicates that it's not wise to wait until a burning platform forces you to examine these questions; almost 90 percent of Fortune 500 companies in 1955 were gone by 2014. Doing the work when conditions are favorable builds a foundation for when they are not.

THE DOLLAR COST OF THE EGOSYSTEM



Egosystem dynamics (e.g., lack of individual growth and accountability, self-fulfilling prophecies, Us vs. Them dynamics) directly affect operational performance. Needed collaboration doesn't occur or groups actually undermine each other. The dollar value of these poorer results is defined by what is at stake in a given initiative or organization. The difference to Encore of India succeeding or failing would prove be $90 million *per year*.

Even more than avoiding an unwanted downside, what is the opportunity cost to your organization of departments working against each other or deflecting responsibility? If you dissolved these energy quagmires, what untapped capacity might you leverage for a new kind of result?

Little did Brandon suspect that transforming these dynamics would add tens of millions of dollars a year to Encore's bottom line.

ABOUT THE AUTHORS

Brandon Black

Brandon Black retired as the chief executive officer and director of Encore Capital Group in 2013. During his nine years as president and chief executive officer, the Company built significant cost and operational advantages, expanded into new asset classes, and made acquisitions that established Encore as the industry's leading debt management and recovery solutions provider. In 2011, Encore started the Consumer Credit Research Institute, a groundbreaking effort to develop new knowledge about low- and moderate-income consumers using state-of-the-art research and fieldwork techniques. In addition, in 2013, the Great Places to Work Institute ranked Encore's subsidiary in Gurgaon, India as the 14th best organization in the entire country.

Brandon earned an MBA from the University of Richmond and a bachelor's of business administration degree from The College of William and Mary.

He is currently the president of the board for the Country Montessori School and the chairman of the board for Santa Fe Christian Schools. He also serves as a CASA (Court Appointed Special Advocate) for a foster youth.

Shayne Hughes

Shayne Hughes is president of Learning as Leadership, a culture change and leadership development firm serving the private and public sectors. His expertise in creating cultures of open communication and collaboration has led to substantial improvements in organizational and personal performance for such clients as Fairchild Semiconductor, NASA, Sandia National Laboratories, Shell Oil, and Capital One, among others. He is also experienced in the complex dynamics of family businesses.

Mr. Hughes has taught leadership at the University of California Berkeley's Haas School of Business, the University of Michigan's Executive MBA Program, and the University of Virginia's Darden School of Business. He is a frequent keynote speaker at many conferences and corporate retreats.

Fluent in French, Mr. Hughes earned his B.A. from the University of California Berkeley and completed graduate studies in group facilitation at the University of Tours in France. His writing has been published in Harvard's *Du Bois Review*, *Diversity Executive* magazine, *Forbes.com*, and *Chief Executive* magazine. He has been profiled in *Psychology Today*, and he blogs for the *Huffington Post*.

Mr. Hughes also authored the coming-of-age memoir *When the Running Began*, in which he shares authentically how the pains of his past became infused with substance abuse and the coping strategies of his ego, and what it took to grow beyond them.