

# Victor's leaving and his IQ goes with him

*If knowledge is the corporate asset, then return on knowledge should be a primary indicator, companies should be measured in terms of 'corporate IQ', and management should be accountable for both, says Dr Leandro Herrero.*

Victor is happy. Offered a good deal by the company after the merger, he took early retirement. He says he is free: no grandchildren yet, no terminal addiction to golf, IQ above 130, and his bank manager is (very) happy. He is now ready for a second career.

He has just celebrated his 51st birthday and will probably be in business for at least another 15 years. Next week he will get new business cards from the Fast Print shop in town. His new start-up company, VicSolutions, has several invaluable assets: a hands-free telephone doubling as an answer machine; a laptop computer; rights to half the kitchen table (after tough negotiations with his wife); and a very, very thick Filofax containing a 30-year-old network of contacts throughout the world.

Victor's first capital expenditure will be a fax machine. More than half of his potential new clients, senior managers across the world, don't know how to use e-mail. For most of them, the IT revolution stopped with the fax, and even that involved a steep learning curve.

Victor exists at the crossroads of several time zones, with his parents counting in 'wars', his peers in 'quarters' and his children in '.com years' (the last being the equivalent of a week). His new customers belong mainly to the Wall Street 'quarter zone', but he reckons that the '.comers' will be catching up fast.

After a few weeks' sabbatical, Victor's old company will hire him as a consultant. After all, he was the best at what he was doing. He had spent the previous five years learning a state-of-the-art project management system that he had personally implemented across the world. The company had invested quite a lot in the process. They

had also spent heavily on Victor's education and training, making him 'the expert'. Victor had done a fantastic job, as his last five years' bonuses bear out. Now 'free', he will charge his previous employer three times his previous daily wage, but his ex-boss who survived the merger will be happy because Victor now comes under the category of 'minus-one headcount'. That was all that mattered at merger time: the total post-merger headcount.

Victor joined the company 20 years ago and is a rare example of one-track loyalty. He climbed the corporate ladder until eight years ago, when there were no more rungs to climb. He started with a nine-to-five job and finished with a dark-to-dark one. That is, dark when leaving home in the morning, waking up the children on his way to the garage, and dark when back home, just in time for the Late News in the company of Barbara, a salad and a double malt (the order was always unpredictable). Now, Victor is looking forward to discovering the seasons and the strange concept of a flexible alarm clock.

Victor, the former global head of project management based at headquarters, could be anywhere in big pharma, small or medium pharma, whatever-size biotech, a CRO or any other 'service'. Victor is universal. Everybody merges, and corporations have adopted the motto: 'In mergers we trust'.

The common denominator that unites all the Victors of the world is 'brain drain'. Organisations have declared that the loss of small parts of corporate IQ, represented at

the very least by the total brainpower of their employees, is inevitable. It comes with the strategy which is, of course, one of growth and critical mass. There is nothing one can do because in consolidation-arithmetic, one department plus one department equals one department. The merger mathematics of 1+1=1 applies to R&D, licensing, international marketing, business development and corporate staff, although the sales force might be an exception.

On top of the semi-inevitable merger and acquisition (M&A) furore, something else has happened. The 1990s have glorified corporate independence. Under the entrepreneurship banner, managers have been steadily leaving Big Employer to become My Own Boss. This is clearly an exciting, brave and liberating thing to do. Other than being fired for misconduct, one can leave Big Boss by one of five mechanisms. Redundancy via re-engineering/downsizing is one. Redundancy via M&A

is two. Corporate-sponsored/encouraged early retirement is three. Discovery (often late in life) that one is unsuited for corporate politics, and can't stand that small-time boss, is four. Combinations of these is five. Combinations of number four with any of the above are very good indeed. In all cases of corporate-initiated liberation, the basis is the same: we don't need you any more, you are a minus-one-headcount, here is the package, enjoy life (and golf), and good luck with your new company/consulting.

The currently sexy management magazine, *Fast Company*, dedicated a whole

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issue in January 1998 to 'liberation' under the glorified cover title: 'Twenty-five million Americans declare independence'. It had nothing to do with political devolution in any obscure state of the Union but with the growing number of 'going solos'. A new generation of corporate dropouts has emerged. If one was to extrapolate the trend in a silly way, there would eventually be nothing but consultants (and golfers).

We are told that mergers are inevitable, despite the overwhelming evidence that mergers don't usually deliver the supposed benefits other than the short-term reduction of overheads<sup>1</sup>. So, if this trend is here to stay, we should surely look more carefully at the 'unintended' consequence of brainpower-dissolution-liability.

One problem with mergers is that we are quite good at merging departments, functions, operations and buildings, but not too good at merging IQ. Corporate IQ depends on the aggregation of brainpower across the organisation. That in itself is the sum of the explicit knowledge (in books, procedures and patents...) and tacit knowledge (in people's brains). There are other add-ons coming from the accumulated knowledge and IQ from customers and suppliers, something now called structural knowledge. Nobody has actually quantified all that but there have been plenty of attempts<sup>2</sup>.

In many cases, the reason why somebody leaves following 'consolidation' has more to do with being in the wrong place at the wrong time than with any intrinsic 'IQ' reason ('wrong' could be 'right' of course depending on the size of the severance package). In takeovers, the one in charge usually dictates the organigram. In the case of a 'merger of equals', the one who is more equal than the other usually keeps both the logo and the heads of departments. Benign bean-counting favoured Victor this time because, being with the company on the 'less equal' side of the merger, he was offered early retirement, a form of corporate Buddhism that allows a manager to die and reincarnate himself under a new identity usually called consultant.

In any case, Victor felt lucky to be old enough to be retirable and therefore avoid being part of the Suicide Team. This is how his colleagues referred to the consultant-assisted merger exercise which involved team members of both merging companies being asked to figure out for



themselves the new look and composition of the consolidated division. They themselves needed to decide who was going to stay and who was in fact 'duplicated' ('redundant' was a forbidden word). Victor and others thought it a clever trick to transform homicide into democratic suicide. Because the 'decisions' were not imposed from the top, it was thought that the whole thing would be more humane. In reality, all the exercise did was prolong the agony, a very inhumane process indeed. Victor was thankful to his parents for choosing the appropriate time of conception. His date of birth had saved him from both World Wars and from managerially correct masochism.

I once read something that caught my attention and confess I have been happily stealing it ever since. If a US\$2,000 laptop disappears from the office, surely there will be an investigation. If a US\$100,000 employee leaves, nothing much happens. The rationalisation is as follows:

1. That's life. People leave, are entitled to better things (being independent, for example). It's called progress. The question that should be asked is why did we not offer him the conditions to stay? One suggested cause: lack of corporate imagination to create internal entrepreneurial structures, pockets of independence where people are tempted to stay, structures that could create a true competitive advantage for the firm.

2. Well, it's a merger (or consolidation, or re-engineering), we can't keep everybody. The question that should be asked is what does the corporate IQ look like post-

merger? Pre-merger question: What's the 'return on knowledge' (ROK) ratio going to look like?

These, or any other, suggestions for 'investigation' will probably be dismissed as (1) naïve; (2) "That's market forces, boy"; (3) "Are you suggesting we give life employment?" or (4) combinations of these.

The only real corporate asset is knowledge. Either we believe in it, and try to understand how this works in organisations, or we don't, in which case, let's stop the entire knowledge management (KM) jamboree and keep hiring accountants. I suspect that, despite all the consulting hijacking of KM and their 'KM solutions' (usually they mean some sort of IT), we are unquestionably in the 'knowledge era'. I remember management guru Tom Peters years ago saying that the day the *Wall Street Journal* announced (timidly on page 4) that the market value of Microsoft had surpassed that of General Motors, the industrial revolution was over. I think it's true. It's all in the head, I'm afraid.

Managers will be trained on a knowledge-only model. Corporations should panic about acquiring/losing IQ and this factor should be the major performance-assessment criterion for leaders. In our business, without brain-holder value, there is no shareholder value. ROK should be incorporated into the ratio supermarket. Companies should be measured in IQ units. Leaders should be accountable for corporate IQ. Corporations can afford the loss of a laptop, but hardly their 'Victors'.

Victor will be given a farewell party next week. His boss will praise him for his contributions. They will wish him luck. It'll be a happy day for VicSolutions and a sad day for the organisation where Victor used to work, which is now minus-one but otherwise in line with pre-merger forecasts. A fraction of his consulting fees would have covered the cost of an extra Victor-year. The world has a new entrepreneur and Barbara less space for the vegetables. SM

## References

1. R. Heller. 'A horizontal future for mergers', *Management Today*, February 2000
2. T.O. Davenport. *Human Capital. What it is and why people invest it*. Jossey Bass, 1999.

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